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# UCS:

## The Social Audit

*A Special Report by the IWC*

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## INTRODUCTION

The Institute for Workers' Control has commissioned a series of studies on the problems which arise from the Government's decision to close a significant section of the Upper Clyde Shipbuilders Consortium.

A panel of economists and social scientists has been considering the overall implications of the Government's policy, with a view to assisting in the work of a Social Audit.

The idea of the Social Audit, which has been advanced for a long time by this Institute, is to compel public scrutiny of the social effects of management or government decisions, and to provide the workpeople and the general public with a means of expressing their opposition to harmful decisions. It is not the least of the achievements of the workers in the Clyde shipyards that they have made this demand their own, and thus brought nearer the day when no authority can humiliate ordinary people without risking public exposure and condemnation. The Institute is delighted that the Scottish Trades Union Congress has agreed to implement this principle and convene such an enquiry.

This pamphlet is offered to assist the S.T.U.C. and the workers of the Clyde in the preparation of their Social Audit. It is made available in a tentative spirit, but we hope it will be helpful. The text of this evidence was drafted by Michael Barratt Brown.



## PART I

### THE NATURE OF A SOCIAL AUDIT

The crisis of Upper Clyde Shipbuilders is a microcosm of the crisis of the whole of British Industry in which output has not risen for three years and a growing proportion of men and resources are unemployed. A social audit thus implies: *first*, an examination of the social costs and benefits which have to be taken into account in considering the closing down of two shipbuilding yards on the Clyde, and particularly the implications for employment opportunities; and *secondly* an examination of the political and economic policies of the government within the framework of which the closure is proposed. Only thus will it be possible to proceed to the second part of this Paper in which estimates of the prospects for shipbuilding employment on the Clyde are considered.

#### 1. Cost-Benefit Analysis

Social cost-benefit analysis simply means that, in making a decision about the investment of funds, the costs and benefits to the whole of a society are calculated. For a company, public or private, costs and benefits are the profits or losses of that particular company. Its profits may carry advantages for people other than the shareholders — employees, consumers and, through taxes paid, the general public. Its losses equally carry corresponding disadvantages. But such advantages and disadvantages cannot enter into the calculations of a company operating within a system in which survival, in competition with other companies at home or abroad, depends upon showing a profit. The fact that UCS went bust, i.e. that this company's revenues did not cover its costs, tells us very little about the social costs and benefits of liquidation of all or part of the company's assets. If, of course, we believe in the "invisible hand" of Adam Smith working through the price system in a free competitive market, then one may suppose that private greed coincides with public benefit. The possibility that the present government really does believe this will be examined in the next section. Most people would regard it as highly unlikely, both because there are many 'goods' which have no market price (how does one price the humiliations and fears of a man finding himself out of work?) and because free competition, to say the least, does not appear as the most obvious characteristic of the market today. How then are the social costs and benefits of the acts of private persons and companies to be evaluated?

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It is essential first in considering social costs and benefits to remember the old adage of the economist, that 'bygones are bygones'. This does not mean that one should fail to learn lessons from the past; it means that in considering new investment today, yesterday's investments are largely irrelevant. It makes no more sense and no less sense to talk about throwing good money after bad than it does to talk about throwing away assets that have had great value in the past. This is of particular importance in the case of UCS because the fact has to be faced that large sums of money have in the past been provided for the company mainly from Government sources.

**Table I**

**Capital Structure and History of U.C.S.**

Nov. 1965	Government loan to Fairfields of £1.m.	
Dec. 1965	Fairfield established with Share Capital of £2.m. of which Government provided 50%, Trade Unions 10% and private investors 40%. Government advances £1.m.	
Jan. 1968	U.C.S. formed with Share Capital plus Rights offer of which Fairfields 35%, John Brown 30% Yarrow 20%, Alexander Stephens 10% and Charles Connell 5%.	£4.m. £1.m. <i>equity</i> <i>(1.98 fact)</i>
Mar. 1969	Shipbuilding Industry Board (S.I.B.) loan	£3.m. <i>equity</i>
June 1969	Government Loans and Grants	£9.3.m.
Dec. 1969	S.I.B. Second Loan	£7.m.
Feb. 1971	Yarrow hived off from U.C.S. and given a Government Loan of £4.5m.	
June 1971	Government refuses loan to U.C.S. of £6.m.	

Source: *Labour Research*, August 1971.

It will be seen that Government funds to the extent of some £21m. have been made available, almost all as loans to Fairfields and U.C.S. This sum must be seen in context. It should be set against the total of £57.5m. of loans and grants which the Shipbuilding Industry Board was empowered under the 1967 Act to make available. £25.m. was provided over the same period to Harland and Wolff, of Belfast, and a further £7.m. provided in July of this year, together with a 47% Stormont Government holding in the equity. In 1965 Harland and Wolff claimed an annual production capacity of 200,000 g.r.t. compared with U.C.S. capacity (excluding Yarrow and the now closed Alexander Stephens

4.7

Yard) of about 250,000 g.r.t. For a further financial comparison it might be added that the U.C.S. order book in June of 1971 stood at around £90 millions.

What has been invested in the past is no necessary test of what should be done in the future. U.C.S. inherited losses of £4.2m. from John Brown's. This was not regarded by the Geddes Committee as an argument against the formation of U.C.S., although it was regarded by the Labour Government as a reason for making changes in the senior management. We shall return to this point later.

The crucial question is what should be done with the resources we have at our disposal today; and this is as true for society as a whole as it is for a single firm. Resources which we decide to invest today in one project are not available for others. Even if there are unemployed resources of men and machinery, while this gives an added reason for making an early decision, to prevent further waste, it does not alter the fact that a decision to invest resources ( of materials and land as well as of skilled workers and managers) in one place means that they cannot be invested somewhere else. The more unemployed resources there are, of course, the larger the social benefits in relation to social costs of setting them to work. What must be borne in mind is that it still matters what those resources are set to work on.

