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STEEL POLICY IN THE UK: THE POLITICS OF INDUSTRIAL DECLINE

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1. INTRODUCTION: STEEL AS A POLITICAL ISSUE

"What must above all be avoided are solutions which are politically convenient in the short term, but industrially damaging for a generation. We are still suffering the effects of a political decision of the 1950s to have two sub-optimal size steel plants in Scotland and Wales."

J.F. Safford, Director,

British Iron and Steel Consumers' Council,

19 February 1981

As can be seen from the above quotation, the steel industry in the UK has long been and remains an issue of high political salience. The salience of steel as a political issue has taken two principal forms. Firstly ownership of the industry has been at times the subject of dramatic and bitter party conflict. Thus between 1945 and 1967 steel policy may be characterised as a classic example of the adversary politics which some observers see as typical of the British policy process as a whole, with each of the two main political parties seemingly determined to reverse each other's policies. As Ovenden suggests, by the mid 1960s steel had come to occupy a very special place in British party politics and signified, "...perhaps more than anything else the policy distance facing the two major parties." (1) In fact, as we have argued elsewhere, this is probably untypical of the British policy process as a whole. Dramatic policy shifts, as a result of a change in government, are the exception rather than the norm. (2)

Secondly, after nationalisation of the fourteen largest companies was completed in 1967, a large element of the adversarial approach went out of steel policy, and by the early 1970s it could be described as typifying the more normal British style of consensual politics. Ironically, it was this general consensus which agreed on a massive development programme for the state-owned British Steel Corporation (BSC). The ramifications of what proved to be a disastrous decision maintained the political salience of steel throughout the 1970s, albeit for different reasons than those which placed it in such prominence during earlier decades. By the 1980s, its own ideological base, together with the financial problems of the BSC, had led the Conservative Government once more to favour a process of denationalization. The policy was of an incremental nature, but nevertheless suggested that steel might once more become politically salient on adversarial grounds.

This paper is chiefly concerned with the policy process surrounding the second form of political salience, for it is this policy style which is of most relevance to Britain's place within the EEC "crisis" in steel. The size, shape and location of the industry, irrespective of ownership, has been the principal subject of political debate on steel since 1967.

Moreover, decisions made at the political level and within the relevant government departments, have ultimately had important effects on the nature of the industry. Rather than an inter-party debate, the chief interest has centred on the relationship between government and the steel industry itself. After nationalisation the private sector was left with mainly the special steels sector, together with some relatively small electric arc steelmaking plants. Until recently this private sector attracted little political attention, for it was generally considered to occupy a minor, if comparatively prosperous, niche within the industry as a whole. In contrast, the BSC was given a statutory responsibility to satisfy the reasonable needs of industry, consistent with its statutory financial duties. For both Labour and Conservative Governments, the Corporation became a vital symbol of their intent to foster general industrial growth.

The built-in propensity for optimism of the political leaders might alone have been enough to ensure that the BSC would embark on a massive capital development programme, but in the event the management of the Corporation was even more susceptible to the grandiose vision. British steel policy and its implementation has thus been highly dependent on an alliance between BSC and government. Although the BSC is officially accountable to the Minister, and through him to Parliament, the power balance of the relationship has undoubtedly favoured the Corporation. The most obvious facet of the BSC's power is its specialized expertise, which both Ministers and civil servants have challenged only occasionally and tentatively. As a result of this official passivity, the development of steel policy is largely a story of BSC autonomy interspersed with spasmodic bouts of relatively ineffectual intervention by government.

Complementing expertise as a tool of power for the BSC is the government's inability to devise policy instruments which could enable it to impose its will on the Corporation. As with most public corporations, the BSC was intended to have an arm's-length relationship with government. In reality, the nature of this relationship prevents the government from closely monitoring the BSC's progress in implementing major policy decisions, and also inhibits valid assessments of the Corporation's true financial position. Enormous amounts of public money have been pumped into the BSC for the purposes of restructuring, and also as a direct subsidy. Nearly all this cash has never been seen since, and has been written off by governments with a shrug of resignation to the inevitable.

The passivity of government can thus be explained partly by its lack of expertise and its inability to impose control over the BSC, but there is another factor which is perhaps of primary importance in shaping government behaviour. It is also a political element which places the BSC in a paradoxical position. Steel became a political football during the 1940s, 50s and 60s because it was considered to be of great strategic importance in the development of British industry as a whole. After nationalisation the industry was in a more settled position, and it was hoped by governments of both Parties that the development of the BSC would demonstrate to manufacturing industry the extent of official confidence in the future.

In the event the forecasts for future industrial growth proved to be hopelessly over-optimistic, and by the 1980s many of the industries which provided the main markets for the steel industry's products (e.g. construction, engineering and vehicle manufacture) were in a state of great depression. World-wide over-capacity in steel and tendencies towards protectionism left little scope for increased exports, while cheap imports created difficulties for the British steel industry in maintaining its share of home markets. The crisis had a great effect in concentrating steelmakers' minds on improvements in productivity, but the lack of demand threatened further contractions within the steel industry.

The harsh reality of the 1980s was a far cry from the optimism of the early 1970s, yet the political constraints on government actions were much the same. Ministers could encourage the steel industry to rationalise and hence improve productivity, but they also needed to retain faith in a future for British steel. To do otherwise would be tantamount to admitting that steel, and indeed British industry in general, had little or no viable future. The prohibitive political cost of such an admission compels government to maintain its alliance with the BSC, for both have a vested interest in maintaining optimism for the future.

The BSC thus had great power within its own sector (i.e., British steel policy), yet the Corporation often perceives itself to be exploited as a victim of political circumstance. In the view of McEachern, British steel policy represents an example of state capital serving the interests of private capital.(3) BSC management might not agree with McEachern's general approach, but they would be sympathetic towards an anlysis which portrayed the Corporation as on the one hand being forced to pay exorbitant prices to its fuel suppliers (e.g., coal, electricity, gas), while on the other hand being placed in a position where its need to compete has compelled it to supply "cheap" steel to industry. Over the years the BSC has conducted several running battles with the National Coal Board and the Central Electricity Generating Board, while at the same time it has attempted to prevent the collapse of steel prices. In this respect the EEC Davignon Plan has become increasingly important.

Thus although this paper is concerned with British steel policy, the fortunes of the BSC could be taken as symbolic of the general decline in British manufacturing industry. Although significant adverse criticism can be levelled at the quality of decision-making and policy implementation within the steel sector, by the early 1980s the steelmakers could claim with justification that they had been let down by the poor performance of British manufacturing industry. It is the collapse in demand, and the consequent failure to match expectation with reality, which has brought the British steel industry close to the point of complete collapse. In the conclusion to this paper we will examine the lessons to be learned from this failure to co-ordinate activity in industrial sectors, and also the consequences of the apparently endemic political need for eternal optimism.

