Monetarism in London

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In May 1979 when Mrs Thatcher came to power, there were 132,000 people unemployed in Greater London.* In September 1982 there were 390,107. This amounts to a trebling of those without a job. For London as a whole, when allowance is made for unregistered women and for commuters, approximately one-eighth of London's workforce is now unemployed. In Inner London, the figure is one in six; in Stepney it is one in three. These figures amount to nothing less than an economic scandal.

This collapse of employment has taken place against the background of a world economic recession which struck all industrial countries severely in the mid-1970s and re-emerged in late 1979. But what figures from the OECD clearly show is that the British slump has been much more severe than those of the non-monetarist industrial countries. Faced with slow economic growth, Mrs Thatcher's response has been to engineer the deepest economic crisis that Britain has known since the 1930s. She succeeded in actually cutting national wealth by 7% by the end of 1982, and, at the very moment when this wealth was declining, consciously favoured the financier against the industrialist, the employer against labour, and the rich against the poor. In just over three years since she came to power unemployment has increased by over two million, from 5.4% to 14.6%. If we add in the estimates for the unemployed who are not registered (mainly women), total unemployment is now over four million people. In this project her charts have been made out by a coherent economic theory, prepared over 25 years and multinational in its scope and organization. Its first trial run at a national level was in Chile from 1973 under the guidance of General Pinochet. Not until 1979 did monetarism—for that was the theory in question—sit at the cabinet table of an advanced industrial country.

In Britain, the monetarists had made London their main bridgehead. In the mid-1960s Milton Friedman's Chicago school took over the master's economic course at the London School of Economics, whose graduates were to staff many of the country's university and polytechnic economics

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departments. London's financial journalists followed a few years later, together with an increasing number of city financial advisers. It was the crisis of 1974 and 1975, and the clear uncertainties of orthodox Keynesian economic policies which gave monetarism its major political opportunity. The propositions of the monetarists are simply stated: (1) That inflation is a purely monetary phenomenon and can be cured by restricting the supply of money in the economy. In practice this means raising interest rates (which reduces the demand for money) and cutting state spending to try to lower the Public Sector Borrowing Requirement (PSBR). (2) That poor economic performance is the result of imperfections in the markets for 'real' products, and can be cured by removing monopolies and restrictions. The three main restrictions were held to be the unions, the state and international protectionism. Hence the attempts to weaken union power, cut and privatize state activity and remove exchange controls, the protections of a low exchange rate, and preferences for national purchasing by state bodies.

What this amounted to was an attempt to restore the value of money at the expense of wage labour. This was made explicit in the approach of the London Business School, one of whose leading monetarists became Mrs Thatcher's chief economic adviser. If inflation was a major problem then the answer was to cut state spending and the social wage. If unemployment was the issue then the way to solve it was to cut the money wage. The proposed mechanism was the following. First interest rates were to be raised. This would attract in international money which would force up the exchange rate. A high exchange rate would make exporting more difficult and attract imports. This would put pressure on firms, further squeeze their profits and make it impossible for them to agree to increases in money wages. In the corporate world, the weaker would be expected to go under, leaving the fittest to survive. The increase in unemployment would put further pressure on labour to accept lower wages and abandon improvements in working conditions which had been gained over the previous decades. Cheaper labour and higher productivity would help restore the profit rate and economic activity.

Engineering the Crisis

This was the essence of Mrs Thatcher's monetarism for the private sector. It was spelled out before the election, and on many occasions since. It has also been followed in practice. The 11% interest rate which held at the time of the Geoffrey Howe's first budget rose to 17% within a year. The exchange rate which had been at less than 1.60 dollars to the pound in late 1976, and at 2.07 at the time of the election, had risen to around 2.40 dollars to the pound by late 1980. The severe reduction in internal demand together with the adverse exchange rates squeezed all the producers of traded goods, particularly in manufacturing. Industrial output fell by 12% between 1979 and 1981. Manufacturing profits from a 1978 level of 6.8% fell to 2.1% in 1981. Unemployment rose from 1.3 million at the time of the election to 2.5 million in mid-1981 and now 3.3 million in September 1982.