It is not difficult to examine the accounts of a company and to determine from them where profits and losses have been made, where unit costs have risen or sales have fallen for example. This does not give a sure guide for investment in the future, because past experience is not likely to be repeated exactly. Together with other information about the future that is available past experience does however, give the management of a company some guide for its investment decisions. The expected return to capital over a period of years from different projects can be estimated and the most profitable projects selected. But how are we to examine the social accounts, where we are concerned with social costs and benefits and not the private profits and loss accounts of companies? On what criteria should governments decide where to invest resources in the interests of society as a whole? Past experience of evident social costs and benefits will be useful and estimates can be made as for a private company of the return to capital invested in certain schemes, as in the nationalised industries where goods or services are sold to the public. Such estimates could be made about investment in shipbuilding and these were presumably made by the Advisory Group on Shipbuilding on the Upper Clyde, in deciding that only the Govan/Linthouse site formed a basis for an investment "with good prospects of profitability".

What then are the considerations that a social audit must take into account over and above the expectations of return to capital? There are all the external economies and diseconomies, in the economists jargon: that is those external to the individual company. But in addition there is the benefit of the full employment of resources and its obverse, the costs of unemployment; and there are other benefits which we may bunch together under the general heading of welfare. How can all these be quantified so as to compare one scheme with another? Let us consider them one by one.

a) *External Economies.* These arise mainly from the planning of investment: e.g. in developing a multi-purpose port with ore and oil terminals, storage and refining or processing facilities, so that the various projects are mutually beneficial. No individual company would necessarily have known what the others were going to do; so that none might have found these projects profitable on their own. In relation to U.C.S., a joint project involving the British Steel Corporation, which not only supplies the steel to U.C.S. from its Cambuslang works but is also a major operator of ore carriers, was put forward by John Hughes in an earlier pamphlet issued by the Institute for Workers' Control\*. Such joint projects could be and should be costed on as alternatives to an individual company estimate.

b) *External Costs.* Examples of these are pollution of land, air and water, destruction or wastage of natural assets, congestion and danger to life and limb on the road, and in the towns and cities. These may appear at first sight to be hard to quantify, but some estimate can be made of the costs of paintwork, repair of buildings, cleaning away rubbish, clearing rivers, loss of renewable materials, time lost by delay, and hospital costs, from accidents.

In this respect U.C.S. cannot be considered except in relation to the whole Clyde Estuary Development. There have been far too much secrecy and too little discussion of the Metra-Weddle Report, the reports of the Inspector of Nuclear Installations, not to mention the two nuclear submarine bases.

c) *Full Employment.* By far the most important resource at our disposal is the human resource — the skills and energy of human labour — and the next section will be devoted to this subject. There are however other resources of machinery and plant and of social infrastructure — houses, road, railways, water supply, drains, schools and so on. The closing down of a major centre of employment as at Clydebank that

\* U.C.S. Institute for Workers' Control Pamphlet No. 25.

led to a whole area being abandoned and the people moving elsewhere would involve a great wastage of existing social equipment. New houses, schools, roads, drains etc. would have to be built in the places to which the people had to move. Such costs are social costs, of course, and do not enter into the books of the company which decides to move its plant from Scotland to the outskirts of London. But they can easily be quantified on two assumptions: of 5,000 workers and their families, and of 15,000, having to be resettled.

Table 2

Unit Cost of Public Capital Expenditure 1968

Item	Unit Cost £	Cost per 5,000 £m.	Cost per 15,000 £m.
<b>Housing</b>			
Erection	3,000	15	45
Site works	700	3.5	10.5
Land	450	2.25	6.75
<b>TOTAL</b>	<b>4,150</b>	<b>20.75</b>	<b>62.25</b>
<b>Schools</b>			
Primary	250	1.25	3.75
Secondary	450	2.25	6.75
<b>Roads</b>			
Per mile	500,000	5.0	10.0
<b>Hospitals</b>			
Per bed	15,000	3.0	6.0
<b>TOTAL</b>	<b>6,500</b>	<b>32.25</b>	<b>96.75</b>

Note. It is assumed that each family needs one house, one place at primary and one at secondary school at any time, and that one mile of new road is required per 1,000 people and one hospital bed for twenty-five families.

Source: H.M. Treasury *Unit Costs of Public Expenditure*.

The implications of the figures in Table II are remarkable. The cost of resettling 5,000 families in areas where accommodation and social facilities are already fully used, so that new construction would be required amounts to the considerable figure of over £32.m., or roughly £6,500 per family. It might be added that since 1968 all prices have risen by about 25%, so that the figure could now be around £8,000 per family, or £40.m. for 5,000 families.

d) *Welfare*. Under this heading may be included many costs like those of education, health and other social services which can be quantified in terms of increased quantity of output, less time lost from illness

and accidents, and the maintenance of demand at a minimum level in periods of unemployment. Much less easily quantifiable are the benefits derived from parks and trees and pleasant surroundings, and neighbours including relatives and close friends. A price can of course be put upon this by asking people how much more pay they would need in a new job in order to attract them to move away from home. There is also the age-old problem of the economist and political scientist, of how to compare one man's welfare and another's or one man's gain in welfare with another's loss of welfare. One principle which has been widely accepted is particularly relevant to Clydeside, where unemployment is already high and poverty widespread. This is that since we satisfy our most urgent wants first, the richer we are the less urgent are the wants we satisfy. Thus, in the famous phrase of A.C. Pigou: "Any cause which increases the absolute share of real income in the hands of the poor, provided that it does not lead to a contraction in the size of the national income from any point of view, will in general increase economic welfare."\* A second principle is becoming equally widely accepted, that is that the principle of 'no taxation without representation', which provided the justification for establishing the power of Parliament over Government, must be extended to involve people at every level of society – in enterprise and localities – in the decisions that most closely affect them.

## 2. Analysis of Employment Opportunities and the Cost of Unemployment

It has already been suggested that labour is the most important resource that we have at our disposal and that there may be quite large costs in moving labour to jobs rather than bringing jobs to the workers. John Hughes in an earlier pamphlet of the Institute for Workers' Control\* gave figures for unemployment in Scotland and Great Britain respectively which may be amplified and set out as in Table 3.