2. THE FOUNDATION OF THE BSC

From 1945 until 1967, the British steel industry found itself deep in the furnace of adversarial politics. After nationalisation by the Labour Government in 1950, the industry was almost entirely denationalised by the Conservatives in 1953 (although an Iron and Steel Board was set up to keep the industry under review). In its turn, the Labour Government elected in `964 was determined to regain the industry from the private sector, and in 1967 the fourteen largest steel companies were renationalised. The Iron and Steel Bill received its Royal Assent on 22 March 1967 with 'vesting day' on 28 July 1967.

The newly formed British Steel Corporation was based on four regional 'groups'.(4) Ovenden has suggested that the initial objective of the Organising Committee "...was to break the industry of its own divisiveness: to force the management to accept a view of the production of iron and steel in bulk in the British Isles as a single commercial enterprise, and not the private activity of fourteen divided companies. Only with this new mentality both implemented and nurtured could the Corporation approach the much larger task of reconstruction."(5) In practice the form of organisation adopted certainly did not facilitate a process of integration, and the initial geographical groupings perpetuated the investment and rationalisation policy of the private sector, with each regional group submitting its own plan. This essentially incremental form of planning involved the development of existing sites and locations, in some concentration, rather than building a new 'greenfield' works. The geographical groupings were encouraging local autonomy at the expense of a centralised investment and rationalisation plan. Consequently the Corporation was not deriving the full benefit from what was judged to be one of the main arguments in favour of nationalisation. The structure also had the effect of inhibiting the sales drive which was so necessary if the BSC was to find markets for its products.(6)

In fact this organisational structure (with initially twelve divisions within the four groups and subsequently sixteen divisions by 1969) was recognised by the Corporation as by its nature impeding rationalisation and the optimum utilisation of assets.(7) By 1970 it had implemented an internal reorganisation dividing the Corporation into six new product Divisions (general steels; special steels; strip mills; tubes; chemicals; construction engineering). Each product Division was seen as a profit centre and as giving the Corporation more effective means of

"(a) rationalising sales where similar products or defined groups of products are involved.

(b) employing its plants to the maximum benefit of the Corporation as a whole;

(c) planning its capital investment programme."(8)

It is reasonable to see the reorganisation as an important step towards the more centralised and integrated structure for the Corporation and one which in theory at least might be more conducive to the restructuring and modernisation of the industry which had not taken place prior to nationalisation.

The 1970 reorganisation (later abandoned in 1976 - see Section 6 below) coincided with two important developments. Firstly the Corporation itself reached a fundamental decision regarding its investment strategy. Hitherto an incremental model of decision-making had appeared to be sufficient for the industry's needs, particularly during the buoyant market of the 1950s. By the end of the 1960s management had concluded that a rapid development of Basic Oxygen Steel (BOS) works was essential if the Corporation was to compete effectively with other major steelmaking countries.

Secondly the Conservatives won the election in June 1970. The arrival of the new Conservative Government could, of course, have continued the ideological battle over steel. Denationalisation was at least a possibility under the Conservative manifesto although the reference was to "reducing state involvement in the industry." In the event the Conservatives did not attempt to denationalise the industry (indeed very little of publicly owned industry was returned to private ownership, and in fact Rolls Royce was nationalised by the Heath Government in 1971). In that sense the arrival of the Conservatives in office in 1970 is a watershed in steel policy, as Ovenden suggests,(9) for at least the industry then ceased to be the ideological virility symbol of the two main political parties. The issue of the ownership of the bulk of the steelmaking industry in the UK was settled (at least for the next decade) some twenty years after the first attempt to nationalise it.

3. BSC'S 1971 DEVELOPMENT PLAN: PROFESSIONALS V. AMATEURS

The movement towards a more ambitious investment programme by the BSC, after its Chairman, Lord Melchett, and its chief Executive, Dr. (later Sir) Monty Finniston, had visited Japan to study their gigantic BOS steelworks' developments, was outlined in the Corporation's Development Plan in 1970-71. The report stated that the Corporation must now look beyond what had become known as the "heritage" programme (i.e., a programme based on the plants "inherited" from the private companies in 1967) and produce a long-term programme looking ahead to 1980. The Development Plan evisaged that by 1980 British steel production would be more than 40 million tonnes per annum. A major element would be a massive new "greenfield" works, producing about 15 million tonnes per annum. The remainder of the steel would be produced at five large coastal works - Teesside, Anchor (Scunthorpe), Ravenscraig, Llanwern and Port Talbot.

The Development Plan promoted closer intervention by the Steel Division of the BSC's sponsoring Department, the Department of Industry, as according to Pryke the plan "caused alarm and incredulity" within the Department.(10) The Department's institutional response was to set up the Joint Steering Group (JSG) to examine the Development Plan. Consideration of the strategy contained in the plan was to prove protracted and the plan, somewhat amended, was not finally agreed until 1972. The

Joint Steering Group consisted of civil servants from the Department of Industry, the Treasury, BSC officials, a "neutral" in the form of the Deputy Chairman of Imperial Chemical Industries Limited and was chaired by a civil servant from the Department of Industry. Thus, against a background of worsening financial fortunes for the Corporation, the government instituted what the Minister, the Secretary of State for Trade and Industry, John Davies, described as "...a deep seated review of the whole of the Corporation, which will, in particular, examine immediately the Corporation's short-term financial position for the coming year, and will subsequently assess the longer-term options for the Corporation in both development and financial terms."(11)

The problem facing the government, in having to assess both the viability of the proposed £3,000 million investment strategy for the coming decade, and the funding implications of such a huge programme, illustrates the classic dilemma in the relationship between government and nationalised industries in the UK. Thus the Government was put, as is usual, in the position of having to react to proposals formulated within the Corporation itself. Moreover, the Department was relatively lacking in expertise and was therefore at a second disadvantage. As C. D. Foster has argued, civil servants in the UK ultimately lack the necessary confidence to say "no" to a Corporation. (12) The battle between the publicly owned industry and its sponsoring ministry (and indirectly, The Treasury) is, Foster argues, weighted in favour of the industry.

In the steel case, not only was the industry still of considerable political salience it was also of strategic economic importance (indeed this was painfully demonstrated by the mid 1970s when BSC was unable to meet domestic demand in key industrial sectors, such as motor cars).(13) The Department of Industry would therefore be taking a serious political risk if it did deny the funds needed for the development strategy, because this might have fundamental consequences for the rest of British industry (the energy industries can and do use the same argument).