Those who have gained from this conspicuously-engineered crisis have been the banks and the oil companies. Finance capital is now in the ascendancy in spite of the protests of industrial capital both privately and through the Confederation of British Industry. Crucially, monetarism has weakened labour in the private sector. With redundancies and unemployment rising, workers have had to settle for declining real wages and worsening conditions at work. Many unions found their membership falling as unemployment rose. Some of the larger industrialists indeed stuck with monetarism in spite of the squeeze because of its successful weakening of labour.

In the public sector, the manipulations of markets is a blunter instrument. High interest rates raise the cost of public services, but for the most part cannot bankrupt them. Nor can the international market be summoned to discipline the state as it has done private industry. Selling off state enterprize, even government research establishments, has been one response—but is possible only with the profitable entities and they are not at issue. Privatization of services (like refuse collection) is another, whose principal success has been a decisive reduction in the security of employment. But in spite of these attempts to introduce the rule of the market into areas which had been developed by the state because of the failure of the market, the bulk of state production remains insulated from such forces. Instead, direct spending ministers, notably Mr Heseltine, have tried a succession of direct disciplines, cash limits, penalties, even threatened prosecutions. Their aims were cuts in the social wage, and in the power of labour within the state sector. But partly because of the resistance of local authorities to these measures, and partly because of the action of public-sector workers organized nationally, monetarism has been much less successful in the public as against the private sector. This was Mr Reagan's main criticism of British monetarism when he met Mrs Thatcher shortly after he became President. It was a weakness that Chile did not exhibit (they cut state employment by 30% between 1973 and 1976, and nearly halved spending on health, education and housing by mid-1975), and which Mr Reagan, too, was determined to avoid.

Finally, there was the question of the money supply itself. To Mrs Thatcher's chagrin, in the first two years of her government it kept on growing. This was in part because of state spending. In spite of the cuts, in real services, the Government's policies resulted in major increases in debt charges, unemployment and social security payments, and spending on defence. This drove up the PSBR to unprecedented levels. In addition, the squeeze of the private sector forced companies to expand their borrowing. They were buying time by mortgaging their assets, even though the new money, taken as a whole, reflected asset values which might never be realized in the market place. Inflation actually rose for a time: only after the destruction of firms and the demand for credit has inflation finally dropped. Its current level does not reflect the effectiveness of controlling the money supply directly. The Government has notably failed to do that. Rather it is by forcing the economy into a major recession that the Government has caused a collapse in the demand for money and therefore the incentive for its supply.

The Deindustrialization of London

For London labour and industry, monetarism has created the worst economic conditions for nearly a century. Though London was hit by the recession later than other parts of the country, since early 1980 unemployment has risen faster in London than in the country as a whole. While unemployment in the country as a whole has risen by 157% London's unemployment has gone up by nearly 200%. London's manufacturing industry has been decimated as factory after factory has been closed either by the receiver or by some corporate head office. The list of London redundancies of over 50 workers notified to the Manpower Services Commission (MSC) reads like a roll call of the dead. The last major industrial employers have all but disappeared from Tower Hamlets and Southwark, from Islington and Camden, from inner south-west London and from Lambeth. At this moment, the Council is trying to prevent the closure of the last major firm in Hackney and the last plant in Brent. What is striking from the map of the redundancies is how major losses are being suffered by the outer industrial boroughs, Kingston and Hounslow, Ealing and Enfield, as well as the inner city.

