

THE IRC – AN EXPERIMENT IN INDUSTRIAL INTERVENTION

A History of the Industrial Reorganisation
Corporation

Douglas Hague and Geoffrey Wilkinson

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DOUGLAS HAGUE AND
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*A History of the Industrial Reorganisation
Corporation*

**DOUGLAS HAGUE and
GEOFFREY WILKINSON**

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Preface

The Industrial Reorganisation Corporation had a short but active and controversial life. It was set up by the Wilson Government in 1966 and abolished by the Heath Administration in April 1971. It took almost a year to get under way and was effectively neutralised in the summer of 1970 when the Conservative Party was returned to power. In the three years up to June 1970, however, the IRC was scarcely out of the headlines, at least on the business pages, and often on the front pages of the National Press.

One of the final acts of the IRC was to commission a history to be written recording its objectives, its method of operation and the results of its activities. This book is an indirect result of that commission. Its publication has been delayed partly because the original author withdrew from the project. Also the idea of producing an 'official blessed' document has been abandoned because of difficulties relating to the confidentiality of the IRC papers now in the keeping of the Department of Industry. Nevertheless, we have been able to produce a book which we think gives a genuine flavour of the way the IRC worked. In this, we are indebted to Sir Joseph Lockwood, Sir Michael Clapham and especially to Sir Charles Villiers for their support and advice. All three were IRC Board members, with Sir Joseph Lockwood as Chairman from 1969 to 1971 and Sir Charles Villiers as Managing Director from 1968 to 1971. Together, they formed the 'IRC Committee' which has kept a helpful and watching eye on the book from the original commission to this publication. Without their support and encouragement, it would never have been completed. The authors, of course, are responsible for the opinions expressed in the book and for the interpretation of events.

In producing this history, we have had two overriding objectives. The first, and the more straightforward, is to bring together as much of the material relating to the IRC's activities as can practically be published. So we have reproduced some of the press statements released by the IRC explaining its involvement in key mergers. We have reprinted the IRC White Paper and have surveyed other material which influenced the establishment of the Corporation. We have also included extracts from the IRC's Annual Reports and Accounts which summarise all the projects in which it was involved and which give brief details of each of its financial commitments.

The second and more important objective has been to give as precise and detailed an account as possible of how the IRC actually

operated. It was a most unusual public corporation. It undertook a very large amount of work with a tiny staff – only about ten executives and never more than about thirty people in total. Even more importantly it made decisions on major issues very quickly, and much more quickly than is normal at the interface between government and industry.

The heart of our book is therefore a series of case studies covering ten of the IRC's most important areas of involvement. In these we have given a full account of how the IRC's involvement came about, how it analysed the problems posed, how it reached a view on the most desirable course of action, and how it set about achieving the results it desired. We have then traced the subsequent history of the companies involved up to the end of the 1970s.

To put these case studies into context, we have included three chapters at the beginning of the book setting out the origins, structure and powers of the IRC and outlining its major activities. We have also included, at the end of the book, a brief review of the results of the IRC's work and lessons that might be drawn from it.

The individual case studies stand by themselves and, although the book can be read in order from cover to cover, there is no reason why the reader should not turn directly to the chapter on Rolls-Royce or GEC, AEI and English Electric, or the motor industry, or whatever is of most interest. What we do wish to emphasize is that the objectives of the IRC, and the way it saw its role, changed significantly during even its short lifetime. It started very clearly as a government 'merger broker' and the case studies in Part 2 of the book reflect this. As time went on, it saw a much wider role and to some extent began to doubt the validity of its original remit. This wider role was never fully worked out, but the beginnings of it are seen in the case studies in Part 3 of the book and are considered further in our concluding comments in Part 4. In the first three chapters we show how the IRC became involved, not only in major investment decisions, but also in the overall financing of companies and increasingly in top management selection and appointments.

It is doubtful that anyone would now argue that the government should recreate a public corporation with a specific remit as a merger broker. The case for and against a public 'merchant bank' or 'development bank' is much more interesting. Fashions on government intervention in industry come and go, but the fact of intervention in some form or other continues. Whether or not an IRC-type body, with a very different remit, could provide a more coherent and systematic vehicle than *ad hoc* intervention is an important question. We would not claim to have provided a definitive answer to it but we hope that we have given the reader enough

material to form a view, not only on the IRC as it was, but also on the IRC as it might have become.