This interdependency between a primary industry such as steel, manufacturing industry, and government, can create an enclosed environment where optimism is a condition of entry. This appeared to be the case in the early 1970s, when few were prepared to take the risk of predicting that the future demand for British manufactured goods would not be so high as was being generally predicted.

On the other hand, to go ahead and approve the strategy also represented a policy of high risk because the strategy was a marked change of policy-making style within BSC. Thus the Corporation, in attempting to devise a "rational" answer to the problems accounting for its poor competitive position, threw overboard the concept of incremental change and replaced it with what Hood has termed "the great leap forward syndrome".(14) The difficulty with this "heroic"(15) policy style is that in this case at least, the uncertainties were very considerable, as indeed were the number of clearances and dependency relationships involved in the implementation of the strategy. The paradox of the ambitious development strategy was that the rational "great leap forward" which it apparently represented was also a leap in the dark. In fact the successful implementation of the BSC's plan was heavily contingent upon at least seven conditions being met:

1. That the enormous capital cost of the investment programme could be financed by the BSC, together with the support and assistance of the government (could the money be found?);
2. That the total concentration of steelmaking at the coastal plants, at the expense of old established inland plants could be economically justified (did BSC know what it was doing?);
3. That the drastic rationalisation of the older plants would be acceptable to the government and could be achieved with the compliance of those workers threatened with redundancy (was it politically possible?);
4. That the investment at the new works could be brought 'on stream' promptly and achieve maximum efficiency within a

short time (was it practically possible?);

5. That the domestic demand would exist for the greatly enlarged steelmaking capacity (what would happen in the rest of the British economy?);
6. That external demand would exist to absorb increased exports of steel (what would be world market for steel look like?);
7. That BSC would be internationally competitive by the time plans were implemented (what would the UK's competitors be up to meanwhile?).

In the event, problems were encountered in fulfilling each of these conditions, with the result that the ambitious strategy of 1971 undoubtedly ensured that the crisis a decade later was all the more serious and difficult to deal with. The Development Plan formulated by the BSC in 1970-71 turned out to be a good example of Wildavsky's dictum that today's policies are tomorrow's problems!(16)

The consequences of allowing steel policy to be formulated in a relatively closed and segmented policy community are potentially serious for other policy sectors, and hence there should be, ideally, effective analysis of cross-sectoral implications. Even if a "rational" steel policy was to emerge from the steel sector, this "sector rationality" could be in conflict with what elsewhere we have termed "co-ordinated rationality".(17) Departments have to strike a difficult balance, in assessing investment proposals, between being far too general in their oversight and being too specific and appearing to do the corporations' jobs for them.

In the steel case, the JSG had to tread this difficult and delicate road. The internal politics of the JSG have been fully analysed elsewhere,(18) but in an attempt to overcome the inherent disadvantage which we suggested the Department was under, it commissioned private consultants, McKinseys, to make a detailed analysis of the future trends in the world market for steel. The dilemma for a ministry which employs this tactic is that while it may "buy" technical knowledge, and hence increase its own authority, it can also alienate the senior management of a public corporation who could consider that their own position is seriously undermined as a consequence of the government's lack of faith in the collective expertise to be found within that corporation. The length of time during which the JSG was in existence, from March 1971 until March 1972, indicated both the general lack of rapport between the DTI and the BSC, and the singular relunctance of the Corporation's representatives to reduce their massive capacity target.

4. THE TEN-YEAR STRATEGY

Though the JSG was itself controversial, it is an example of a very restricted and exclusive policy community in operation, notwithstanding the historical political salience of steel as an issue. By 1971 nationalisation of steel was a dead issue and steel policy could be formulated according to the "standard operating procedures" which have become the characteristic feature of the British policy style. Thus the issue of a new strategy for steel was internalised and privatised and processed within a committee structure on which those interests who were thought to "matter" were represented. It is perhaps a significant comment on the then relatively closed nature of the British policy process that the unions were not considered to be an "insider group"(19) in this case. Even more significant is the fact that the unions seemingly did not press for insider status on an issue which so directly affected their members. Evidence in other policy areas suggests that relatively little "pressure" is needed to gain entry to policy communities,(20) and it seems reasonable to argue that the reason for the exclusion of such a key actor as the trade unions is as much a reflection on the unions themselves as it is on the steel policy process as a whole.

After much delay,(21) the government announced the results of the review (and then only in the barest outline) in May 1972. On 8th May the Minister for industry, Tom Boardman, announced that iron and steelmaking investment would be concentrated on the five main coastal works, and stated that the JSG had recommended a 1980 BSC capacity in the range of 28 to 36 million tonnes.(22)

The detailed BSC programme for modernisation and expansion was not to be announced until after consultations with the Government on strategic decisions. The wide range of the 28 to 36 million tonnes capacity target indicated the lack of a consensus between the DTI and the BSC on the future demand for steel, while the Government registered its concern about the capital cost of the programme and the likely future demand for steel by imposing an upper limit which was 4 million tonnes less than the BSC's original target (McKinseys in their Report had advocated a target of 23 million tonnes per annum).(23)

During the months immediately following Mr. Boardman's announcement, the Government and the BSC appeared to make little progress in evolving a future strategy for the Corporation. The deadlock was only broken in October 1972 when Peter Walker replaced John Davies as Secretary of State for Trade and Industry. Mr. Walker was generally regarded as possessing a more adventurous spirit than his predecessor, an attitude which inclined him to accept an ambitious investment strategy for the BSC (Walker's arrival and impact illustrates yet again the unpredictability of the policy process and the key role that some individuals can play within it. Walker's "heroic" policy style - his penchant for the bold radical solution - was earlier exhibited when he held the post of Secretary of State for the Environment and sanctioned a radical reorganisation of Britain's water industry).(24) Walker's optimisn for the future of the

Corporation was reflected in his announcement to the House of Commons in December 1972 which outlined the BSC strategy,(25) and also in the White Paper, Steel British Steel Corporation: Ten Year Development Strategy (26) published in February 1973, which elaborated on his statement. It had been decided that the BSC would require a programme of investment amounting to £3,000 million. This plan involved a major development of the five main heritage sites and of special steel plants in the Sheffield-Rotherham area, in addition to the development of a major new steel complex. It was also expected that two "mini" electric arc furnace plants would be constructed in Scotland (possibly a political decision to gain the support of the Secretary of State for Scotland). The decision to accept BSC's strategy represented a great act of faith by the Government, which had committed itself to a BSC capacity target at the upper limit of the JSG's recommendation, thereby supporting the BSC's contention that the future demand for steel would justify such large-scale expansion. In approving the £3,000 million investment plan, in a form only slightly modified from the plan originally envisaged by the Corporation (the Corporation, did, however, lose the battle for the greenfield works), the Government admitted that "the strategy was not free of risk".(27)

The White Paper also noted that BSC production in 1972 was 22.9 million ingot tonnes. Yet it went on to accept certain key assumptions about world demand and the rate of economic growth in the UK. For example, it envisaged that an improved rate of economic growth in the UK would be such that steel demand in the UK in the 1970s was likely to grow 50 per cent faster. This was despite the depressing evidence of the past. Between 1955 and 1970 the trend growth in UK steel demand averaged 1.7 per cent per annum.(28) Moreover, the nationalised industries had all been told, in 1967, to base their investment plans on an assumed 3 per cent growth in GNP and that too had not materialised. It seems reasonable to argue that both the BSC and the Government failed to take adequate note of the past performance of the UK economy and, as has often been the case, plans were justified on the basis of hoped for improvement.