Most of the losses are in private sector firms, and, from the evidence we have, it was the induced slump which was the major cause of closures. The MSC conducted a survey of 21 redundancies of over 100 employees in 1981 and found that 13 of the firms gave inadequate demand as the reason for job loss. The remainder of the firms appear to have rationalized their production process, their location, or both. In 1980 the London Chamber of Commerce reported an 'unparalleled increase' in the number of firms reporting decreasing orders, though the fall in demand was notably worse domestically than on the export market, and was particularly bad in the traditional consumer-goods industries (motor and transport equipment, other metal goods, and the furniture sector). By July 1981 business expectations had picked up, but 70% of firms saw the lack of demand restricting output (compared with 40% in June 1979). In spite of a reported optimism, succeeding surveys have shown that there has been no sustained expansion of activity. By mid-1982 investment remained static, domestic orders were on average on the increase but the large firms were facing big falls in export orders 'almost verging on a collapse'. Overall, the fall in domestic orders appears to have been most severe in the period October 1979 (when 19% of firms reported decreases in orders) to July 1981, after which there was a slow upturn. Export orders and production levels followed a similar pattern. This it will be noted is the period of high exchange rates.

A further factor behind the closures was rationalization following mergers or takeovers. The MSC surveyed 124 redundancies in the second quarter of 1982 and found such rationalization accounted for 20% of the redundancies, a level consistent with their surveys over the previous 12 months. From the experience of the Council over the last six months, this general picture is confirmed. Of the ten factories facing redundancy who approached us, five faced a slump in domestic demand, one was reorganizing production in the light of a change from electro-mechanical to electronic products, and the remaining four relocated production (two to the South-West, one to Wales and the other to Scotland) as the result of over-capacity rationalization, or, in one case, a move financed by government subsidy to an area of weaker labour.

The list of redundancies also reveals a loss of public sector jobs in central government, in public utilities and in local government. Barking (443), Lambeth (798), Bromley (836), Camden (596), Wandsworth (273), Croydon (80), Barnet (68), Lewisham (200), Havering (275), Sutton (54), and Greenwich (50): these redundancies made in response to the cuts in local government expenditure total more than 3,500 jobs, and exclude the loss of jobs accounted for by natural wastage. The loss of employment in local government has not been so severe as in manufacturing: there has been successful resistance to cuts in a number of boroughs by councillors, unions and local campaigns. But those jobs that have gone have tended to mean not merely a loss of work, but a decline of services as well.

Service industries more generally have been weakened by monetarism. Tourism which had grown in London in the 1970s was severely affected by the high exchange rates from 1979. From 8.4 million overseas visitors to London in 1978, the number fell to 7.9 million in 1979, to 7.4 million in 1980 and 6.9 million in 1981, an overall decline of 18% between 1978 and 1981. A similar slump took place in the construction industry as both public and private sectors cut their investment. In all, between 1979 and 1981 of the total redundancies reported to MSC (95,386), two-thirds were in manufacturing, and the remainder from construction and services.

What is clear from this evidence is that the current economic crisis is affecting London in a quite different way to the last great depression of the 1930s. In the 1930s the depression struck at the regions which had gained from the expansionary phases of nineteenth-century industrialization: the textile workers of Lancashire, the coal miners and steel workers of Wales, Scotland and the North and the shipbuilders of Belfast, the Clyde and the North-East. London and the Midlands were saved from the worst effects of the depression by the growth of new manufacturing. Of the increase of 644 factories in Britain between 1932 and 1937, London accounted for 532, and this was the continuation of a trend stretching back to the early 1920s. In mid-1932 London's employment was 18% up on its 1923 level, whereas Wales—the worst hit region—was 31% down.

Yet it is these same factories which are now being closed. Hoover in Perivale and Firestone in Chiswick are two of the most celebrated names of the 1930s to have closed since 1979, but there are many more on the great industrial estates of West and North London. The results, as in the depressed regions in the 1930s, are a cut in jobs (down 8% in London between 1978 and 1982) and growing mass unemployment. In July 1982 male unemployment in Hackney was 22%, in Poplar 31% and in Stepney 32%. The unemployed of the East End do not have as far to march as the Jarrow workers in the 1930s. But their plight is increasingly similar. The inner cities are the depressed areas of the 1980s.

Women and Monetarism

Women are adversely affected by monetarism in all the ways outlined above and more. In the main, women are the managers of the household economies and in increasing proportions they are heads of households in their own right due to divorce, single parenthood and widowhood. Women have also been an increasingly important factor in bolstering family wages by the huge increase in part-time earnings, particularly among married women. Women are also the primary users of the welfare state and recipients of the social wage. Cuts in services have secondary effects on the ability of women to seek or retain employment.