**Table 3**  
**Employment and Unemployment in Great Britain and Scotland**  
**(Male and Female)**

Year and Month	Employment (000's)		Unemployment (000s)		Unemployment Rate % (000's)	
	G.B.	Scotland	G.B.	Scotland	G.B.	Scotland
1965 June	23,147	2,139	308	62.2	1.3	2.8
1966 "	23,301	2,143	323	58.8	1.4	2.7

\* A.C. Pigou *Economics of Welfare* p.89.

\* U.C.S. Institute for Workers' Control Pamphlet No. 25

1967	"	22,828	2,100	512	79.5	2.2	3.7
1968	"	22,645	2,086	541	79.6	2.3	3.7
1969	"	22,600	2,091	535	78.2	2.3	3.6
1970	"	22,404	2,077	573	89.4	2.5	4.1
1971 Dec.		22,328	2,071	589	98.0	2.6	4.5
1971 June		—	—	740	118.9	3.2	5.5
1965-71		-819	-68	+432	+56.7	—	—

Source: *D.E.P. Gazette* July 1971

The figures in Table 3 certainly shows that the average rate of unemployment in Scotland has tended to be well above that of Great Britain as a whole but they also reveal that it has risen ahead of that in Britain. If we take male unemployment only, since most of the shipyard workers are men, we may notice an even more serious gap between numbers of unemployed and numbers of vacancies for employment notified to the Labour exchanges.

**Table 4.**

Year	Men Unemployed and Job Vacancies Great Britain and Scotland 1966 - 71	
	Great Britain	Scotland
1966	14	47
1970	47	114
1971	85	246

What is most serious for the Clydeside workers, unemployment is worst on the Clydeside and in the Glasgow area than elsewhere in Scotland. The rates of unemployment for men and women in mid-1971 were 5.5% for Scotland as a whole and 5.8% for Scottish Development Areas, but 6.5% in Glasgow, 7.4% in Dumbarton, 8.1% in Greenock and 14.3% in Bathgate. The figures are that much worse for men, because women tend not to register when they know work is unavailable. To complete the picture we may add that opportunities for female employment are no better than in the rest of the country. About a half of the women aged 16-64 have full time or part-time work which is only slightly less than the average for Britain as a whole.

How far can the cost of unemployment be quantified? First, a simple calculation can be made of the cost of such unemployment as we have been discussing, in terms of dole and supplementary benefit.

Frank Field in a recent article in *Tribune* (July 6) did the arithmetic for the prospective loss of jobs on Clydeside taking into account average supplementary benefit payments in Scotland. The figures are summarised in Table 5, based on two alternative assumptions: of unemployment being limited to the 5,000 immediately laid off and of it involving through subcontractors and other multiplier effects up to 27,000 as the Scottish T.U.C. has suggested. Frank Field further assumed that on the most hopeful estimate based on current trends, 70% of these will be out of work for an average six months, another 13% for a year and the remainder for an average of three years.

**Table 5**

**Social Security Cost of Unemployment**

Costs	Rate per week per family (£)	Assuming 5,000 Unemployed (£m.)	Assuming 27,000 Unemployed (£m.)
a) 70% unemployed for 6 months			
– 35% men without working wives			
Supplementary Benefit (avg.)*	13.60	0.62	3.35
– 35% with working wives			
Flat rate (avg.)	5.00	0.39	2.10
Wage related (av)	3.50		
b) 13% unemployed for 1 year			
– 6.5% without working wives	13.60	0.22	1.19
– 6.5% with working wives			
6 months @	8.50	0.07	0.38
6 months @	5.00	0.04	0.21
c) 17% unemployed for 3 years			
– 8.5% without working wives	13.60	0.9	4.85
– 8.5% with working wives			
6 months @	8.50	0.56	3.00
2½ years @	5.00	0.34	1.85
d) TOTAL	10.68	3.14	16.93

Note \*after deducting 90p. family allowance and assuming two children per family.



Next one may note that redundancy payments would at least double these figures, so that costs to Government revenue of the order of £15m. might be involved. This calculation serves to set in proper perspective the sums of money involved. U.C.S. asked the Government for a further loan of £6m. It does not, of course, prove that this investment should have been made in U.C.S. The claims of U.C.S. to Government finance will have to be examined in their own right. We shall proceed to do this in a moment. What we have discovered so far is a basis for determining the additional cost of employing a man on Clydeside compared with leaving him unemployed. If average wages in shipbuilding in Scotland are shall we say £25.00 per week and men are prepared to work as labourers at, shall we say, £16.00 per week, then the difference between these figures and the £10.68 which was found to be the average weekly cost of dole and supplementary benefit, can be regarded as the social cost of employing an unemployed man on Clydeside. For there to be a social benefit arising from his work his weekly labour would have to add a value in excess of this. Of course, this principle could not be universally applied to the whole national labour force or there would be no taxable incomes from which transfers to the unemployed could be made. But this does not prevent the application where some 5% of resources are unemployed. For ensuring full employment it should not be difficult to find schemes which fulfilled this necessary requirement, although we should still want to find schemes in which the value added by the labour of each newly employed man was as high as it could be.

### 3. The Framework of Economic Policy

It is now necessary to consider the general framework of Government economic policies within which unemployment on Clydeside is conceived. For, even if we exclude the possibility of a Tory Government being prejudiced against a company which had been reconstructed with Government and even Trade Union capital, there remains the possibility that unemployment is itself being used as an instrument of policy.

There are several reasons why this is done; and these several reasons, together, make up a coherent economic policy, however misguided it may appear to be.

a) There is first the argument that full employment at home tends to pull in additional imports with increased home consumption which cannot be paid for by additional exports. A measure of unemployment is therefore required, so it is argued, in order to reduce imports and encourage firms to look to the export market rather than to the home

market for their growth. Quite apart from the fact that the result of this policy, pursued by successive government, has, in every case, been a generally deflated level of economic activity in which investment is deferred and costs rise so that exporting becomes more, not less, difficult, there is a special reason why the policy is inappropriate for the Shipbuilding Industry. Unfortunately, governments have not usually discriminated in their measures of deflation between one industry and another; and the fact is that the shipbuilding industry exports a particularly high proportion of its output (40% to 50% of merchant ships; 25% of all ships including naval vessels\*), and, what is more, only a very small proportion of its input (less than a tenth compared with about a fifth for all industry), consists of imports. Of course shipyard workers like other workers, buy foreign goods and may take holidays abroad when the money is good; but a cut-back to their industry has evidently a specially adverse balance of payments effect.