Autumn 1982

D. H.
G. C. G. W.



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PART ONE



THE IRC





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1

The Origins of the IRC

'IRC – sheer wanton murder': this was the reaction of the industrial editor of the *Sunday Times*, Nicholas Faith, not to the activities of the Labour Government's Industrial Reorganisation Corporation, but to the decision of the Tory Government, in 1970, to abolish it (*Sunday Times*, 1 November 1970). The decision was announced in the House of Commons in Anthony Barber's first budget speech on 27 October 1970 and it brought to an end four years of government-sponsored attempts to 'rationalise' Britain's industrial structure. The biggest budget headlines were reserved for 'sixpence off income tax' but the IRC had become sufficiently well known for its demise to make the front page of that night's evening papers (e.g. *Evening Standard*, 27 October 1970).

Barber claimed that he would be saving an anticipated expenditure of £40 million per year. This was in sharp contrast to the attitude of Labour Prime Minister Harold Wilson when, almost four years before, on 7 November 1966, he had invited the members of the newly constituted IRC Board to an informal dinner at 10 Downing Street. Then, Wilson had been most concerned to discuss whether or not £150 million was likely to be sufficient as the initial financial allocation for the IRC's activities.

To understand the origins of the IRC we have to look back to those early years of the Wilson government. In addition to the ill-fated 'National Plan' there was a general commitment to the 'white hot technological revolution' and to any necessary government intervention to achieve it (see White Paper Cmnd 2764, 1965, for a statement of the National Plan). More specifically there was a willingness to use every means available to improve the competitiveness of British industry. This was certainly one factor behind the creation of the IRC. A second was the merger fever of the 1960s, then approaching its height. It was felt that too many of the mergers that took place were motivated by either mainly financial or defensive considerations and contributed little, or even negatively, to industrial regeneration. So, on the one hand, it was thought that some

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opportunities for industrial restructuring were not being taken, either because of sluggish management or because the benefits were too long term. On the other, it was feared that the increasing number of mergers that were taking place often failed to achieve, and sometimes made more difficult, restructuring that was desirable on industrial grounds. The Monopolies Commission had powers to investigate mergers but it was argued that a more positive approach was also required. In this chapter we shall look briefly at these factors and at the ideas of some of the people who were most concerned with the creation of the British government's first merger broker.

INTERVENTION – DIRECT OR INDIRECT

Government intervention in industry dates back as far as the Industrial Revolution and some would argue even further:

Centuries ago the economy began to evolve from a “natural economy” in which money did not exist to a “money economy” in which it did. Once that happened then *de facto* governments began to interfere with the prevailing market conditions by levying taxes and regulating trading conditions (Young and Lowe, 1974, p. 11).

Certainly in a modern mixed economy like that of the UK almost everything that government does has a direct or indirect impact on industry. It is not the intention here to trace the historical development and growth of government policy towards industry (this is discussed in Young and Lowe, 1974, Chs 1–3, and more extensively in Skuse, 1972). It does appear, however, that in the early 1960s there was a clear change of emphasis towards more direct and specific government intervention in private industrial decision making (see, for example, Young and Lowe, 1974, p. 13). The close controls, established during the Second World War, had been followed by very active policies of the 1945 Labour government. These included not only the major nationalisation measures, but an extensive system of controls over the private sector. The 1951 Tory administration reversed many of these policies. It denationalised the steel industry and reverted to more indirect influences on industrial decision making, attempting merely to determine the climate within which business decisions were made through overall fiscal and monetary policies. In the early 1960s, however, growing concern over the UK's relatively poor performance in terms of the growth of

industrial output and productivity was reflected in the establishment of a series of government agencies, all of which are still in existence. The first was the National Economic Development Council (NEDC), established in 1962. This was designed as a forum in which the government, businessmen and the trade unions could discuss economic and industrial planning. Its creation reflected the Tories' conversion to the idea that such a forum was needed and that the government had a part to play in it. The NEDC was reinforced in 1964 when a series of 'little Neddies' (Economic Development Councils) was set up, each covering a specific industry. In 1964 the Tories also set up a series of Industrial Training Boards and extended the powers of the National Research and Development Corporation (NRDC).

