

Keynesianism doesn't work anymore.
But what to put in its place?

BENETTON BRITAIN

The New Economic Order

Robin Murray

IF THERE IS ONE economic lesson we should have learnt from the last 20 years, it is the limits of Keynesian policy. Whether in this country or abroad – in Spain, France, Greece or Australia – social democratic governments have come in on a platform of expansionism and redistribution, only to traumatise both their electorates and themselves by introducing cuts and deflation. In this country such turning points occurred in 1966 and 1976. The election of 1983 was a trauma of a different kind, but with a similar lesson. Labour fought monetarism with Keynesianism, and lost both the economic argument and the election.

In spite of this, Labour's current economic policy is still predominantly in the Keynesian mould. Its main axes are reflation, redistribution, and balance of payments control – in short, the management of markets. A few Labour politicians may still believe that such measures will restore full employment. Most have lowered their sights to what they think Keynesian orthodoxy can deliver. But in the movement as a whole there is a deeper ache, a sense that what has happened to Mitterrand will happen here. As a result, there is a real openness to new policies, without any clear idea along which path a credible alternative actually lies.

Part of the problem is that progressive alternatives to Labour orthodoxy have shared a similar Keynesian outlook.

Reflation has been a common starting point. What has divided the Left and Right has been the extent of reflation, and the severity of controls necessary to complement it. The size of the public sector borrowing requirement (PSBR) has become an index of economic progressiveness: the higher the braver. The larger the deficit, the more severe must be protection and exchange controls, and the more extensive the internal control of the economy. Around the Keynesian problematics of expanding demand and protecting the national economy, there is a continuity which runs from the Alliance on the Right to virtually all versions of the alternative economic strategy on the Left.

Three weaknesses

There are three weaknesses in this general approach. First, as Roy Hattersley is himself acutely aware, there will be balance of payments and inflationary pressures even with an injection of the £5 billion into the economy that he is currently proposing. With the collapse of so many sectors of British production, an increase in consumer demand and capital investment cannot but help draw in imports in the short and medium term – however severe the protection. To take a recent example from the Enterprise Board's work in London. The Board has been backing an attempt to move the leading electric bicycle design from

prototype to mass production. It could find no firm remaining capable of manufacturing the frames in this country. The designer has turned instead to Italy and the USA.

Strategies of reflation aim to counter this problem by concentrating their short-run plans on activities with a low import content (like construction) or on labour intensive projects (like job creation schemes). But there will still be import pressures when the new wages are spent and there will still be inflationary bottlenecks in sectors like construction. Taking London again: there are already skill shortages reported in the engineering and building trades, reflecting the departure of skilled labour from those industries and the decline in the number of apprentices to replace them. As with a person who has been starved, there are limits to which the British economy can be force-fed.

The key issue is under what conditions and at what speed 're-industrialisation' could take place. All the evidence we have from the GLC's firm and sectoral studies of the London economy is that many sectors are unlikely to recover, even with protection, without profound restructuring.

The second weakness of the Keynesian approach is that the power of any government to control the national economy through macro measures has been seriously eroded by the growth of multinationals and the openness of the British economy. In the late 1930s imports accounted for a tenth of the UK market for manufactures. Today the figure is nearer a third. Four fifths of all UK exports are accounted for by multinationals, much of it transferred between affiliates within the same company. Industrial and banking multinationals also dominate flows on the foreign exchanges. Changes in tariffs and exchange rates do affect the pattern of multinational trade and investment, but in different ways and over different time periods than they did in the days of more integrated national economies.

The third, and perhaps the most significant weakness of Keynesianism, is that it has no direct purchase on the major economic issue of our time, which is the restructuring of production. The central fact of the present era of capitalism is that Fordist production (mass production of standardised goods, using specially designed machinery, production lines, and a semi-skilled workforce) – began to run out of steam in the 1960s. Its earlier

spread had been the basis of the postwar boom, but as markets became saturated, profit rates fell. Expansions of credit and government-financed consumer demand slowed down but did not reverse this process.