This becomes very clear if we consider the value of U.K. imports and exports of ships in the last few years and consider also the trade in shipping services, as set out in Table 6.

Table 6.

**U.K. Imports and Exports of Ships and Shipping Services**

Year	Ships (£m)			Shipping Services (£m)		
	Imports	Exports	Balance	Imports	Exports	Balance
1964	19	30	+11	724	687	-7
1965	26	34	+ 8	728	725	-3
1966	9	48	+39	716	718	+2
1967	22	69	+47	780	798	+18
1968	34	82	+48	895	956	+61
1969	39	62	+23	914	959	+44
1970	31.5	61	+30	1,087	1,073	-14

Source: *Overseas Trade Accounts of the U.K.*

Although there has been a positive balance of trade in ships, it cannot be a matter for satisfaction that, although about half of all shipping built in the U.K. is exported, nevertheless so much as a third of all shipping ordered by shipping lines comes from abroad. What is more the balance on shipping services shows that U.K. shipping lines are only carrying about a half of the goods leaving and entering this country.

\*Source: *Annual Abstract of Statistics, Table 200.*

b) An additional argument concerned with the U.K. balance of payments has recently been adduced by Government spokesmen. Not only was a large surplus on U.K. payments required to meet the immediate adverse effects on our trade from entry into Europe, but the long-run competitive position of British industry in the Common Market required what is euphemistically described as a "slimming" process throughout industry. It is evidently the workers who are destined for slimming since the intention behind the phrase is that firms should cut down on their labour force, so as to reduce their labour costs in order to be able to compete with West European firms on equal terms. Where necessary this may involve the closure of whole plants, the bankruptcy of whole companies. This might as well be faced now, it is argued, since it will certainly have to be faced when we enter the Common Market and British industry loses the protection of tariffs and other devices which at present serve to keep out the cheaper foreign product.

Now, apart from the fact that this might be a good reason for not entering such a competitive struggle, it is important to grasp the logical implications of the argument. In theory, under the Rome Treaty (Article 92), no member state of the European Economic Community may subsidise production in its own industries in a way which discriminates against those of other member states. Of course in fact there are many loopholes and the rules of fair and free competition enshrined in the Treaty are not yet fully enforced. Nevertheless, the objective which is wholeheartedly endorsed by the Conservative Government is that competition should be unrestrained. The implication of this must be duly recognised. Since in economic struggles the rule is that "winner takes all and the devil take the hindmost", the British people could quite quickly find themselves with a small number of individually quite large competitive firms (the ones, perhaps, whose chairmen advertise in the *Times* their support for the Common Market) still in business and the rest bankrupt and their workers redundant. Whether any shipbuilding firm survived this sudden exposure to the full blast of foreign competition would depend on Government orders e.g. for naval vessels as at Yarrow and Vickers. We shall consider in a moment what might be the real competitive strength of British Shipbuilding in general, and U.C.S. in particular, with the same degree of protection that other shipbuilding yards in the E.E.C. at present get away with. The general principle of encouraging competition in industry needs first to be carefully examined.

c) What Mr. John Davies, the Conservative Minister of Trade and Industry, has described with enthusiasm as the "abrasive effects of competi-

tion", and the faith that we have just seen that the Conservatives place in "slimming", add up to a view of economic activity that is indeed very close to that of Adam Smith and the "invisible hand" which equates private greed and public benefit. For the shipyard workers of the Upper Clyde all this means that if their firm goes bust that is all to the good because they will then be free to move to other firms in other industries in other parts of Britain, indeed in other parts of Europe perhaps, which are proving themselves more efficient in the competitive struggle. Now such a statement will no doubt be greeted with horse laughter at Clydebank. With the rate of unemployment in Glasgow at 6.5% (10% for men) and in Britain as a whole of 3.2% (4.5% for men) the phrases in the Report of the Advisory Group on Shipbuilding on the Upper Clyde about Government and local authority assistance in the "redeployment" of the 5,000 redundant staff and workers from U.C.S. must appear to be just pie in the sky. These advisors and the Government that appointed them may, however, genuinely believe that we are still living in a Nineteenth Century world of small competitive companies all at roughly similar levels of technology — some more successful than others — and that the more successful will have vacancies to take up those workers who find themselves in less successful companies. It would be a pretty picture if it ever existed.

The facts are otherwise. In the first place, the vacancies notified to Employment Exchanges today number some 200,000 (74,000 for adult males) and the wholly unemployed number 700,000 (600,000 of them for males). In Scotland the relative figures we saw to be still more ill-balanced. In the second place, and this is the crucial point in our economy today, the sources of finance for investment are increasingly concentrated in a few large companies. About 100 companies take up over 90% of all new funds issued on the London Stock Exchange and generate from their own sources about 40% of all such internal funds for investment among companies quoted on the Stock Exchange.<sup>1</sup> Yet in these quoted companies, they employ less than a fifth of all the workers. The giant company with the capital to invest is operating at very high levels of technology driven by the competitive economic struggle to seek out monopolistic positions at the very frontiers of technology. With the most advanced automated production they provide the growth points of production but they are not interested in taking on extra workers. This is why the proportion of funds to provide employment has to come increasingly from the Government. Whether those funds should be invested in shipbuilding we shall consider in a moment. There remains to be examined one further reason for Government policies designed to create unemployment.