National wealth is continuing to decrease. The effect of cutting the money supply is high interest rates, and low investment leading to decreased public borrowing and spending cuts in services and unemployment, reduces the Gross National Income which is comprised of wages and social wage. Depressing wage levels leads to poverty and poor work conditions. The social wage is made up of state services, such as health, public transport, education and benefits. The depression of wages that follows restricting the money supply reduces inflation and automatically reduces the value of index linked benefits. Although the overall rate of inflation is currently about 8.5% it has fallen less for people on low incomes. This is due to the rising price of commodities such as housing and public transport which take a disproportionate amount from low paid incomes.

Trends in employment and unemployment affect women and men differently because of their, on the whole, unequal relationship to the labour market. The vast majority of low paid, temporary and part-time workers in London are women. The low paid are six times more likely to be unemployed and remain unemployed. Employers have taken advantage of monetarist policies to contain and control the low paid. The Government supports this trend by abolishing protective legislation.

Destruction or Restructuring?

Mrs Thatcher claims that this forced recession is necessary. For her only the discipline of a slump would distinguish the strong firms from the weak and undermine what for her was the key imperfection in an otherwise self-balancing market system: organized labour. This fits precisely with the traditional functions of an economic slump when faced with a crisis of profitability: (i) the writing down of fictitious capital values built up during a period of expanded credit; (ii) the reorganization of production and the increase of productivity; and (iii) the weakening of the power of labour. These are the factors which have regularly restored the rate of profit and permitted accumulation to proceed. They involve a restructuring of the economy at the expense of labour.

Certainly, monetarism has partially carried out these functions. For the country as a whole real wages are now lower than they were when Mrs Thatcher came to power. In London the real earnings of manual men and women were lower in 1981 than they had been in 1977. Whereas 29,000 days were lost in labour disputes in 1979, by 1980 it was down to 12,000 and last year to 4,000. In London, the London Chamber of Commerce and Industry (LCCI) reported that whereas in June 1979 35% of their sample firms reported that labour shortages were a constraint on output, by July 1981 the figure had fallen to 2% and strike activity to 1%. In mid-1982 one respondent was quoted as saying that there was now 'more labour available and less militant than in past 10 years'. In the private sector at least, it has proved very difficult to organize against closures or redundancies following bankruptcies. In this sense Mrs Thatcher has been successful in using money as an instrument of control.

She has also had a modest success in writing down capital values through bankruptcy, though productivity increases have been less clear-cut. In one sample, two-fifths of the 331 firms said there had been an increase in labour productivity in the period of 1980–1, but an equal number said there had been a decrease. New investment on average remained static during the last three years, and circumstantial evidence suggests that major new manufacturing investment takes place away from London rather than within it.

But there is a real question—from the viewpoint not of labour but of private capital itself—whether restructuring and the restoration of the profit rate can any more take place through the crisis mechanisms of an earlier phase. We are no longer in the economy of the corner shop. London's economy is now intertwined in international webs of production and exchange. So severe would an international collapse of credit be that there is a real question of whether the socio-political structures of the industrial countries could survive. Even in the 1930s, the depth of that crisis, its implications for unemployment, welfare, totalitarianism and eventually war, convinced the guardians of international finance that they could no longer allow a major banking and corporate collapse. The US Federal Reserve Bank was at last constituted to act as a lender of last resort (a capacity it used to prevent a major collapse in 1974). Other central banks which had not already done so followed suit, and in 1945 Bretton Woods was set up to act as a quasi-international lender of last resort.