From Fordism to neo-Fordism

The major counter-tendency has come from another quarter – the introduction of a quite new stage of capitalist production. In the USA it is referred to as 'flexible specialisation', in France as 'neo-Fordism'. It consists of applying computer technology not only to each stage of the production process, from design to retailing, but also to the integration of all stages of the process into a single co-ordinated system. As a result, the

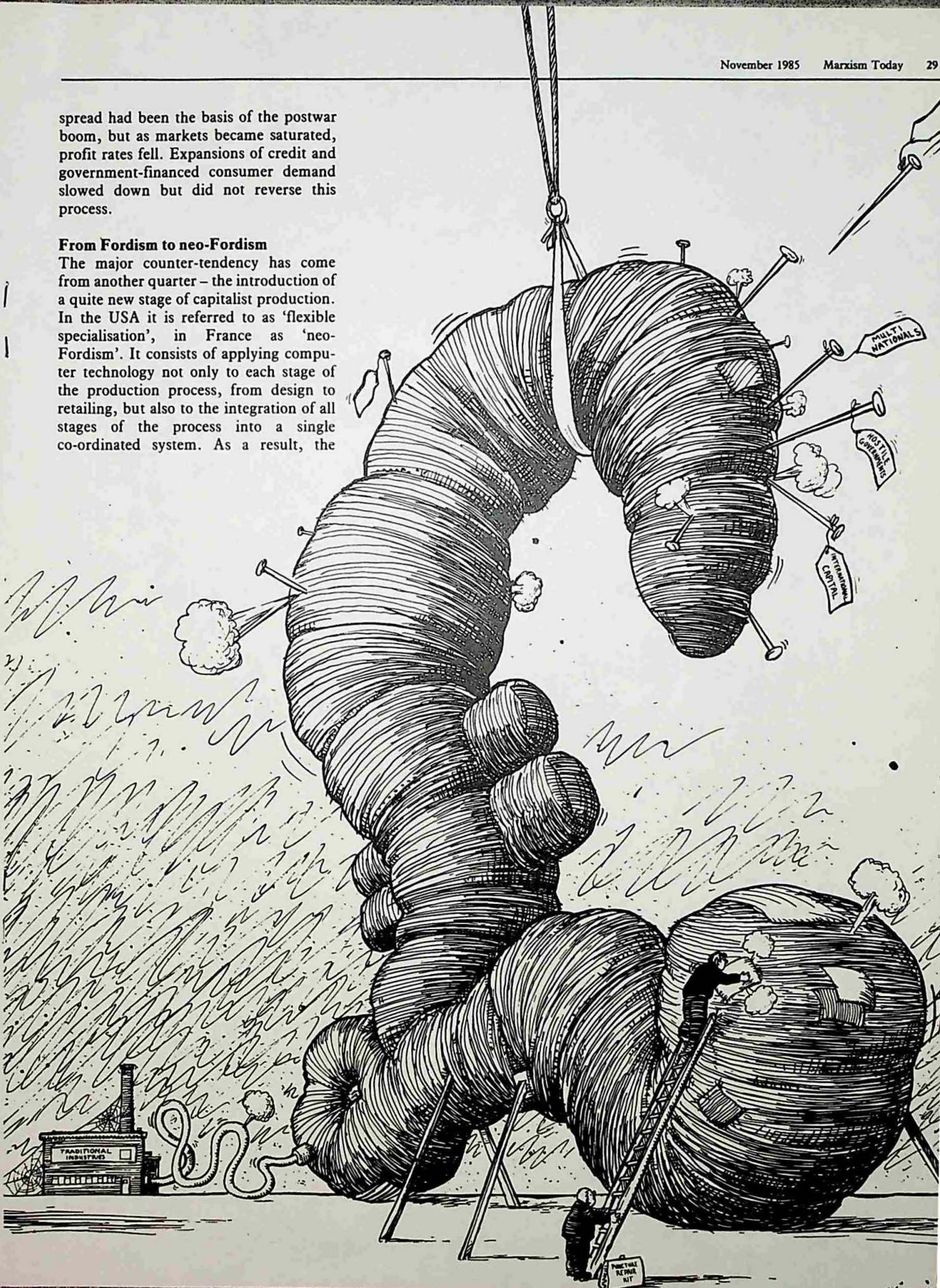


Illustration: Chris Madden

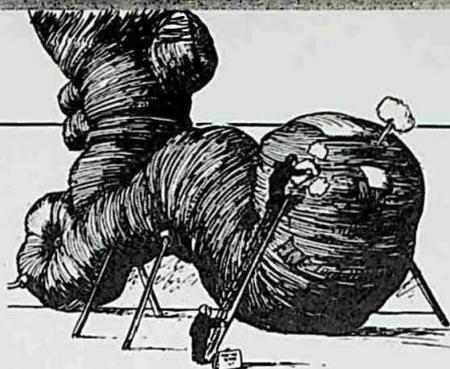
economies of scale of mass production can now be achieved on much smaller runs, whether small batch engineering products, or clothes, shoes, furniture and even books. Instead of Fordism's specialised machinery producing standardised products, we now have flexible, all-purpose machinery producing a variety of products. Computers have been applied to design, cutting down the waste of materials, and to stock control. Distribution has been revolutionised, as has the link between sales, production and innovation.

A good example of the 'new production' is that of the Italian clothing firm, Benetton. Their clothes are made by 11,500 workers in Northern Italy, only 1,500 of whom work directly for Benetton. The rest are employed by sub-contractors in factories of 30-50 workers each. The clothes are sold through 2,000 tied retail outlets, all of them franchised. Benetton provide the designs, control material stocks, and orchestrate what is produced according to the computerised daily sales returns which flow back to their Italian headquarters from all parts of Europe. Similar systems are at the heart of the success in the UK of the 'new wave' clothiers - Burton's, Next and Richard Shops.

In industry after industry a parallel restructuring has been taking place. Japan has been the home base for the new production, together with Germany, Northern Italy and parts of the Scandinavian economy. The UK and the USA, mostly deeply bound into Fordism, have been slowest to respond (the car industry is a notable example), though the USA is now changing rapidly. Policies which are restricted to managing markets, providing finance, or merely changing formalised control, do not begin to address these issues. What is needed is for the labour movement to shift the whole focus of policy, from money and markets, to production. It is the crisis in production which is at the root of the world recession and the British slump, and it is the way in which the labour movement addresses restructuring which should be the central matter of economic debate.