d) This is the possibility that unemployment is being deliberately crea-

ted in order to reduce the pressures of Trade Unions for wage increases. One of the "disciplines of the market" which the Conservative leaders are forever invoking is the discipline of the *labour* market. In down to earth terms this means quite frankly the queue at the factory gate. Now it is a fact that in the last decade both the shares of profit in the U.K. National income and post-tax rates of profit of U.K. companies have been falling.<sup>2</sup> The fall has been particularly steep since 1964. It is also a fact that profits tend to fall in periods of slump or stagnation and the rate of growth in real terms of the U.K. national product in the six years 1964-70 (averaging 2.2% p.a.) has been little more than a half of that achieved in the previous seven years 1958-64. (3.7% p.a.). Moreover, it is not expected that there will be any growth at all in 1971. This has been the price of the defence of the balance of payments at all costs.<sup>3</sup> But whereas other periods of slump and stagnation since 1945 have been short-lived, this most recent period has lasted for more than three years (the national income (GDP) index based on 1963=100, reached 116 in mid-1968; it was standing at 116 in mid-1971). Moreover, in previous periods of history a slump of this duration would have been accompanied by falling wages as unemployment rose. This time the Trade Unions have gone far to maintain real wages for their members. This has been despite the very sharply rising prices as employers have sought to pass on their rising unit costs ( compounded of higher money wages and lower capacity working) in higher prices to the public.\*

The results of such a rise in prices as has occurred in the last year (10% in one year) is, however, to threaten the whole post-devaluation competitive position of British industry in world markets; and the Conservative Government, not daring to increase industry's capacity working by stimulating the home market (apart from the mini measures of Mr. Barber's mini budget in July) for fear of pulling in imports in excess of exports just before our entry to the Common Market, has perhaps decided to bring down wages and prices by sharply increasing unemployment. This was the old-fashioned, pre-Keynesian remedy for re-establishing rates of profit. We are hearing once more the cry that industry must have the profits to invest in new plant and to create new opportunities for employment. What Keynes taught, but evidently to little effect, was that businessmen invest, not when their past profits have created savings for investment, but when the expectation of an expanding market for their products leads them to believe in a profitable return from investment. Certainly this must be the conclusion from the absolute

\* The mechanism of the process is fully explained in the evidence of the Institute for Workers' Control submitted to the Wilberforce Court of Enquiry into pay for Electricity Workers and published as Pamphlet No. 24, *Trade Unions and Rising Prices*.

failure of investment in manufacturing industry to rise over the last three years and from the sharp decline of forward looking indicators of such investment in the last months when unemployment has been rising and the Conservative Government claims that price increases are under control. For the simple dilemma, which Marx explained a hundred years ago, still faces every capitalist; he must cut his wage costs or raise his prices to make profits if he is to stay in the competitive economic struggle; but if all capitalists do likewise who is to buy the goods the capital is set to produce? And once unemployment and reduced incomes emerge in one industry or area, a whole vicious downward cycle of declining incomes and economic activity may be generated. We have only avoided such deep recessions of activity since the war by means of massive Government expenditures. Have the Conservative Government really decided in their enthusiasm to cut the rate of income tax that this whole post-war era of full employment is to be ended? It certainly seems so; and the case of U.C.S. may be taken as a test of whether they can get away with it.

1. For details see M. Barratt Brown *Who Controls Industry?* in K. Coates (ed) *Can the Workers Run Industry?*.
2. The detailed facts and figures are to be found in A. Glyn and R. Sutcliffe "The Collapse of U.K. Profits" *New Left Review* No. 66 March-April 1971.
3. For details see M. Barratt Brown "Two halves of a Decade" *Trade Union Register* 1970. p.307.

## PART II

### THE CASE FOR UPPER CLYDE

The considerations that would have to be taken into account in a social audit may now be summarised and applied to the case of the Upper Clyde Shipyards.

1. The starting point cannot be the sums of money that have been made or lost in the past, although lessons would need to be learned from past failures of management and trade union practices and their interaction; nor can it be merely the direct accounting of competitive return to capital on any scheme that is considered.
2. The starting point must be the resources available
  - a) land and water
  - b) plant and machinery and buildings
  - c) labour of many different skills, including managerial
  - d) housing and other local amenities
3. External economics of integration and diseconomies from any spill-over effects must be taken into account.
4. The next consideration must be the needs of people for different types of goods and the price they will pay for them — in this case for ships and shipping services.
5. A parallel consideration must be the balance of home consumption and export earnings.
6. Full employment of resources and particularly of labour in the whole national as well as regional economy must be a prime objective, both as being desirable in itself and as the only basis for maintaining economic activity and encouraging the investment in improved living standards.
7. An absolute increase in the share of real income in the hands, of poorer families must be taken in conjunction with the objective of full employment.
8. Account must be taken of the general welfare and that of those most directly involved by taking them into consultation upon all the major decisions.

Thus, a most detailed review must be made under each of these headings of the claims of U.C.S. to the investment of public funds. No more can be done in this pamphlet than to indicate the lines which such a



review might take. The actual review by the Social Audit, hearing expert witnesses and consulting public opinion at every stage can alone determine the upshot of such an enquiry. What follows must therefore be regarded only as a preliminary survey of the ground, and may well be faulted in many respects.

1. *Past Failures.* There has been widespread criticism of the failure of management in the rather tightly-knit family concerns involved in building ships on the Clyde. This was already being discussed in the late 1950s when the industry was booming. It was the main burthen of Sir Iain Stewart's criticism's when he took over the running of Fairfields in 1967 and when he declined to continue under the merged U.C.S. There is, however, evident confidence among the workers in the new management of U.C.S. led by Mr. Ken Douglas.

There has been equally widespread criticism of labour practices on Clydeside and of industrial relations in general.

\* See for example A.K. Cairncross and J. Parkinson "The Shipbuilding Industry" in D. Burn (ed) *The Structure of British Industry* 1958 pp.122-3

A part of this has been a management problem resulting from three special economic factors in shipbuilding: first, the difficulties of forecasting demand in a sharply fluctuating market, and the tendency of managements therefore to take men on in large numbers when orders were good and especially when delivery dates were tight and to lay them off when orders were thin; second, the difficulties arising from the product mix of different types of ships at different stages of construction in a yard at any time, requiring different types of labour; third, the great amount of subcontracting work, of buying in that is involved in shipbuilding with the resultant tendency for workers to spend much of their time waiting for the particular work on which they are involved to be ready for them. The fact is that although wage costs per hour were not particularly high in British yards, productivity per hour was relatively low. Table 7 gives the figures.