Much of the groundwork for the 1964 Labour government's National Plan had, therefore, been carried out during the last two years of the Conservative administration (see Brittan, 1971). This had been done, not on the basis of any clearly defined ideology, but in an attempt to provide a practical response to the seemingly intractable problems of improving industrial performance. The National Plan was an extension of this process. In the event, it did not work; the attempt to improve economic performance through indicative planning did not lead to faster, sustained economic growth. Perhaps there was a fatal flaw. An important precondition, if firms were to be encouraged to undertake the investment necessary to increase productivity and sustain expansion, was higher aggregate demand. However, given the performance of UK industry, such an expansion of aggregate demand was likely to increase imports, reduce exports (which could be sold more profitably at home) and produce an unsustainable deficit on the balance of payments. The remedy used was deflation, and hence the negation of the original plans.

At the same time, there was a growing tendency to operate more selectively. Between 1964 and 1967 the number of EDCs was increased from five to twenty-three (Bailey, 1968, see his Appendix 111 for a complete list of EDCs) but many of these were seen, and used, largely as talking shops which had little real impact on the decision making of individual firms. The government therefore decided to take specific action to deal with what it saw as major problem areas. It set in motion the renationalisation of the steel industry and appointed a Shipbuilding Inquiry Committee which was to result in the establishment of the Shipbuilding Industry Board (see Ch. 13). In December 1966, it set up the Industrial Reorganisation Corporation to 'promote or assist the reorganisation or development' of industry in the UK (Cmnd 2889, 1966).

MERGER FEVER

In the introduction to this chapter we indicated why mergers came to be regarded as a fruitful area for positive government intervention. Unfortunately, reliable figures on the number and size of mergers are hard to come by, especially before the mid-1960s. A reasonably consistent set of data on mergers is, however, available back to 1963. For the period before that, there are only concentration ratios (i.e. ratios showing the proportion of output accounted for by a given number of the largest firms in an industry). Figure 1.1 is reproduced from S. J. Prais's major study on the growth of concentration in UK manufacturing industry 'The Evolution of Giant Firms in Britain' (CUP, 1976).

Prais's data shows that, after a period of relative stability from the beginning of the century up to 1950, the share of the largest hundred enterprises in manufacturing output in the UK grew rapidly during the 1950s and 1960s. Estimates vary as to how much of this growth was accounted for by mergers as against the organic growth of existing firms, but a reasonable guess is about half. So, despite the lack of precise figures, it is clear that, by the early 1960s, merger activity had increased significantly and seemed likely to grow still

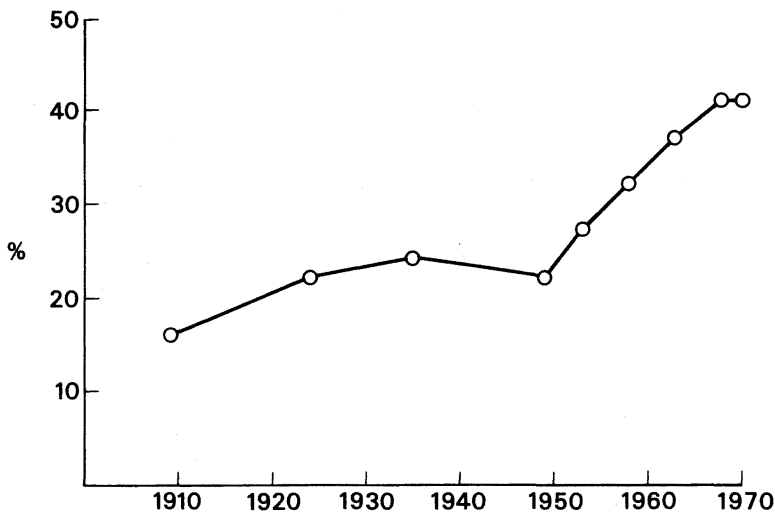


Figure 1.1 Growth of concentration. Share of the hundred largest enterprises in manufacturing net output, United Kingdom, 1909–70.