The Japanisation strategy

What are the alternatives? The first is a 'Japanisation' strategy which would aim to restructure industry in the interests of British-based capital. It would require a central restructuring institution - in the tradition of the Industrial Reorganisation Corporation, and on the scale of the



Japanese planning ministry MITI. It would also need a source of long-term finance, as well as specific government policies of protection, research funding, and state support, that would be linked to the individual industrial plans and financial packages. There are traces of such a 'Japanisation' project in Alliance policies and in parts of Labour's economic programme. But in both cases industrial policy is obscured beneath the shadow of Keynesianism.

Socialists have been understandably wary of restructuring proposals along these lines. Such restructuring is merely another word for rationalisation, involving loss of jobs, and the undermining of labour's position in the workplace. It recalls the 'Mondist' movement of the 1920s and 1930s, which was concerned with the introduction of Fordist methods of production with the consent of the trade unions.

In the case of Japanese-type restructuring, the dangers go well beyond the workplace, as the Benetton example shows. For the establishment of single integrated systems of production and distribution has permitted the break-up of large factory complexes and the growth of a sub-contract and franchise economy. In Japan the resulting dualism is particularly sharp. On the one hand, there is a central core accounting for a third of the workforce (with the celebrated corporate welfare systems, high skill levels and jobs for life). On the other, there is a peripheral sub-contract and sweated economy, casualised, low paid, weakly organised, and restricted to a grossly inadequate public welfare system.

We should certainly be suspicious of such trends. But we cannot ignore them. For already they are taking root in the British economy. Sub-contracting has expanded. So has franchising. Private welfare systems, from health to pensions, to job security and even to housing, are growing as the welfare state is being run down. There is a deepening dualism in the labour market. The problem is that in the market sectors of the economy, the failure to match the new flexible production systems, has meant the destruction of many of the manufacturing strongholds of

the labour movement.