**Table 7**

**Wage Costs and Productivity in  
Different National Shipbuilding Industries 1960-65**

Country	Wage Costs per hour (£) 1965	Productivity (man hour per ton)	
		1965	Av. 1960-65
U.K.	0.40	140	187
U.S.A.	1.19	220	164



Germany	0.44	135	155
Sweden	0.67	62	82
Japan	0.26	39	70

Source: K.J.W. Alexander and C.L. Jenkins, *Fairfields* Allen Lane  
1970 pp.38-9

Although the gap between Japan and the rest is very wide on both counts the gap between U.K. and Germany, Britain's other major rival is quite narrow.

It is, moreover, reported that productivity has been doubled at U.C.S. in the last year; and there is little doubt that reduction in duplication of overheads, improved planning and programming, more specialisation in output and improved manpower utilisation had begun to show important results. What is of quite crucial importance is that evidently both workers and management had begun to believe in the possibilities of successful shipbuilding, if only the inheritance of past financial difficulties could be wiped out.

2. *Available resources.* Only expert opinion can establish the resources available on Upper Clyde as a viable basis for future investment. Four points may, however, be made without danger of contradiction:

a) The members of the Advisory Group — the so-called 'Four Wise Men' (Mr. Alexander MacDonald, Chairman of Distillers; Sir Alexander Glen, Chairman of H. Clarkson, Shipbrokers; Mr. David Marchand, Director of Hill Samuel, Merchant Bankers; and Lord Robens, Chairman of Vickers) — which took four weeks to produce a four page report with no evidence whatsoever included to support their decision, must be pressed to supply this evidence.

b) The costs, which were detailed in an earlier part of this Paper, of unemployment pay and of resettling 5,000 or more workers elsewhere, must be taken into account in any decision.

c) The morale of the workers and management at U.C.S., which has led to the occupation of the John Brown's yard, must be regarded as an extremely positive factor.

d) If Fairfields is a viable production unit in the view of the 'Wise Men' then it is likely to be much more viable with the addition of other production facilities since there are major economies of scale in overheads subcontracting etc. in shipbuilding.<sup>1</sup>

3. *External Economies and Diseconomies.* Reference has already been made to the proposal of John Hughes<sup>2</sup> for a joint operation by

the British Steel Corporation and U.C.S. on the Upper Clyde, or for a diversified state corporation on the lines of the Italian IRI which would develop not only Clydeside, but a range of shipbuilding, shipping services, engineering and associated undertakings. The coastal shipping of Great Britain has for long required nationalisation to bring into efficient publicly controlled operation the thousands of small and unscrupulous operators in this business. Instead of hiving off British Rail's ferry boats, hovercraft and freightliners and dismantling the publicly owned Atlantic Steam Navigation Company, which pioneered roll-on-roll off services, these might appropriately be integrated with other coastal shipping and orders for ships programmed in association with the steel suppliers and shipbuilders. Quite contrary to the impression being given by the Conservative Government the public corporations have a much better economic record than private industry in the last decade.<sup>3</sup> As for diseconomies, there can be no doubt that the River Clyde will have to be looked at as a whole in the next decade and a major enquiry should be put in hand to this effect immediately.

4. *The Market for Ships.* Once again this is a matter for expert witnesses, but there are a number of points that can be made with some assurance:—

- a) U.C.S. has an order book of £90m.\* all due for delivery in 1971-2 or 1972-3 and it is understood that the order book would have been very much larger had the company not felt unable to take on orders beyond 1972-3 in view of the Government's threat of withholding cash flow.
- b) The Clyde cargo ships which are the specially designed standardised 18,000 ton ships pioneered by U.C.S. are proving extremely popular. Seven are already made and it was orders for these which were cut back earlier this year. Similar standardisation principles have been applied to the 26,000 ton bulk carriers of which fourteen are on order.
- c) U.C.S. is only responsible for about 10% — 12% of the tonnage being built in British shipyards and British yards are only now building about 5% of world output. In view of the sharp recent reduction in this share shown in Table 8 it should not be impossible at least to hold on to this share if not to build it up. What is involved is really quite marginal — about half of one per cent of world output, 100,000 tons out of the world merchant fleet that now tops 200 millions, a third of this being tankers in which U.C.S. is not involved.

\* Details are given in U.C.S., the Institute for Workers' Control Pamphlet No. 25.

Table 8

## U.K. Merchant Fleet and Shipbuilding Industry

Year	Merchant Fleet		Annual Total Output			Shipbuilding Employment	
	(m.tons)	% of world	000 tons	% for export	% tankers	As % of world output	All Con-struction (000) only (000)
1913	18	42	1,932	22	—	58	— —
1929	16	29	1,523	17	—	55	— —
1939	17.7	26	630	12	—	25	— —
1949	18.3	22	1,268	41	28	41	250 67
1955	19.6	20	1,474	37	47	28	— 64
1956-60	19.5	16	1,380	20	42	17	227 61
1961-4	20.4	14.5	1,060	21	38	12	240 41
1965	21.4	13	1,204	12	39	10	224 —
1966	21.5	12.5	1,130	25	35	8	219 —
1967	21.4	12	1,192	51	12	7.5	218 —
1968	21.7	11	1,046	52	23	6	207 —
1969	22.3	10.5	814	39	6	5	201 —

Note. All employed includes naval vessel building and marine engineering and repair work.

Merchant Fleet is of all sizes, output is of 100 gross tons available only.

Sources: U.N. *Statistical Yearbooks*, U.K. *Annual Abstract of Statistics*.  
W.S. & E.S. Woytinsky *World Commerce and Governments*.

d) Demand for ships is a function of the growth of world trade. This has been advancing for the last decade at the rate of 10% per annum (nearer 12% in manufactured goods). Even if we exclude the most rapidly growing inter-trade of the Common Market most of which is carried overland, the growth rate is 8% per annum. Then the fact that the world merchant fleet has been growing at 5% a year in terms of tonnage, 4% excluding tankers tonnage which has been increasing at 8% a year, gives reason for hope that this market is still expanding. In view of the fact that the underdeveloped world has had little part in this rapid growth of trade it is to expansion there that Britain should look, as will be argued in a moment.

e) The tonnage of new ships being ordered mainly consists of giant tankers, giant ore carriers and giant container ships. It is possible, on the one hand, that the boom in these is over; it is certain that they will greatly reduce the number of ships required both because of their size and speed and because of their rapid rates of turnaround in port. This last point particularly applies to container ships. The Rochdale Report recently commented on the basis of the Australian trade:—

“The tonnage of the UK deep cargo line fleet may well be nearly halved over the coming decade as container services develop. The number of vessels would show an even greater reduction.”