As the rate of profit fell in the industrial world through the sixties and seventies (in the UK the fall was sharper and earlier than most from 13% in 1960 to 2% in 1982), and as credit expanded to offset a fall in demand, so the central banks acting as guarantors of the banking system provided the state money that was at the root of inflation. What has frightened these same bankers about monetarism is that first Mrs Thatcher and then President Reagan appear bent on bringing about this credit collapse. It is striking that the Bank of England have consistently acted to modify the effect of Mrs Thatcher's monetarism on the interest rate and the money supply. Like the major clearing banks, it has operated an intensive care unit for threatened firms and organized restructuring directly rather than leaving it to the market. The Bank of International Settlements on the world scale have declared themselves in favour of incomes policy rather than the profound dangers of monetarism, and these same bankers have only with difficulty persuaded President Reagan to extend further credit through the IMF to roll over Third World debts.

Economics of the Looking Glass

What the central bankers have themselves realized is the danger of an economic crisis far greater than occurred in the 1930s, and of economic policies in the US and the UK which are consistently pushing the world economy nearer that brink. In short, for a general restructuring to take place the extent of the crisis would be so large as to endanger the economic system itself. This is a measure of the issue which is at stake with monetarism. Furthermore, in Mrs Thatcher's own terms, monetarism at a national and regional level has been an economic catastrophe. It is now clear that the extent of the damage to the British economy was much larger than anyone in the government originally intended. The increase of interest rates bankrupted some firms and forced others to borrow, thus expanding the money supply (M3). The fall in economic activity reduced tax revenue, increased unemployment payments and worsened the budget deficit but at the same time raised the cost of Government borrowing, so that the Government was borrowing more simply to service its debt. Inflation which had stood at 11.3% at the time of the first budget later reached 20%. Demand—already cut by the recession—fell further as firms reduced stocks (and therefore their intermediate demand) in the face of high interest rates. Government advisers were divided as to what was going on, but the Prime Minister carried on inflexibly regardless of the cost. The final cost in terms of employment has been a loss of 2.35 million jobs between 1979 and mid-1982. Unemployment has risen from 1.3 to 3.34 million in September 1982. While industrial production was falling in Britain from 1979 to mid-1982 by 16.5%, in France and Germany it remained constant, while in Norway it rose by 8% and in Japan by 12%. Manufacturing employment fell by nearly one-fifth in the UK, far more than that of any other industrial country.

What this has meant is that the industry destroyed by Mrs Thatcher's monetarism is leaving room on the markets not so much for the firms that remain in this country as for those who have kept up production, technical progress and investment overseas. Imports have increased so that this year Britain had a trade deficit on manufactured goods for the first time, as the *Economist* pointed out, since the beginning of the Industrial Revolution. For London this is particularly serious. The output lost from the factories that are being closed is not being replaced by new factories sites in the city. Where new production is taking place it has tended to be in the smaller cities, along the M4 corridor, or in rural towns. For London the loss of these factories cannot be seen as restructuring but destruction. The point holds for the country as a whole, but even more acutely for its capital.

Nor has the reduction of real wages helped British competitivity. The exchange rate policy meant that British manufacturers lost 50% of their price competitiveness in 1979 and 1980, and have since regained only about one-third of this. While workers received less, their effective cost in relation to labour elsewhere has increased. This is the economics of the looking glass. Nor does Mrs Thatcher—from the viewpoint of those interests she represents—fully recognize the effect on national productivity of the run down of public services, of education, of health and of the transport system. Particularly serious for industry and employment has been the wilful destruction of skills and the network of Industrial Training Boards. In road transport and engineering, for example, where skills are vital to any economic revival in London, the number of apprentices nationally was halved from 2,260 to 1,100 between 1979 and 1981. Already by 1982 London's employers were reporting restrictions in output because of the shortage of suitable skills.

On almost every major issue the monetarists have been wrong in theory and in practice. They regard Britain's wages as a problem when they were among the lowest in Western Europe. They regarded taxes as a problem when they were near the average of our competitors (and when by December 1981 Mrs Thatcher's fiscal policy had according to her own figures nearly doubled the tax paid by the average family man). They saw expanded state spending as a problem when in fact many state services had actually declined in physical terms over the previous decade. They saw state debt as a problem when in fact it was at its lowest real rate for nearly a century, rising only now the monetarists' fixed interest indebtedness has increased the real rates of interest paid now that inflation has fallen. In the end they have only been able to cut the money supply and the PSBR (their two initial targets) by massive economic destruction.