The point was brought home to us in London by the experience of one of the Greater London Enterprise Board's clothing factories. GLEB bought it from the receiver, re-equipped it, improved the plant lay-out and the flow of work. The company slowly raised wages, and has been developing an enterprise plan. But when it bid for one public contract, it found itself undercut by quotations which were from 18-36% below its own direct labour and materials costs. Initially, GLEB thought that the competitors must have been relabelling imports from Southeast Asia. But they found that their rivals had set up flexible systems in this country, linking design, production, distribution and sales. The lower bids reflected the large increases in efficiency that resulted.

Differences of this magnitude are common in other industries. Ford Europe, for example, found that their Japanese associate, Mazda, was able to produce an Escort in Japan £1,000 per car cheaper than Ford. A top-level Ford management team were astonished when they discovered that only 10% of the difference could be accounted for by labour factors (wages, running along the line and so on). 90% was due to factors of flexible specialisation.

Another path?

Such findings show up the futility - even from capital's point of view - of the present government's cheap labour solution. But they also pose as great a problem to the Left as did Fordism to the Bolsheviks after 1917. What policy should socialists adopt towards the most advanced forms of capitalist technology? Lenin's answer was to embrace the principles of Fordism and scientific management. Trotsky argued along similar lines, that if socialism failed to adopt the most modern technology and narrow the gap between domestic and world prices then, at some point, internal political opposition would emerge, arguing for imports. Hence he supported and organised the massive import of Western technology as a means of restructuring Soviet manufacturing on Fordist lines. Henry Ford's largest tractor plant in the world was built in the Soviet Union.

All socialist countries have faced the force of the world market. However strong the protection, a Labour government would face it here. This means we cannot avoid having a policy on restruc-

turing. If we do not have such a policy, the market and its managers will settle it for us. Some version of Japanisation will take further hold of the British economy, with British factories being increasingly confined to the periphery – as sub-contractors, assemblers, finishers, the screwdriver plants of the world economy.

But while agreeing with Lenin and Trotsky that we cannot ignore foreign technology, the question we must pose is whether there is an alternative path of restructuring to that offered by the Japanese model? Can we have restructuring in the interests of labour rather than of capital? Can we take over the advantages of new computer systems of production, without the deskilling, fragmentation, and dualism that goes with it? Can we talk of a strategy of alternative production?

I believe we can, though its outlines are hazy. In this, as in so many other fields, Brecht's maxim 'Truth is in the concrete' applies. Our answers will necessarily be in the details of particular sectors. Take retailing for example. The modern supermarkets, hypermarkets and out of town shopping centres have pioneered the new principles of flexible specialisation. But they have done it in such a way as to destroy local shops. They have made access to shopping harder for the immobile and for those without cars. They have followed a policy of employing casual, part-time, largely female labour, and have failed – in the food sector – to transform the nutritional quality of food and its conditions of production, in line with their extraordinary advances in systems of physical distribution and stock control. The conditions and wages in meat product factories in London, for example, are atrocious.

The transformation of retailing need not be like this. The technology could be developed to bring the advantages of the supermarket to local corner shops. There is wide scope for improvements in food quality, and in the provision of fresh food using the 'just in time' systems of stock control. Supermarkets could provide creches and independent nutritional advice centres. Many of these policies may conflict with the market. They do not conflict with need.

Or take software. The computer programmes that are written to control the new systems of production are geared to control labour rather than emancipate it. There is no necessity in this. Busworkers in Leeds, for example, found that computerised bus schedules could be rewritten (with the help of a friendly

programmer) in a way which was just as efficient in time terms, but which took into account their own (and the passengers') needs in a quite different way. Professor Rosenbrock's human centred lathe and automatic factory systems – designed to extend traditional engineering skills rather than dispense with them – provide another example.