The fact that Britain's major competitors were also planning considerable expansion of their steel industries was also cited in the White Paper as justification for approval of BSC's strategy. Yet the fact that all of the major steel producers were planning big investment programmes could equally have been put forward as a reason for caution and a more incremental approach. Thus the Government and the BSC were aware of extra-UK influences which could have an adverse effect on BSC's fortunes, as these forces were likely to increase the degree of international competition which BSC faced.

Why then did the Government take the risk? The short answer is that, ultimately, the Government was not responsible.

In largely upholding what proved to be a miscalculated case, the Government could gain comfort from the knowledge that should things go wrong then the Chairman of the BSC and his senior executives were always expendable. Indeed the White Paper was perfectly explicit on where the responsibility lay when it pointed out that: "... the Corporation's considered judgement is that the medium term outlook for the world steel industry in general, and for BSC in particular, is promising and justifies substantial investment in further steelmaking facilities in Britain"(29) (our emphasis added). Not only were there advantages to the Government in shifting ultimate responsibility to the BSC for the "great leap forward", it was also anxious to avoid responsibility for the more immediate consequences of the development strategy. Prior to the emergence of the strategy it was estimated that BSC would have to shed some 20,000 jobs. As a result of the strategy, which would involve some plant closures, an additional 30,000 jobs would be lost, mainly in the second half of the decade. The loss of some steelworks as a result of the rationalisation would, the Government calculated, mean that by 1980 180,000 jobs would remain in the BSC compared with 230,000 in 1972 (in fact as at March 1981 the number of BSC employees had dropped to 120,900). The government gave relatively sparse details of the threatened works, preferring to entrust the BSC with the responsibility for authorising plant closures. Clearly there was no political advantage to the Government in becoming too closely involved in discussions which could safely be left to the BSC. This was at least one aspect of the relationship between a public corporation and the Government where the Morrisonian doctrine could be followed.

Clearly the ten year strategy, agreed for BSC in 1972, was a tremendously important landmark in the development of the UK steel industry (probably more so than nationalisation/ denationalisation). More importantly for our study, it proved to be, as suggested earlier, of central importance in determining the scope and nature of the steel "crisis" in the late 1970s and early 1980s. Pryke has described the programme which the BSC presented to the government in February 1971 as: ".... totally unrealistic and wildly expensive", and has accused the BSC, in identifying the optimum output within the 28-36 million tonne range suggested by the JSG, as resorting to "statistical legerdemain".(30) He concludes that: "It is difficult to avoid the conclusion that the scales were deliberately weighted against the less ambitious strategies". However, as we have seen the ambitious programme with the Minister's active approval (and notwithstanding his own Department's doubts) went ahead.

5. THE BESWICK REVIEW

The return of a Labour Government in the General Election of February 1974 created for the BSC a discontinuity in policy implementation. Labour had made a manifesto pledge to hold a review of all proposed BSC works closures, and wasted little time in carrying it out (by coincidence there was also a steel shortage at this time and most of the works were operating at full capacity). The new Secretary of State for Industry, Tony Benn, appointed his Minister of State, Lord Beswick, to head the review of the BSC's proposed steelworks closures. Lord Beswick made it clear that, when he reviewed the BSC's rationalisation programme, he also took into account the practical validity of the Corporation's investment stragegy.(31) The BSC was suffering considerable teething troubles in bringing its new plants up to maximum efficiency. In particular the massive new Llanwern plant suffered several damaging strikes during 1973-74, while new investment at the works was not brought into use at the scheduled time. As the result of problems at the new works generally, the BSC had to face the set-back of a shortage of steel during 1974 (indeed Pryke sees BSC supply problems as probably the main factor in eventually securing the postponement of some closures(32). The Beswick review reflected a conflict of interests and values which was endemic to Labour's relationship with the nationalised British steel industry. The inevitable closure of older steelmaking plants to make way for the development of large coastal works highlighted the Labour Party dilemma of how to preserve the BSC strategy, while at the same time protecting the interests of workers threatened with redundancy.

The Chairman of the BSC was eventually to become highly sceptical of the Government's attempts to achieve a consensus of interests, but the review commenced in an atmosphere of superficial calm when Lord Beswick reviewed each of the proposed closures in turn. There was nevertheless a delay in completion of the review, caused partly by the General Election of October 1974, but which could also be attributed to the difficulties which the government encountered in achieving a compromise with Dr. Finniston. A pugnacious Glaswegian, the Chairman of the BSC was determined to defend the Corporation's strategy against government intervention. The most notable feature of his activity was a letter sent to Mr. Benn, in which he claimed that the government could not force the BSC to change its strategy, and that the BSC had no intention of making any compromises over the proposed closures.(33) Nevertheless, Dr. Finniston did eventually agree to grant the Shelton works in Stoke-on-Trent arc furnaces (as well as delaying closures at other plants), preferring to make a few concessions and remain as guardian of the BSC's strategy, rather than to resign and leave the industry open to further government intervention.

The results of Lord Beswick's review were announced on 4th February 1975. In addition to the delayed closures, the development programme (by then estimated to cost £4,500 million) was to be phased over a longer period. In essence, the decision was an attempt to reconcile the rationalisation and reconstruction of a major industry, with the need to maintain employment in already depressed areas such as Scotland and Wales (the political sensitivity of closures was demonstrated by the government's inability, at that stage, to reach a decision on plant closures in Scotland). In practical terms the review, though taking up yet more time and energy of BSC senior management, did not seriously undermine the strategy as outlined in the 1973 Conservative White Paper. The stratgegy of concentrating steelmaking at five existing sites and a new complex on Teeside remained intact. The BSC may have lost a few minor battles over plant closures, but in essence it had won the war.