This was in line with a Board of Trade estimate for the world demand for dry cargo tonnage. Even more rapid changes have been predicted in private studies like the Lambert Bros. (Shipping) Ltd., Study of 1970 which suggested the displacement of between 500 and 850 vessels by 1975.

James MacDonald the *Financial Times* Shipping Correspondent was already reporting in 1970 that shipowners were finding once more that they had ships which were not at the end of their useful lives with no employment for them. <sup>4</sup>

These developments have huge implications for dockworkers and for sailors. Dock labour is expected to be halved between 1970 and 1975. <sup>5</sup> British seamen employed between 1964 and 1968 dropped by an eighth but the volume of goods carried in British ships rose by a quarter. The new 400,000 tonners have actually smaller crews than the old 40,000 tonners. <sup>6</sup> On the other hand there may be a growing demand for smaller ships to feed into the big carriers.

5. *The Balance of Payments.* A combined strategy for shipbuilding, shipping and port employment becomes an evident necessity, if unemployment on a mass scale in the major ports of Britain is to be prevented. Shipbuilding and shipping services, as was seen in Table 6, are important items in Britain's balance of payments. Nobody would nowadays defend the erstwhile activities of the "Shipping Conference" lines in excluding developing nations from the carrying trade of the world. <sup>7</sup> What may be suggested here is that the needs of the underdeveloped countries for increased trade and their own shipping services may provide opportunities for a reconstructed approach by British Governments to the whole question.

It has already been suggested that these countries have not enjoyed the same growth of trade as the more developed lands. Indeed, while the trade of the more developed lands has grown in the last decade by 10% a year; that of the underdeveloped has been growing by only 5%

a year. Britain with a long history of trade with the less developed nations has been particularly affected by this event. This is one of the main arguments being adduced for entry into the Common Market where trade has been growing rapidly. An alternative conclusion might be that Britain should plan to increase her trade exchanges with the underdeveloped countries by agreeing upon increased purchases of the goods they have to offer for increased sales of the products excluding ships which we have to offer. The result of entry into the Common Market is that we shall buy even less from the underdeveloped countries — not only of agricultural products but of textiles and other semi-processed goods and manufactures, and have to concentrate our sales in the Common Market where the fiercest competition for markets not only for ships but many other staple U.K. exports already, exists.

In the case of containerisation there may be a specially important point here since underdeveloped lands are not going to be able for some time to develop the dockside facilities or the organisation and computer programming techniques required to operate container systems except perhaps at a few points on each continent. Feeder shipping from these points by sea and river will remain of key importance; and it is this type of ship which U.C.S. is most suited to produce. Plans to increase the sale of ships for the products of underdeveloped countries would of course require Government aid and support in the first instance and a major measure of Government planning. Such plans would come up against powerful opposition from the banks and the giant companies including the shipping lines which would fear quite rightly that funds which they would wish to control for their own profitable enterprises would become directed to other purposes.

The crucial questions for a Social Audit of the future of British Shipbuilding are first whether a product can be made in a standardised form to reduce the costs to meet the needs of the underdeveloped countries and second whether Government arrangements can be made to market these in exchange for guaranteed imports of goods which British people want from the underdeveloped countries. It is as simple (and as difficult) as that once we speak in terms of the use of resources to meet needs instead of in terms of the competitive market.

6. *Full Employment and the Right to Work.* It should hardly need repeating here that the crucial question to be asked again is how we may make use of the skills and capacities of human beings in Britain to make more goods which others in this country and abroad would be most anxious to obtain for goods which they could offer in exchange and we should like to have more of. What in fact happened as we saw earlier in examining the competitive market system, is that funds are be-

coming concentrated on giant companies who have established some monopolistic position in the market at the expense of the ordinary needs of men and women. Since these companies operate at high levels of technology with few workers and much capital equipment, capital resources are denied for providing employment in meeting such ordinary needs. What appears as a technological advance, like supersonic transport and space research, becomes a monstrous dragon devouring the resources of whole peoples. Only the expenditure of governments out of the taxation of companies and the richer individual taxpayers serves to offset this process and to maintain full employment. Any move towards relegating the allocation of resources once more to the arbitrament of profit and loss can only mean the reappearance of mass unemployment. We may quote the words of a liberal Professor of Political Economy at Cambridge University:—

“There would be a similar number of exceedingly wealthy property owners; the proportion of the population required to man the extremely profitable automated industries would be small; wage rates would then be depressed; there would have to be a large expansion of the production of the labour intensive goods and services which were in high demand by the few multi-multi-millionaires; we would be back in a super-world of an immiserised proletariat and of butlers, footmen, kitchen maids, and other hangers on. Let us call this the Brand New Capitalist's Paradise.”\*

It must be perfectly obvious by now that all investments cannot be siphoned off into the most profitable lines of business without leaving a desert surrounding them. What is more and what James Meade does not proceed to examine is that such a process would be self-defeating. As we have already indicated, somebody has still to earn enough to buy all the products of the most advanced automated factories. The fact is that the role of Governments and of the public sector has to be extended, not contracted. We have to tax the multi-multi-millionaires and other rich individuals so that the rest of us do not have to find ourselves working as their shoe shine boys and to have the chance to produce the whole range of goods and services that automation cannot produce. This is not of course to say that we should behave like Ludites and resist the introduction of new labour saving machinery where sweat and danger of human labour can be reduced. Our aim, however, must be different — the full use of human capacities. It may well be that a smaller labour force working longer hours may be more efficient than a large labour force working shorter hours. Unit costs may be lowered that way — through reduction of overheads, lower National Insurance payments, redundancy and industrial training contributions and the costs of payment calculations, canteens, car park and worker space. Once more these are the private costs of the company. The

\* J.E. Meade *Efficiency, Equality and the Ownership of Property*. 1964 p.33

social costs of the leisure forgone of those at work and the unemployment of those made redundant must however be set in the scales against them.