Table 1.1 *Merger activity, industrial and commercial companies 1963-77*

Year	Number of Mergers	Consideration for acquired company	
		Current prices (£ million)	Index *
1963	888	352	100
1964	940	505	134
1965	1000	517	146
1966	807	500	140
1967	763	822	216
1968	946	1946	362
1969 [†]	907	935	176
1969 [†]	846	1069	201
1970	793	1122	238
1971	884	911	164
1972	1210	2532	357
1973	1205	1304	213
1974	504	508	141
1975	315	291	64
1976	353	427	79
1977	482	812	117

Source: Business monitor M7.

* Consideration in current prices deflated by the FT Actuaries 500 Ordinary Share Index.

[†] Based on company accounts prior to 1970, and on the financial press and other sources since 1969.

further. Indeed there was something of a boom in mergers in 1964 and 1965. The number of mergers among industrial and commercial companies (a wider definition than Prais's) rose from 888 in 1963 to 940 in 1964 and 1000 in 1965, dropping back to 807 in 1966. A better measure of the 'volume' of merger activity is given by an index included in the government's consultative document *A Review of Monopolies and Mergers Policy* (Cmnd 7198, 1978; see Annex D, Appendix 1, p. 107). This takes the value of the assets acquired in mergers and 'deflates' it by the FT 500 Share Index to give a 'constant price' index of the value of merger acquisitions. This index is set out in the right-hand column of Table 1.1 It shows a 46 per cent increase in the 'volume' of mergers between 1963 and 1965, followed by a slight fall in 1966. The feeling that merger activity was likely to rise again was borne out, with the index rising to over 200

in 1967 and over 350 in 1968. The importance of merger activity in the 1960s, in terms both of its volume and of its impact on industrial concentration and structure, is clear. One of the main objectives in creating the IRC was to establish a body which would attempt to move at least some of this activity further in the direction of improving industrial performance. The IRC was conceived in and, at least until 1968, carried along by a wave of 'merger fever'. This is undoubtedly a key to an understanding of its behaviour.

AN INDUSTRIALIST'S IDEAS

In the two previous sections we have considered the general background against which the IRC was established. Before we go on to look at how it operated and what it did we shall, in the remainder of this chapter, examine some of the more specific arguments from which the concept of an IRC emerged.

As is often the case with 'inventions', the idea for an IRC occurred more or less simultaneously in slightly different forms to several different groups of people. The Labour Party and some government departments were considering the case for an agency of this kind, but an early detailed statement of the argument for a body like the IRC came from a businessman, Mr B. R. Cant.

He was head of an old-established family business, Hamworthy Engineering, which by 1964 was part of the Powell Duffryn group. In that year he wrote a paper entitled 'Attrition or breakthrough? Some notes on Britain's industrial future'. This paper was sent to the Powell Duffryn Chairman, Sir Henry Wilson Smith, a former civil servant. Cant asked whether his chairman thought that Sir Eric Roll, Permanent Secretary of the Department of Economic Affairs (DEA), might be interested. Wilson Smith thought that he would and sent copies of the paper to Roll, and to Sir Maurice Dean, Permanent Secretary of the Ministry of Technology (Mintech).

Largely on the basis of the ideas in his paper, Cant was seconded to Mintech as an industrial adviser with particular responsibility for studying ways of improving the structure of British industry. In that position he played an important role in the establishment of the IRC and, when the Corporation was set up, he became a member of its Board.

Cant's ideas emerged from a considerable amount of pondering on Britain's industrial problems rather than from any particular political ideology. His view was that current criticisms of British industry gave too great a significance to deficiencies in the British attitude to management. While accepting that some criticism of this

kind was justified, he felt that much of it obscured the situation in which the British manager worked. It was important to enquire why British manufacturing, especially of capital equipment, was carried out in firms that were so small that they dissipated their selling effort and were not technologically strong enough to develop advanced products and to take advantage of automated processes. Because most of the critics were not themselves managers, Cant felt that they did not recognise sufficiently the achievements and efforts of British management in stemming the unfavourable tide.

Cant argued that Britain's past industrial supremacy had been rooted in British mercantile supremacy. Over a long period, merchant houses and companies had developed which were able to work successfully in alien surroundings and in conflict, often violent, with European traders. This led, by the late eighteenth century, to interlocking understandings about spheres of influence in terms of geography and/or products, so that by the end of the Napoleonic period these British merchant houses were in an unassailable position.