The delay caused by the Beswick review and the minor concessions which were announced in the review proved to be the high point of the influence of the workforce in the BSC. By early 1975 events - namely the dramatic slump in world-wide demand for steel - had intervened in such a way as to greatly strengthen BSC's policy-making autonomy. The period 1970-73 demonstrated BSC's capacity to formulate <u>strategic</u> policies relatively independent of government, albeit with a good deal of delay and frustration, and subject to a process of review from the Department of Industry, the Treasury, the JSG and even McKinseys. The period 1973-75 had seen the unions, at least at the <u>local</u> level, exercise some influence, again mainly in terms of delay, but from 1975 onwards BSC was able to pursue a much more active style of implementing its own strategy.

6. THE STEEL STRATEGY IN CRISIS

The Spring of 1975 saw the first in a whole series of crises within BSC. Thus in April 1975, only two months after Lord Beswick's decisions had been announced, the BSC leaked a plan to reduce the workforce by some 20,000 within a few months - a scheme which would have included the closure of some steelworks (including Shelton) which had been reprieved in the Beswick review. The dramatic move by BSC was prompted by the continued drop in demand for steel as the recession in the UK began to deepen. Some of its plants, e.g. the strip mills division, were working at only 50 per cent capacity and its costs were soaring. The situation was exacerbated by fierce foreign competition and consequent price cutting on the international market (some strip mill products were being offered on the UK market at £17 to £20 a tonne below BSC prices). Sir Monty Finniston, in announcing the cuts, was particularly critical of the way in which the Beswick review had delayed (and indeed continued to delay) the implementation of the development strategy which had actually been agreed with government as long ago as 1972 (in fact this is a point of some importance in terms of our discussion of the degree to which BSC managed to formulate policy independently). Though this is true, it is important to note that the political salience of steel meant that the decision process was very drawn out and was bound to frustrate men of Sir Monty's drive and determination. A public and acrimonious dispute between Sir Monty and Mr. Benn followed. Mr. Benn was extremely concerned that the BSC had announced this proposal without prior consultation with the government. The Minister claimed that the BSC should be more accountable for its actions, while Sir Monty held that the relevant legal statutes, under which the Corporation operated, required it to maximise efficiency and plan with a longer time-scale in mind than could ever be the case with an individual government.(34) The dispute proved somewhat inconclusive and was only resolved when the BSC agreed with the TUC Steel Committee on overtime, absenteeism and voluntary redundancy (in the event, Government incomes policy frustrated the implementation of this plan).

During 1975 Mr. Benn was replaced as Secretary for Industry by the less abrasive Eric Varley. By the end of 1975 BSC production was down to 17 million tonnes per annum, but Mr. Varley still estimated that by the 1980s BSC would require a capacity of 37 million tonnes. In April 1976 BSC also introduced a new organisational structure, with a change from Divisions based on products to Regional Divisions.(35) Superficially, this change represented a return to the structure of the 1960s, but the Corporation appeared to be adopting a new set of values. Instead of central planning and control, the emphasis in manufacturing steel was now to be on decentralisation, with decision-making being placed as far down the line as possible, e.g. Divisions were now given authority to approve individual investment projects costing up to £2 million. Nevertheless, overall financial, operational and commercial control, strategic planning, purchasing of major supplies and pay policy were to remain under central control. This change of heart suggested that the BSC senior management had learned by experience that taking too many decisions centrally can affect morale at the local level. At the same time, the finances of the Corporation were in a precarious state, and senior management clearly wished to maintain a close watch on affairs at the local level. This typical dilemma in central-local relationships has contined to haunt the BSC, for it is a matter which can never be amenable to "perfect" solutions.(36)

An even more significant aspect of the 1976 reorganisation than the change to Regional Divisions was the BSC's new thinking on its commercial activities. It was considered that more attention should be paid to Marketing, and for this purpose five Multi-functional Product Units were set up. Each of these Units - Billet, Bar and Rod Products, Plates, Sections, Strip Mill and Narrow Strip Products - was given responsibility for sales and plant loading. Thus the responsibility for selling BSC's "main line" steel products was centrally controlled, and largely separated from the responsibility for making them. Apart from co-ordination problems, this arrangement appeared to make rather questionable the claim that decentralisation of decision-making was to be maximised.

The most important organisational development, however, was the concept of Profit Centres, which accounted for other BSC products and services. These included Tubes, Stockholding, Stainless, Tinplate, Light Products, Associated Products, Forges, Foundries and Engineering, Redpath Dorman Long Ltd. and BSC (Chemicals) Ltd.. Unlike the Product Units, the Profit Centres were to be made responsible for both manufacturing and selling, and reported to their own Divisions rather than to Head Office. The nature of the Profit Centres gave them a more unitary and autonomous appearance than the fragmented Division - Product Unit structure, with the result that the Profit Centres represented a truer form of decentralisation. We will see later that the BSC eventually was to extend the Profit Centre concept to all its products, thereby encouraging political speculation about the future of the Corporation itself.

In January 1976, with expected losses of £8.4 million a week, the BSC proposed a wide-ranging series of cuts. Some of the uneconomic plants would be temporarily closed, the guaranteed working week (which assured approximately half the employees at least 80 per cent pay) was to be suspended, and the workforce of 220,000 was to be reduced by 40,000. In the event a confrontation between the BSC and the unions was avoided, and it was agreed to hold more negotiations on major rationalisation issues at the local level, while shortly afterwards the Government raised the BSC's borrowing limit from £2,000 million to a possible £4,000 million. For 1975-76 BSC losses reached £255 million, but the assumption was still that the decline represented a downturn in a cycle which would soon turn upwards, and an emphasis was placed on stockpiling.

At about the same time Sir Monty Finniston gave evidence to the House of Commons Select Committee on Nationalised Industries. He pointed out that governments themselves had made a big contribution over the years to the BSC's difficulties. Thus he estimated that the effect of governments holding down prices at various time since nationalisation in 1967 had cost the Corporation some £750 million. Further sums had been lost due to the delays in approving the modernisation and development strategy. He was also, not for the first time, very forceful on the question of low productivity in the industry. He pointed out that if the number of men employed to produce a tonne of steel was the same as in France, BSC would need 40,000 fewer employees. The contrast he drew with Japan was even more stark - we employed 180,000 to do what they were doing with between 60,000 and 70,000.(37) Whatever the criticism which might be levelled at BSC over the years, particularly in terms of the bold investment strategy, it is clear that he had identified a key weakness in British industry as a whole. Much of his efforts during this period were directed to driving this simple truth home to workers, politicians and the public, though it was to be some five years later (and two Chairmen later!) before BSC finally began to approach the productivity levels of its competitors.