Where it appears that the reduction of manpower in a particular enterprise is inevitable — and this must be faced — the demand of the right to work must still be maintained. Some years ago I put forward a proposal based upon a suggestion of Sir Roy Harrods taken up by John Knapp of Manchester that unemployment should be abolished forever.\* All that was needed was that every man and woman requiring work should present himself or herself to a Labour Exchange and choose from one of three alternatives.

- a) transfer to another part of the country in his own skill with costs of removal covered and housing guaranteed in the new area;
- b) retraining for a new skill with wages paid at 75% of rates in his previous job during training;
- c) employment at Trade Union negotiated rates on jobs required by the local authority with Government grants to cover them, to improve local amenities, remove dereliction, clear pollution, create parks and social centres.

The cost I argued would be likely to be little more than the cost of unemployment benefit and social security and redundancy pay; important work would be done to improve the environment in run-down industrial areas; and a new atmosphere would be created of job security in which it would be more rather than less easy to encourage flexibility and mobility of employment. If there are to be concessions in the numbers that should man up the new shipyards on Clydeside, they should only be made after guarantees of the implementation of such a proposal have been obtained.

7. *Increases in the Income of the Poor.* Scottish households in 1967 achieved an average household income equal to that of the average for the U.K. only because they had 8% more persons per household on average and 7% more persons in the household at work. Only Northern Ireland of all the regions showed large figures in these respects. The earnings of full-time working men and women were the lowest in the Kingdom, once again barring Northern Ireland.\* A year later men's and women's earnings had relatively improved but they remained some 8% below the national average. With the above average rise in Scottish unemployment during 1969, the improvement largely disappeared. On the principle that an increase in the share of real income in the hands of

\* See *Tribune* 14th Nov. 1967.

\* *Family Expenditure Survey Report* for 1967, Regional Table



the poor must increase public welfare (unless it involves a decrease in the total income) the claims of Scotland, and particularly of the Glasgow area, must have a high priority. Glasgow has above average earnings for Scotland as a whole, but much below average for all the major cities of the U.K. with which it should properly be compared. Only Leeds of the big cities showed lower male earnings in 1967/8.

**Table 9**

**Relative Male and Female Earnings in Big Cities  
of the U.K. 1967-68**

Region and City	Average weekly earnings	
	Males	Females
U.K.	100	100
London, GL Conurbation	115	125
Manchester	110	99
Southampton	102.3	101.1
Cardiff	100.9	100
Bristol	100.9	93.8
Edinburgh	98.9	104.1
Sheffield	95.9	87.5
Newcastle	95.1	92.5
Liverpool	94.9	92.1
Nottingham	93.5	92.8
Glasgow	92.1	98.9
Leeds	90.2	93.1

Source: Regional Statistics Department of Economic Affairs 1969 from Ministry of Social Security returns.

One must add once again that with higher rates of unemployment after 1968 the position of Glasgow may well have declined.

8. *General Welfare and Popular Control.* The population of Scotland in the Eighteenth Century comprised some 15% of total population in the U.K. In the first half of the nineteenth century it remained at about 13.5%. A hundred years later in 1966 it had fallen almost to 9%. Yet the area of Scotland makes up a third of the U.K. total. Population density is thus about 165 per square mile compared with 830 per square mile in England and Wales. Employment which has increased in



England by 7% in a decade has not increased at all in Scotland. Some 30,000 (net) have migrated southward, every year, half of them from Glasgow. Is this really what we want in a world that is increasingly over-crowded? Is it what the Scottish people want? The fact is that they have never been asked.

This paper cannot be brought to an end without emphasising that whatever the final decision about U.C.S., the rights of the people concerned to have a say in the decisions, to be free to use the skills that they have to build the goods, that other people want, to live among the friends and relatives they know are inalienable rights, that cannot be overuled by any decisions of Governments in London or Commissions in Brussels, unless it can be proved that the general welfare of the whole people of Britain requires that they be overuled. That is the case that those who would close the U.C.S. yards must establish. It is not necessary for the workers at U.C.S. to prove their rights. They know what they want and they have the support of the whole Scottish people in defending them. It is necessary for those who would overule those rights to establish their reasons for doing so, in the full light of English and of Scottish public opinion. The burden of proof lies with the Conservative Government in London and it is the task of the Committee of Inquiry set up in Clydebank this month of August 1971 to detail the case which that Government must answer. In so doing let it be understood that they are challenging its right to govern.

The Committee of Inquiry should thus be required to call as witnesses not only industrial and economic experts, but the social workers, clergymen, representatives of all the many facets of Scottish life. What results should first be truly a social audit, not merely an economic cost-benefit analysis.

### **Conclusion**

It must be clear from the foregoing that a social audit, to establish the case for public investment in U.C.S., will have to go beyond the direct accounts of the company, and even beyond the direct costs and benefits of its continued operation as a public concern. It will have, in effect, to open up an inquiry into the full use of the human and natural resources of Scotland.

What is required is a Scottish economic plan for full employment. The resources of universities, technical colleges and all industrial and trade union research departments should be called upon immediately to provide staff:

*First*, for making an inventory

a) of the urgent social needs of the people,

- b) of economic resources including manpower, education and training facilities and plant and equipment existing in Scotland,
- c) of resources needed for outside Scotland and Scotland's capacity to pay for them;

and *secondly*, for drawing up an emergency economic plan leading on to a longer term plan for economic development.

Funds would have to be made available immediately for teams to get down to this work and for local authorities, trade unions and other voluntary bodies to take part in what would become a national audit. Nothing less can save Scotland from becoming a derelict area on the periphery of an increasingly concentrated Western European Common Market.

1. See K.J.W. Alexander et al op.cit. p.46 ff
2. UCS: Institute for Workers' Control
3. See M.Barratt Brown and R. Pryke *Stop Messing Them About* – Public Enterprise Group.
4. *Financial Times* supplement on Containers, June 1 1970.
5. Report in *The Post* January 30 1969 quoted by Tony Topham in *Trade Union Register 1969* p.124.
6. *The Observer* February 8, 1970.
7. For details see M. Barratt Brown *After Imperialism* p.272.

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# U.C.S.

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