The practices thus established, for dealing with primary products, were extended to manufacturers of machinery. Well into the twentieth century, some merchant houses specialised in selling certain types of machinery in certain countries. Where two merchants were selling in the same area, they might specialise so as to limit the challenge to each other. Such arrangements led, according to Cant, to great strength of community and to a rapid build-up of trading volume. At the same time, he believed that the arrangements enabled a determined man to found a successful engineering firm with small resources, because of his links with export agents from different parts of the world. There was design specialisation in each company, to meet requirements in those countries where it had the best agents.

Cant therefore argued that, even in the free trade era, British firms had a four-tier protection. First, there was the ascendancy of British shipping and merchants. Second, there was the predominance of British investment in local development. Third, there was the working out of relatively separate fields of interest by British merchants. Fourth, there was design specialisation to meet local requirements.

What of Britain's competitors? In the USA Cant believed that a combination of rapidly increasing home demand, abundant natural resources and good internal communications led to an accelerating fall in the number of manufacturers. Because it was not necessary to develop export markets in order to obtain raw materials, there was no pressure to design the particular varieties of product that such

markets demanded. This led to an increase in the size of firm and to a level of productivity not achieved elsewhere in the world, and this was true both of component manufacturers and final producers. The US economy was largely built on massive sales volume and limited product variety.

In Germany, largely as a result of strategic planning before and during the First and Second World Wars, massive industrial combinations had been formed with relatively little overlap between them. The result was an ingrained industrial philosophy of concentrating manufacturing activities in order to obtain high volume and to minimise conflicts in design, development and production. This was combined with a virtual re-equipment of German industry after 1945.

In France, a large number of substantial family businesses had traditionally satisfied the bulk of the country's demand for manufactured goods, perhaps because the British blockade of Napoleon's Europe had coincided with the beginning of the Industrial Revolution. While it might be going too far to argue that there was a maximum avoidance of conflict between the members of this industrial aristocracy, Cant believed that there were fewer conflicting interests than in the UK. With the development of the EEC the French were establishing formidable combinations, many with German companies, providing for a rationalisation of production between France and Germany and steadily increasing expenditure on development work and on the best production techniques.

Cant argued that Japan's main advantage in the early 1960s was cheap labour, but that its dependence on this should not be exaggerated. Japan also had a philosophy which drew on the best features of American and German experience. In the first half of the twentieth century, a determination to dominate Asia had led Japan to establish massive, vertically integrated manufacturing groups. With the USA assisting in the post-war revival of Japanese industry, Japan could combine a minimum of overlap in industrial effort with the American approach of getting the benefits of huge volumes of output. Both government and industry had adjusted themselves to make the best use of the resources available for exporting.

Turning back to the UK, Cant accepted that external factors like rising nationalism and changing international alignments had made the situation more difficult. But he claimed that the structures developed in the UK were unlike those elsewhere and had become singularly inappropriate for meeting international competition.

The UK, Cant believed, had relied on diversification – the formation of groups manufacturing diverse, or even unrelated, products – a development that he found easy to understand in the light of the

analysis summarised above. Diversification fitted the historical pattern. Few companies had to sacrifice much of their independence, and the result was the development of competing groups, each containing a number of relatively small production units, and each competing with small units in other groups. Cant's view was that no other highly developed industrial society had evolved such a capacity for the mutual attrition of its constituent units or such a related incapacity to take full advantage of production volume to install automated processes and to allocate sufficient funds to sophisticated development projects aimed at world markets.

What was the solution? First, the UK must distinguish the need for competition at home from the need to concentrate on manufacturing facilities sufficiently large to compete effectively in world markets. The UK needed to accept that competition on an international scale would be the really effective spur to efficiency, rather than pressure from bodies like the Restrictive Practices Court or the Monopolies Commission. Cant therefore argued for bigger production units in Britain, for a realignment of the UK's overseas connections, and for more reciprocal manufacturing agreements with American and Continental firms. The initiative for such a change would not come, at least not quickly enough, from the companies themselves. The UK needed an organisation to act as a catalyst. Cant argued that because there were many sectional interests to be bridged, the State must unavoidably play a part. It would be necessary to provide revolving fund finance on a substantial scale to trigger off the realignments, once they had been agreed upon. What was needed, in Cant's view, was a quasi-governmental body with access to public money, but with a high degree of independence, that could identify the need for industrial restructuring and the best means of bringing it about.