To ordinary Londoners this performance appears an economy without sense. Nearly 400,000 are now registered as unemployed at a cost minimally estimated at £3,500 per head per year, or £1,400,000,000 in total. Factories lie empty, land is unused. Machines—often quite new—are frequently being sold for scrap. Ideas for new products in universities, polytechnics and both private and public industry remain undeveloped because commerce is bad. The sheer waste of it all is so evident when compared with the needs that are so patently unmet. If industrialists and the CBI protest, how much starker is the reality of this destruction to working, or would-be working, Londoners.

Restructuring for Labour

The Council is necessarily limited in its response. But in its industry and employment policy it is pointing the way to an alternative which if followed nationally and internationally alone holds promise of avoiding the catastrophe which the central bankers fear. It acknowledges that restructuring must take place but that it must be a restructuring organized on behalf of and with the support of labour rather than at its expense.

The key to this policy is technology. In most spheres there is a spectrum of new technologies, some centred on human skills, others aimed to de-skill. The Council has fostered a new programme of technology networks to make the resources of London's higher research institutions available to workers wishing to develop human-centred technologies. These will raise productivity—indeed the lathes and production systems being developed at the University of Manchester Institute of Science and Technology promise to increase productivity more than methods which remove skill from the operator. This increased productivity is the basis for those working this new technology to be paid an adequate wage even when their product is subject to competition from low-wage countries. Whether in older plants or in new fields (such as cable development or energy production) these choices of technology and of ways of producing a given effect are quite evident to the people working there.

What has to be done first is to stop the destruction of existing jobs. We have taken the first step in this direction with our saving of Austins at

Leyton and Third Sector in Willesden. In both cases, we have advanced money to cover the cost of the factory, as well as working capital in the form of a loan. The latter has been based on the Council providing finance up to a grant limit of £20 per job week, on the grounds that an average industrial worker in London produces £160 value each week, stimulates a further £40 worth of London production through a multiplier effect, and furnishes a return to the public exchequer of on average £70 per week. A basic financial support of £20 a week is modest. What is needed is for the Government to agree to provide the equivalent of unemployment and social security benefit for each worker whose job the Council saves.

Secondly, we are seeking ways to put together the resources which have been left idle by monetarism. The new built factory programme has been a start here, but we are looking to ways of using such buildings to house production by the unemployed geared initially at each other and the Council rather than at the market. Here, the iron discipline of profit need not enter since—with wasted resources—the private economy's productivity is zero. In many job creation schemes there is a danger that every job created is also a job lost, that a new scheme financed by a public authority will merely reduce the market (and the employment) of the competitors. Within the economy of unused resources there is no such danger. Each job created is a job gained for there is no competition with the market producers.

Thirdly, we are trying to preserve some of the apprenticeship schemes run by the Industrial Training Boards and to defend the skills of which the workforce of London has been so rich a repository. The preservation and expansion of skills we see, along with many industrialists, as a necessary condition for any economic expansion, however introduced.

Finally, we see the need to develop new sectors and new products, ones geared to the real needs of ordinary Londoners. Our work on a human-centred cable system and on an alternative energy strategy for London are the first major steps in the London industrial strategy, together with detailed work in conjunction with the unions on how the furniture industry and different parts of the engineering industry can be restructured for labour.

What is needed to carry out these policies is a capacity for direct intervention in the process of restructuring companies, production methods and products. The Greater London Enterprise Board is developing this capacity, both in the corporate and technology sphere. Important, too, is the Council's programme for Popular Planning, which is aimed to ensure that ordinary people can discuss their needs as consumers, as residents or workers and can play a part in industrial restructuring. But these policies will only mitigate the effects that monetarism has visited upon London's economy. What is needed is a change of government, and the adoption not of a mere generalized reflation, but of a detailed, interventionist policy of restructuring for labour along the lines that we are developing in the Council.