Britain has great strength in programming. But the private software economy is about to be swamped by US mass produced programmes. Software, like retailing, is one of the new commanding heights of the present phase of capitalism. Its effects have already gone deep into market production. The next phase of

computer systems can be applied in the interests of need rather than merely of profit

expansion is to be directed at public services. It is therefore critical, in terms of a strategy of alternative production, that a public software capacity is secured to develop the alternative computer programmes on which the advances in production will be based.

Some lessons learnt

I have given examples of how computer systems can be applied in the interests of need rather than merely of profit. But their implications go beyond this. If, for instance, such systems are developed for the furniture industry, and if they are applied in plants under social control, then those plants will have a competitive advantage. It is this advantage which will give scope for those things that have been driven out by the market economy: adequate wages, training, full access for women and for black people (in an industry where the workforce is still almost entirely white and male), designs that take into account those needs which have no power in the market (like those of the disabled), planned imports from progressive Third World countries that are desperate for foreign exchange. The scope will be wider, too, for an extension of real control by the workforce. I say 'real' as well as 'formal' since real control requires the development of confidence and strategic skills, and this takes time, resources and groups of support workers.

All these we have been trying to put into practise, in conjunction with the

trade unions, through the Enterprise Board in London and the GLC. In one factory, one thing will work, but not in another. We have learnt as much from the failures as from successes. But there are four overall conclusions:

(a) there is enormous scope for public intervention in the restructuring of production. Many sectors in which medium-sized firms are significant have been or are being destroyed by imports, and have shown themselves quite incapable of innovating on the scale required. In sectors where large, multinational firms predominate, some have found it difficult to escape from their Fordist traditions. In others, particularly those involved in military production, there is an appalling waste of technological capacity which could be applied to civil markets and to social need. Local enterprise boards cannot take on these giants, though councils have supported trade unionists in pressing for alternative plans. It is here that a National Enterprise Board – committed to a strategy of alternative production – is needed.

(b) the main constraint in extending public intervention is people: people who have managerial skills (to turn round a factory, for example) and who, at the same time, are sympathetic with the strategy. Because of a lack of such staff, the enterprise boards have often been forced into joint ventures with private owners. For GLEB at least, the relationship has again and again been unsatisfactory, compared to those cases where there has been full, or majority, municipal control

(c) there is a need for new systems of investment appraisal and social accounting. These must shift the emphasis from short-term financial returns, to the longer-term questions of the product, its relative strength with respect to other products, and the extent to which it can meet non-market, as well as market, needs. As the Japanese have found, restructuring of any kind often takes a long time. They have geared their institutions and methods of assessment accordingly.

(d) that the robustness of the strategy depends above all on the involvement of the workforce. Strategic plans have been developed not by economists divorced from production, but by researchers in conjunction with those working in the industry, who again and

again have provided a level of deep knowledge, and a sense of what practicably could be.

The enterprise boards have intervened in market sectors. What local councils have also been sharply aware of is that there are restructuring issues – usually on a much larger scale – in public services themselves. As with market production, there are clear alternatives in restructuring. Some of them are not confined to issues of flexible specialisation. In energy for instance, there is a choice between nuclear power on the one hand, and conservation on the other. This cannot be settled on financial grounds, but rather on the basis of employment, ecology, and political considerations. With London Transport on the other hand, the battle between the alternatives did involve questions of how new systems were put into practice (as well as fares). The growing strength of the progressive alternative led to the government 'nationalising' LT. Similarly with cable – which will provide the basic infrastructure for the electronic era – there are wide options about how fibre optics will be introduced and controlled.

In each of these cases restructuring is taking place. There is no one way in which it has to happen. The alternatives have very different implications for labour, and the choice that exists cannot be settled by comparing rates of return. It is rather a question of social and political choices. There are even some cases where the options which are desirable socially, are greatly superior on narrow cost grounds as well (preventative health care, for example).

A strategy of alternative production

My argument then is this. The present economic crisis should be seen first and foremost as a crisis of restructuring. It is a restructuring which is taking place at

great cost. The priority for the Left should be to intervene in this restructuring in order to change its course. This requires detailed popular planning, sector by sector and firm by firm, and the development of a material capacity for intervention at a national, as well as a local, level. This is what I mean by a strategy of alternative production.