This preliminary paper has been discussed at length because Cant played an important part in the creation and the development of the IRC. Whether or not his diagnosis was correct is another matter. Concentration in UK manufacturing industry had been increasing rapidly since 1950 and there was little systematic evidence to suggest that the size either of plants or of firms was generally smaller in the UK than in Europe, or even in the USA. Indeed, some evidence that has since become available suggests the reverse (e.g. Prais, 1976, Ch. 6). There were, however, important industries where Cant's arguments certainly did have merit and these were the sectors to which the IRC gave priority.

THE EMERGENCE OF THE 'CORPORATION'

By the middle of 1965 a clear proposal was emerging in Mintech for the formation of the National Corporation for Company Reconstruction and Development (NATCORD). It was seen as a corporation with 51 per cent of its shares held by the government and 49 per cent by a wide range of private interests. Its main objective would be to secure industrial concentration, subject to the normal checks of the free market economy and to the monopolies legislation. A subsidiary objective would be to take large interests in companies which might otherwise become the subsidiaries of foreign firms.

NATCORD was to achieve its objectives by persuasion, by providing loans and other financial incentives to key companies, or by buying controlling but temporary interests in these firms. NATCORD was intended throughout to draw a substantial part of its funds from the private sector and was expected ultimately to dispense with government financing, having established its own credit worthiness.

Much of the groundwork in developing the original concept into a workable proposal was done by permanent officials in the Ministry of Technology. In the summer of 1965 the NATCORD proposals were discussed with the DEA and with a select group of industrialists. The DEA was interested but, to prosper, the idea now needed powerful support from outside Mintech. That support came from Dr Thomas Balogh, a special adviser on economics recruited by Harold Wilson. Balogh had strong, though more socialist, views on the potential for NATCORD. He saw its responsibilities expanding far beyond the merger field and argued that it could become a vehicle for starting enterprises capable of bringing about national growth, efficiency and exports, even though they might initially incur losses.

Balogh's view was that the efficiency of large German and American companies was rooted in the creation of the powerful German chemical and steel trusts and of the US trusts, several of which were organised by J. P. Morgan. Balogh was proposing that the State should beat the capitalists at their own game. He observed that J. P. Morgan gained enormous profits from the creation of his trusts and wanted the British government to do the same. The UK needed a powerful corporation which would take over whole industries, injecting new capital, carrying through restructuring and bringing about re-equipment with modern machinery. Initial subsidies could be provided by outright grants or by converting current losses into capital losses. The State should take the profits arising from its initiative, though ultimately State participation in such holding companies would be a minority interest.

A Fabian Society pamphlet (Posner and Pryke, 1965) showed that some Labour Party theorists were thinking along similar, though even more left-wing lines. It suggested that a suitable corporation could provide machinery for establishing and controlling new public enterprises and could be used as a State holding company through which the government could act directly to speed up economic progress. It could effectively be used to achieve the aims of nationalisation without expensive and time-consuming nationalisation itself. In this way, the corporation could select and supervise new areas of public enterprise. It could pool the financial, administrative and technical expertise of firms in which it had an interest and it could reallocate investment funds between different public sector enterprises. Existing government shareholdings in companies like BP, Short Brothers and Fairfields could be vested in the holding company, which could also initiate joint enterprises with the private sector and offer shares to the public.

During the autumn of 1965 it became clear that the more limited view of the corporation's remit would prevail. (The more radical views later re-emerged, but were again largely defeated, in the debate on the establishment of the National Enterprise Board.) About the same time a new name was suggested and the proposed new corporation became the Industrial Reorganisation Finance Corporation. Its objectives were to be to make an immediate short-term impact, to increase exports and to improve the balance of payments. In the long term, the aim was to reorganise industry into larger, more efficient units and to facilitate the development of advanced technologies. Already the concept of a corporation staffed by men with industrial experience was favoured. While it was anticipated that it would build on the work of the DEA, Mintech, the Board of Trade and the EDCs it was also to try to discover for itself what industry wanted.