In fact Sir Monty came to the end of his term of office in September 1976 and a new Chairman, Sir Charles Villiers, was appointed. Sir Monty, a metallurgist, had become closely identified with the Development Strategy, and it seemed the Government hoped that Villiers, a merchant banker, would give more attention to marketing. With the financial position of the BSC deteriorating still further, from mid 1977, the Corporation embarked on a new method of reducing its workforce and achieving closure of the older works. A more incremental approach was tried, and by negotiating at the local level, and offering attractive redundancy terms, the BSC secured the closure of several works. More importantly, in May 1977, the BSC abandoned its ten-year strategy in favour of a slightly more modest capacity of 30 million tonnes by 1982. Villiers himself proposed a "steel contract" with the unions which would have introduced a higher degree of industrial democracy into the Corporation, but many of his executives opposed the plan (they continued to identify themselves with the large-scale strategy, and had an uneasy relationship with the new Chairman). The unions also presented difficulties because of the threat such a contract would present to their local bargaining power. The proposed Steel Council (and a proposed new Steel Policy board) would seriously constrain union autonomy - particularly at plant level - and such moves have traditionally been resisted by trade unions in the UK.

The Government abandoned what was still in essence a non-interventionist approach during 1977 when it became clear that the BSC's financial position was deteriorating rapidly. Partly as a result of pressure from the Corporation itself, the Government undertook a study of the medium and longer term position of the BSC, and after consultations produced a White Paper in March 1978.(38) It was now for the first time accepted that the decline in demand for steel was of a long-term nature and that some markets might be lost forever. Some development projects were "deferred" in favour of a "step by step" approach which would retain the flexibility to adapt to unexpected changes in the situation.(39)

This "rephasing" of capital projects brought with it substantial reductions in capital expenditure.(40) The Port Talbot rolling mill development, the proposed Teeside plate mill, and further tinplate developments, were all deferred, although it was considered that the construction of continuous casting facilities at Port Talbot should go ahead. The issue of loans from the National Loans Fund and of Public Dividend Capital was also suspended, and replaced by capital granted under Section 18 of the 1975 Iron and Steel Act. This was seen as a temporary expedient until a capital reconstruction could be undertaken. In reality, the White Paper marked the beginning of a period when the government was forced to steadily increase the Corporation's borrowing limit in response to escalating losses.

The new White Paper marked an important change in the approach to making steel policy, i.e., in 1978 there was a change in what Dror terms "metapolicymaking" - a policy on how policy should be made.(41) The BSC and the Government had become convinced, by events, that: ".... it would be unwise at this low point in the present recession to establish a 'blueprint' for future capacity, over a period of years, of the kind set out in the Ten Year Development Strategy of February 1973."(42) A specific capacity target was, therefore, abandoned. It was also considered that the "Beswick" plants had no future and plans were quickly put in hand to secure the closure of steelmaking at all these works. With the agreement of the Government, the BSC adopted a more aggressive approach to the older plants, and the offer of large redundancy payments in all cases ensured the compliance of the workforce. In fact the White Paper revealed that : ".... while the study was taking place the Government had agreed that the Corporation should seek to negotiate terms for the early closure dates of high cost plants with the TUC Steel Committee and the local workforces concerned."(43) Agreement was reached in December 1977 on the closure of Hartlepool and in March 1978 on the closure of East Moors. The closure process did not, however, involve the Government directly, and the White Paper emphasised that it was up to the BSC to begin fresh negotiations at their discretion.(44)

Thus in two important respects the policy outlined in the White Paper was indicative of cyclical change. Firstly, the cutback in the development programme suggested a return to the incremental development favoured in the 1960s. Secondly, the Government's reluctance to become involved in discussions on closures was reminiscent of the policy outlined by the Conservative Government in the White Paper of 1973. Needless to say, there had to be some justification in the shift away from radical and heroic policy-making and the White paper pointed out the tremendous consequences of the slump in world demand. It also noted that ".... a huge amount of modern highly productive new capacity was either completed or under way in Europe, Japan and the developing world before the Middle East War of 1973 and the steep rise in energy prices that followed it".(45) The irony of course was that this very expansion, by Britain's competitors, was seen as one of the justifications for approving this bold Development Strategy in 1973! The White Paper also laid some emphasis on the question of BSC's very bad productivity record. It pointed out that in the preceding three years BSC had produced 100 tonnes of liquid steel per man year as compared with 1976 figures of 150 tonnes in Germany and 120 tonnes in France. Moreover, it pointed out that: "the differences cannot be explained away only by differences in the pattern of plants or products. They are due more to management and manpower practices. Very substantial improvements are needed during the next five years if the Corporation is to reach present levels of manpower productivity in Germany".(46)

In highlighting the degree to which BSC's serious situation was self-inflicted, the Government was in effect recognising the power of the trade unions. In general the steel unions can be characterised as moderate and having little impact on steel policy. There have been damaging local strikes in the industry and, in 1980, a very damaging national strike (see below), but the strike record has been better in steel than in many other UK industries. The unions, at least at the local level, also had an impact on delaying closures, though once the market collapsed BSC was able to be much more assertive (with at least government compliance) in forcing closures through. In a particular sense it could be argued that the unions have exercised considerable power over the way in which the industry actually operates. The power of inertia should be recognised as an important determinant of the outcome of public policies. As Wildavsky suggests, the most difficult policies are those which attempt to change the behaviour of individuals. Quoting Etzioni, he notes that human beings are not very easy to change at all.(47) If policies are based on the assumption that there will be radical shifts in behaviour, and that deeply entrenched working practices will change as a result, then they are probably doomed to failure. Policy-makers would do well to remember the rural expression "there's nowt so strange as folks!" All the government funding of BSC, and all the effort to produce a "rational" policy, could achieve little without fundamental changes in attitude by managers and workers within BSC.

7. THE STEEL INDUSTRY AND THE CONSERVATIVE GOVERNMENT

During the late 1970s the crisis in the British steel industry was mirrored (to a lesser extent) in the remainder of the EEC, and the maintenance of the BSC's corporate plan was to become increasingly dependent on EEC steel strategy as a whole. By the early 1980s compulsory lists of prices and production quotas had been imposed for the large majority of steel products, together with controls on subsidies. The Labour Government had been hostile generally to the EEC plans, but the Conservative Government elected in May 1979 was much more sympathetic to the Commission's code for restricting steel aid.

The new Government itself initially adopted an aggressive attitude towards BSC's financial position, and announced that losses incurred after March 1980 would not be financed. In the event this target for the BSC proved to be hopelessly unrealistic, and during 1979-80 the Corporation's position continued to weaken.

The BSC's desperate search for viability led the management to inform the unions in November 1979 that 52,000 jobs must go within a year (with a reduction of liquid steel output from 21 million to 15 million tonnes per year), while also offering the steelworkers only a 2 per cent central pay rise for the following year (plus the opportunity of a further 10 per cent through a new system of local productivity deals, together with the effect of traditional deals). The traditionally moderate ISTC reacted dramatically by calling all its workers out on strike in January 1980. There followed a protracted thirteen week stoppage in which the Government refused to intervene directly.