There are implications for political as well as economic strategy in all this. Policies which enter from the Keynesian end, or from the end of abstract systems of control, concentrate the mind on the need to take state power. For it is the state which can alter the interest rate, and

the priority for the Left should be to intervene in this restructuring

taxation, and who owns what. Part of the problem with this is that, for many people, it all seems abstract and far away from their immediate abilities to act for themselves.

An alternative production approach is different. It starts from where people are: the particular plant, or shop, or office; the kind of food on sale at the local supermarket or the programme on television. Not only can alternative plans start from there, but something can almost always be done. It will be limited and difficult, but will have that one overwhelming political virtue of practicality. And the limits, soon felt, lead to new connections, more general demands and, long before, to detailed practical policies which only a progressive government can deliver. Instead of the state being seen as the 'great deliverer' and the focus of power, it becomes the supporter of initiatives begun and fought for elsewhere

by trade unionists, communities and municipalities. And, paradoxically enough, a movement developed in this way provides a stronger, not a weaker, foundation from which a progressive government can build.

I say all this not as a litany of wishes, but as a reflection of what has happened over the last 15 years. That great flowering of local alternative action in the 1970s, through a myriad of community papers, women's groups, trade union support units, peace groups, legal advice centres, tenants groups, trade union branches, and combine committees, all these have been the basis for a change in municipal politics. In London it came first at the level of boroughs (like Wandsworth), and then in 1981, at the GLC. And the GLC in its turn, like other councils, has tried to see itself as giving strength to, and not merely drawing strength from, the innumerable groups from which it sprung.

What is now possible is for all this to be extended to the national level. In the field of economic strategy, groups of local authorities have already got together to produce national alternatives for the clothing industry, for Ford's, for steel, cable television and combined heat and power. Each has the detail and the organised support necessary to make a strategy of national industrial intervention a serious possibility.

The development of national company and sectoral plans is I think the most urgent task for the next two years. It is only when these are in hand, that the Keynesian measures, left or right, will become credible and capable of supporting a programme of progressive restructuring. Without such plans, the Keynesian interlude will be short-lived, and will do nothing to protect British labour from the gathering embrace of 'Japanisation' and all that follows in its wake. □

THE ALTERNATIVE ECONOMIC STRATEGY

TIME FOR A RETHINK?

Marxism Today Public Meeting organised by Leeds Communist Party

Speakers: Pat Devine (lecturer in Economics at Manchester University and Economic Committee of CP), Tricia Davis (worker at Birmingham Trades Union Resource Centre and National Executive of CP).

Venue: Concert Room, Leeds Trades Council Club, Saville Mount, Leeds 7. 7:30 Wednesday November 20th. Bar.

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Bend with the market

The industrialised world's most recent star performers owe their success to a flexible approach to production that developing countries would do well to emulate. Robin Murray explains why and how.

Mass production, the core of twentieth century growth, no longer delivers the goods. Or rather it delivers too much of what people do not necessarily want. Hierarchical organisations producing standardised commodities with special purpose machinery and semi-skilled labour are ill-adapted to a world of exchange rate instability and market fragmentation. The United States and the United Kingdom, the dominant economies of the mass production era, now run large trade deficits and find themselves institutionally incapable of responding to the new challenge.

They have been relegated to the low margin end of the market by the quality, innovative producers of Germany, Japan, Sweden, parts of Denmark, and middle Italy who have based their manufacturing strategy on production systems quite different from those of the Atlantic mass producers. The approach differs from one country to the next but its common features are known as flexible specialisation.

The adoption of general purpose machines and production methods which allow rapid change-over from one product to another have upended the old forms of production. Instead of having to produce for stock to gain economies of scale, flexible producers can produce directly for the market. Electronic point of sale techniques provide instant feedback on market demand. Manufacturers can now test a variety of products and, with short delivery times, produce in volume those that sell well. In clothing and footwear, as in consumer durables, the life-cycle of products is becoming shorter. Product variety and 'market niching' is challenging the standard, mass produced commodity in sector after sector. Instead of production pushing products on to the market, the market is pulling products in response to demand.