THE FINAL FORM OF THE IRC

By this time, it had been agreed that the corporation should have a wide degree of independence within broad policy objectives laid down by the government. On specific projects, it would be able to act on its own initiative, at the request of industry, in response to suggestions made by the EDCs, or at the invitation of government departments. One idea was that the corporation should select and support 'catalyst' firms. These would be private businesses thought to be well managed and which might take the initiative, with the corporation's help, in reorganising certain sectors of industry.

Another proposal was that the corporation should have a special division to handle exceptionally risky, or deliberately subsidised projects which could not be expected to break even, but this was rejected.

During the autumn, the aims of the corporation were refined and modified. Rationalisation was chosen as its major objective and this was seen to include (a) mergers of two companies of comparable size; (b) the formation of groups through leading companies taking over smaller ones; (c) a re-grouping of the subsidiaries of existing groups in order to provide a more rational use of resources; (d) the rearrangement of production facilities to obtain longer runs, to improve production methods and, through greater use of sub-contracting, to reduce variety.

Some of the groups created in this way could be expected to make their own moves towards increased efficiency, especially through the introduction of labour-saving machinery. To help the others to do the same, the corporation should have its own experts, and employ outside consultants, to achieve desirable improvements. The corporation was expected always to give priority to schemes which appeared to offer early returns in terms of increased exports or import substitution.

The intention was that the corporation would achieve its objectives both by persuasion and by the use of very substantial funds, initially between £100 million and £200 million. In most cases, this money would be used to provide loans to companies involved in mergers. Cash could also be advanced in the form of equity capital but it was thought that the corporation should sell any shares it acquired as soon as possible, provided only that it could at least recoup its investment. More often, it was hoped it would make a profit. Some argued that, in addition, the corporation should have compulsory powers in reserve, to use if the market was manipulated against it and to reinforce its strengths. In the event, compulsory powers were never granted. The counter-argument, which prevailed, was that compulsory powers would create the impression that the new corporation was a vehicle for back-door nationalisation.

Although most of the preparatory work for the proposed new corporation had been done in Mintech, as the idea was developed strong support for it came from Mr George Brown, Secretary of State at the DEA. Since it was clear that the idea's chances would be much greater if George Brown were permitted to take the scheme under his wing, Mintech officials were prepared to see their brainchild adopted by the DEA. However, they made strong and successful efforts to retain a considerable influence, as was shown

almost immediately when, in December 1965, Mintech provided the suggestion for the first chairman of the corporation. The name, for which there was overwhelming support, was that of Sir Frank Kearton, Chairman of Courtaulds. He had earned his reputation by successfully fighting off the ICI takeover bid for his company in 1962 and then by building Courtaulds into a much larger and more profitable company.

In January 1966, when the White Paper on the corporation was published, 'finance' had been dropped from its title (Cmnd 2889, 1966). There was a strong feeling that the new body should not be presented as just another financial institution. Great efforts were made both in the White Paper and in public pronouncements to give the Industrial Reorganisation Corporation an image that would be widely accepted in business.

The arguments for establishing the IRC were summarised in paragraphs 2-5 of the White Paper:

2. The need for more concentration and rationalisation to promote the greater efficiency and international competitiveness of British industry which was emphasised in the National Plan [Cmd 2764, 1965, Ch. 1, para. 37], is now widely recognised. With the co-operation of financial institutions, many industries have already substantially altered their structure and organisation through mergers, acquisitions and regroupings. This process has been accelerating in recent years and may be expected to continue. Nevertheless, the pace and scale of change do not yet match the needs of the national economy.

3. Many of the production units in this country are small by comparison with the most successful companies in international trade, whose operations are often based on a much larger market. In some sectors the typical company in Britain is too small to achieve long production runs; to take advantage of economies of scale; to undertake effective research and development; to support specialist departments for design and marketing; to install the most modern equipment or to attract the best qualified management. Moreover, large groups may often have been built up haphazardly or solely to achieve wide diversification and may not therefore be organised to secure full efficiency in current conditions. Size and efficiency do not, of course, always go together – there are efficient small companies and inefficient large ones. What is needed is to create a structure which will enable us to make the most effective use, in the years ahead, of our resources of skill, management and capital.