Eventually a Commission of Enquiry was appointed by the Government in an attempt to end the strike and recommended a 15.5 per cent rise for the workers (11 per cent across the board plus 4.5 per cent for local productivity agreements). A settlement was achieved on this basis, with management hoping for a reduction of 12,000 jobs as a result of an enabling agreement on productivity.

BSC's losses continued, despite plant closures and the slimming down of the workforce, and in July 1979 the Government had introduced a new system of control over BSC's finances when it decided to fund the Corporation on a month to month basis.

The Department of Industry decided to monitor progress against the Corporation's forecasts of capital expenditure, in order to ensure that funds were not being used to finance accumulated losses. The fact that this very detailed control was without precedence in the nationalised industries is itself illustrative of the scale of the steel problem - especially in the context of the Government's monetary policy. Clearly this was an attempt by government to improve its "steering" capacity in the steel sector.

By this time BSC had abandoned its March 1980 break-even target, and the Government itself relented by raising the Corporation's borrowing limit to £5.5 billion. In June 1980 Sir Charles Villiers retired and was replaced as Chairman by 68 year old Ian MacGregor. After a long search, the Government had found a new BSC Chairman by agreeing a "transfer fee" with the American Merchant Bank, Lazard Freres. The deal proved politically controversial in view of the size of the so-called transfer fee - some £1,825,000 (a flat fee of £675,000 was to be paid to Lazard for the three years of MacGregor's appointment; Lazard could get up to an extra £1,150,000 depending on BSC's performance under the new Chairman; and MacGregor would receive a £48,500 salary). MacGregor was seen by the Government as being the type of aggressive business man who would place BSC back on the road to viability. It is tempting to see the arrival of MacGregor marking the start of a tough, expensive rundown of the industry, to the capacity target of 15 million tonnes and to a workforce of under 100,000. In fact some 75,000 jobs had gone under Villiers and he had already accepted a target of 15 million tonnes.

The size of MacGregor's task was emphasised by BSC's massive losses of £545 million in 1979-80. During 1980 the Government realised that BSC would collapse completely unless aid was given, and about £1.5 billion of debt to the Treasury was written off. In addition the Government accepted responsibility for a projected £400 million overrun of the cash limits which the Government had earlier determined for BSC. Even this amount proved inadequate and by the end of 1980 Government support for the BSC in that year totalled £971 million. Also by the end of 1980 Ian MacGregor had produced a new corporate plan which involved a further shedding of 20,000 jobs. This plan was the subject of a ballot organised by the BSC. Though disputed by the unions, the corporate plan was agreed to by a majority of the workforce. In addition, the Chairman envisaged that BSC would require aid totalling £700 million during the following year.

It had been hoped by the Government that a complete reorganisation of the BSC's finances could be introduced early in 1981, but in the event this proved impractical and Government action amounted to still more financial aid. In February 1981, the BSC's borrowing limit was lifted to £6,000 million, with a provision that it might be raised still further to £7,000 million. Later, by means of the 1981 Iron and Steel Act, a further £3.5 billion in loans and capital was written off, and as a result the BSC's borrowing limit was reduced to £3.5 billion. The Government's total aid to BSC for 1980-81 eventually amounted to £1.121 billion, with a provision for a further £730 million in 1981-82. The BSC's financial prospects had also become heavily dependent on the success of EEC controls on output and prices. After the collapse of the Davignon Plan during 1980, the British Government had become one of the principal advocates for invoking Article 58 of the Treaty of Paris and declaring a state of manifest crisis in the EEC steel industry. In contrast, the West German Government only agreed to the mandatory controls on condition that several categories of products, most notably specials steels, were excluded from the agreement.

Domestically, the Government was anxious to encourage privatisation of some BSC sectors. Partly as a means to achieving this end (although the trend within the BSC was tending naturally towards greater decentralisation), all sections of the BSC were placed within a Profit Centre framework by September 1980, while during 1981-2 a number of business activities were established as separate companies under the Companies Act.

The anxiety of the Conservative Government to change the nature of the BSC was reflected also in the contents of the 1981

Iron and Steel Act. Part of the Act, as we outlined earlier, wrote off a large proportion of the BSC's debt. At the same time, the Act also took the novel step of abolishing the Corporation's statutory duties. In the Introduction to this Chapter we described how the 1967 Iron and Steel Act gave the BSC the responsibility for supplying steel to British industry in the quantity and sizes, and at the prices, which the latter required. The 1981 Act repealed this clause (which had later been restated in the 1975 Iron and Steel Act), together with other requirements with regard to BSC's responsibilities for exports, research, and health and safety. Significantly, the Act also had the effect of repealing a clause of the 1975 Act which stated that none of these duties should be construed as : ".... imposing on the Corporation any duty to carry on, or to secure the carrying on by the Corporation and publicly-owned companies, of iron and steel activities except to such extent as the Corporation think fit......"(48)

Thus on the one hand the BSC was released from statutory duties with regard to its own activities, but on the other hand it now appeared to be much more under the direct control of the Minister. In effect, government now had greater potential to decide the scope of BSC policy, and in particular the pace of de-nationalisation. This departure from the traditional arm's-length relationship between a British public corporation and government gave BSC policy a more overtly political texture, although in reality it was still likely that BSC Management rather than the Secretary of State would take public responsibility for the fortunes of the Corporation. This aspect of the 1981 Iron and Steel Act could nevertheless be described as a radical change in policy, and it was reflected in the fragmentation of the BSC.

The contents of the 1981 Act and the resultant changes in BSC structure indicated that the Corporation no longer considered itself to have a responsibility for producing nearly all types of steel products, and was not prepared to provide British industry with everlasting quantities of "cheap" steel. It is significant to note that an alternative to selling off the Companies Act companies to the private sector would be to allow them to go into liquidation (an option not open to a public corporation). In this sense the new policy placed a potentially direct threat to the whole future the of British steel industry, although decisions on major steelworks closures were likely to remain issues to be settled by high politics rather than niceties of statutory responsibility.

The development of the new relationship between the BSC and the private sector has mainly centred round the two so-called "Phoenix" projects. Discussions on "Phoenix One" continued over two years, but were successfully completed in February 1981. The project involved a merger between the wire rod and bar manufacturing interests of BSC and the large engineering company Guest, Keen and Nettleford (GKN). The new company, to be known as Allied Steel and Wire, had estimated net assets of £130 million, a turnover of £200 million, and a workforce of 4,800. BSC and GKN each held 50% of the joint share capital, but the majority of the assets for the new company had previously been held by GKN, and the latter provided five out of six of the executive directors. The company was set up in June 1981, and represented a success for the Government in its attempts to hive off parts of BSC to the private sector (although BSC was providing initial working capital of up to £50 million).