What does all this mean for the developing countries? Some writers have argued that the threat of flexible specialisation will drive mass producers to the developing world in search of low wages. The French economist Alain Lipietz calls this trend towards a new international division of labour 'peripheral Fordism'. But there are already signs of industries returning to developed countries to be near the markets to which they must respond.

Nevertheless, flexible specialisation offers developing countries themselves a new strategy for industrialisation. It does not depend on long runs. It stresses economy in the use of materials and energy, and low stock levels - a critical issue for smaller economies where capital is scarce and materials account for a significant share of total costs.

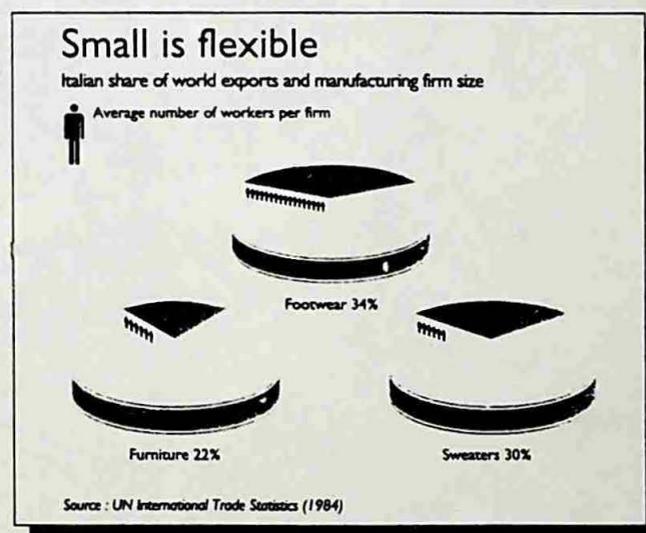
It also emphasises the need to adapt technology and product design to the local environment - to build on the distinctiveness of a country's food products, tourism potential and so on, rather than to imitate internationally standardised goods.

Above all it gives priority to a flexible industrial structure capable of responding rapidly to changing conditions. It views with suspicion large scale projects and the quantified forecasts of the feasibility studies that go with them. So much in the developing world is unforecastable. Industrial strategy should take this as a starting point.

Central to this new approach is the linking of small-scale, flexible production with the benefits usually associated

with large-scale operations. Specialisation within a particular industry is one means. The provision of joint services is another - in marketing and exporting for example, or innovation and training. The small Italian industrial firms that have been so successful in export markets have used 'consortia' to provide many of these joint requirements. This sort of co-operation between enterprises is crucial, as is a strategic sectoral plan designed to influence public policy as well as the individual and collective actions of the firms themselves.

These forms of co-operation cannot be switched on by policy-makers like a tap. They depend on particular local cultures. It is here that some regions in developing countries may have an advantage over the mass producing regions of the developed world where cultures have been disturbed and fractured. It is significant that the specialised industrial districts of central Italy are centred on small and medium-sized towns with strong civic traditions.



So far flexible specialisation has been a first world phenomenon, but its potential for development has begun to be recognised. Hong Kong, South Korea, Singapore and Malaysia now compete more on the basis of innovation and quality than on low labour costs. In Cyprus the government is switching the emphasis of fiscal incentives from hardware, such as capital equipment, to software in the form of design, management information systems and marketing. They are encouraging consortia of small firms, notably in the furniture industry, and they place a major emphasis on skill, design capacity and strategic planning. Their aim is to penetrate European markets with quality rather than low cost goods.

As the pressures of debt and structural adjustment bear down on them, developing economies are faced with a choice: to be sites for a new peripheral Fordism or to become more autonomous homes of flexible specialisation. The second is more demanding as an industrial policy. It requires not only new directions, but new forms of public support, new types of consultancy and international collaboration. But in the long run it promises greater returns and a more dynamic base for the development process. □

Robin Murray is a Fellow of the Institute of Development Studies at the University of Sussex. He is organising a workshop on Flexible Specialisation at Sussex in April/May 1991.