4. There is no evidence that we can rely on market forces alone to produce the necessary structural changes at the pace required. Some of the industries most in need of rationalisation have an in-built tendency to stay as they are. Either there are a few large firms which are tempted to live and let live; or there are a number of small ones, none of which alone is strong enough to achieve the scale of operations needed for international competition. Moreover, some mergers simply lead to a con-

centration of ownership without securing a more effective deployment of the assets of the merged companies and result in loosely-knit groups of comparatively small production units ranging over a wide variety of manufacturing activities.

5. Although there is now a large number of institutions which can provide specialist services to meet the financial and other needs of industry, there is no organisation whose special function is to search for opportunities to promote rationalisation schemes which could yield substantial benefits to the national economy. Merchant banks and issuing houses carry through a great many mergers every year, but they can in general only act at their clients' request. Desirable regroupings fail to take place through lack of initiative and sponsorship, or because, when opportunities arise, there is no one ready to grasp them. The Government consider that this gap in the institutional framework needs to be filled and they propose to set up a new statutory body for the purpose, to be called the Industrial Reorganisation Corporation. The necessary legislation will be introduced as soon as possible.

The White Paper went on to emphasize that

6. The Corporation will seek the fullest co-operation from industry and existing financial institutions, and schemes which it initiates will, whenever possible, be put into effect either through the normal machinery of the market or in close collaboration with the market. It will be able to acquire a stake in the ownership of new groupings or enterprises it helps to create or to expand. It will not, however, act as a general holding company and will be able to dispose of its investments when the profits of rationalisation have been assured and it can do so to advantage. The faster it turns over its capital, the greater will be its capacity to promote the objects for which it is being set up.

From this and other sections of the White Paper it was clear that the left-wing concept of the Corporation, as a body to extend public ownership and to 'beat the capitalists' at their own game, had been largely defeated.

But it was not simply the way in which the White Paper was written which ensured that the IRC would be a pragmatic organisation, seeking to promote industrial aims rather than to further political objectives. The choice of Kearton as Chairman and the composition of its Board, with its heavy weighting of industrialists (discussed in Ch. 2), did the same. Those members of the Labour government who would have wished it otherwise allowed their views to be overridden in the interest of achieving the possible.

APPENDIX 1.1

This appendix reproduces the original White Paper setting up the Industrial Reorganisation Corporation (Cmnd 2889, 1966) which was presented to Parliament by the First Secretary of State and the Secretary of State for Economic Affairs in January 1966.

INDUSTRIAL REORGANISATION CORPORATION

Our future prosperity depends on our ability to bring about a fundamental improvement in the balance of payments. If we are to succeed in this, new initiatives are required to enable British industry to meet more effectively the growing competition it will face in world markets. The new system of incentives recently announced by the Government will provide a powerful stimulus to modernisation and investment in key sectors of the economy, but further changes in the structure and organisation of industry are required to make this fully effective.

2 The need for more concentration and rationalisation to promote the greater efficiency and international competitiveness of British industry, which was emphasised in the National Plan [Cmnd 2764, 1965, Ch. 1, para. 37], is now widely recognised. With the co-operation of financial institutions, many industries have already substantially altered their structure and organisation through mergers, acquisitions and regroupings. This process has been accelerating in recent years and may be expected to continue. Nevertheless, the pace and scale of change do not yet match the needs of the national economy.

3 Many of the production units in this country are small by comparison with the most successful companies in international trade, whose operations are often based on a much larger market. In some sectors the typical company in Britain is too small to achieve long production runs; to take advantage of economies of scale; to undertake effective research and development; to support specialist departments for design and marketing; to install the most modern equipment or to attract the best qualified management. Moreover, large groups may often have been built up haphazardly or solely to achieve wide diversification and may not therefore be organised to secure full efficiency in current conditions. Size and efficiency do not, of course, always go together—there are efficient small companies and inefficient large ones. What is needed is to create a structure which will enable us to make the most effective use, in the years ahead, of our resources of skill, management and capital.

4 There is no evidence that we can rely on market forces alone to produce the necessary structural changes at the pace required. Some of the industries most in need of rationalisation have an in-built tendency to stay as they are. Either there are a few large firms which are tempted to live and let live; or there are a number of small ones, none