"Phoenix Two" centred on the engineering steels sector, and also involved BSC and GKN. At one point negotiations appeared to have broken down, but were revived during 1983. The "Phoenix" projects, and one or two other similar arrangements entered into by the BSC, did achieve some of the Government's privatisation aims, but it should be noted that for the industry itself they represented primarily an exercise in self-preservation.

BSC's impressive efforts to slim down (which the EEC itself readily recognised and admired) resulted in BSC's losses for the first half of the year 1981-82 being brought down to £196 million, from a level of £279 million for the same period in 1980. In its corporate plan submitted to the Government in

December 1981, the BSC expressed the hope that by the end of the financial year 1982-83 the Corporation would be breaking even (earlier in 1981 the estimated break-even date had been given as the end of 1982). At the same time the BSC considered that total losses for 1981-82 would inevitably be more than £300 million, for by the end of 1981 the Corporation was still losing £5 million a week. At the end of 1981 the BSC workforce totalled 107,000, and the corporate plan stated the intention to bring this number down to 92,400 by March 1983, although capacity would remain at 14.4 million tonnes. It was originally intended that the jobs figure should be achieved by July 1982, but like the break-even date the time-scale had been extended.

The corporate plan offered some grounds for optimism that the BSC had overcome the worst of its financial problems, but at the same time the document was in no sense a firm blueprint for the future. Perhaps indicating more political shrewdness that some of his predecessors, MacGregor was careful to warn Ministers that he would claim the right to modify the forecasts and objectives contained in the plan in the light of changed circumstances.

MacGregor's warnings inevitably throw considerable doubt on the validity of a corporate plan in which all the targets and forecasts are highly provisional (in addition to demand in general, the level of prices, together with exports and imports, can fluctuate widely). The document serves a political purpose in demonstrating publicly that the BSC is not letting the grass grow under its feet, but such provisional targets remove a great deal of the Corporation's accountability. At the same time, both the BSC and Government had learned by hard experience that rigid and over-ambitious plans were a political time-bomb. In this respect the corporate plan could be seen as a sensible document, in which objectives were continually subject to incremental change. This conflict between flexibility and accountability created considerable problems for the Government, the effect of which could perhaps only be mitigated if the Corporation gave a range of forecasts based on a list of the contingent factors (although management could still claim that unforseen circumstances had destroyed earlier hopes).

In the earlier part of 1982 it appeared that BSC finances were improving steadily (the losses for 1981-82 were reduced to £339 million from a level of £667 million the previous year), but towards the end of the year the Corporation was once again in a state of high crisis. With losses running at £9 million per week the BSC was pressing strongly for the closure of steelmaking at Ravenscraig in Scotland. At this point the Government itself took direct responsibility for what had become a major political decision, and announced that all five main steelmaking plants would remain open, with the break-even target put back until March 1985. The BSC's losses for 1982-83 eventually amounted to

£386 million (conditions had slightly improved during the latter part of the year), while during this financial year the number of employees was reduced (despite the survival of Ravenscraig) from 103,700 to 81,000.

8. THE ROLE OF THE DEPARTMENT

In addition to the work of the BSC itself, this failure to match plans with performance also highlights the role of the Department of Industry in monitoring and evaluating the Corporation's affairs. It is intriguing to note MacGregor's comment to the Select Committee, when it was put to him that if there were people working in the DoI who knew more about running the steel industry than the BSC management, then they should be working for the Corporation rather than the Department : "This is a very sage observation. Any time that we see someone in the Department who could be better used in our business, we try to acquire him. In fact, we have done so."(49) In later evidence, this point of view was supported by both the Secretary of State for Industry, and the Under-Secretary in charge of the Department's Iron and Steel Division.

The philosophy behind this consensus was apparently in line with the arm's length relationship between a public corporation and government, and placed the Department in a similar position to that of a banker's and a shareholder's relationship with a limited company.(50) The problem with this argument is that the Secretary of State is obviously more than either a banker or a shareholder. It is he who is answerable to Parliament about the performance of the BSC, appoints the Chairman and the Board Members, and who also has the prerogative to give final approval to major investment projects and rationalisation plans. Indeed, legislation has apparently strengthened the Minister's potential to control BSC. As a result of the 1975 Iron and Steel Act, the BSC can basically turn only to the government for its external finance, and unlike a private company cannot switch its banker. In addition, as we have seen, the 1981 Iron and Steel Act gives the Secretary of State an increased capacity to exercise direct control over the affairs of the Corporation. Nor is the inter-personal aspect of the relationship necessarily kept at arm's-length e.g., during a difficult period for the BSC during 1981, MacGregor considered that he was meeting Ministers two or three times a week (and the BSC has had a succession of difficult periods"!).(51) Nevertheless, we have seen that although the quality of BSC decision-making has frequently left much to be desired, both Ministers and officials have only rarely considered themselves sufficiently qualified to challenge the authority of the Corporation.

Like most organisations, public corporations have a tendency to act as organised interests,(52) and in this respect the BSC has been no exception. If it is generally considered that the Department can offer only "second-rate" advice, then to whom can the Secretary of State turn (other than the BSC itself) in conducting an evaluation of the Corporation's plans? In addition, in the words of its Under-Secretary, the Iron and Steel Division within the DoI has the responsibility : ".... for advising on policy with respect to the steel industry in the UK, whether publicly or privately owned."(53) It might be said that the capacity to co-ordinate British steel policy in general requires an even greater expertise than running the BSC, and is in no sense subordinate to the latter.

Yet it is clear that the officials within the Iron and Steel Division are extremely diffident about putting forward any point of view which might suggest that they know more about the steel industry than the employees of the BSC. When asked by the Select Committee about the market prospects for individual sectors within the steel industry, the Under-Secretary in charge of the Iron and Steel division, Mr. K.G.H. Binning, stated that : "We do not evaluate the market prospects for particular product groups independent of BSC. The reason for this, Chairman, very simply is that we do not have the expertise which would be necessary to investigate these matters in detail; whereas BSC in conjunction with their friends on the Continent, for example, certainly have a vast amount of information which, in the past, has proved to be remarkably reliable in relation to these particular product areas."(54) Instead of the detailed analysis, the Iron and Steel Division looks at general trends in manufacturing output and gross domestic product, and then translates these into figures for steel consumption.

In March 1981, forty-two people worked within the Iron and Steel Division, but regardless of the expertise which might exist within it, its own diffidence, and apparently deep-rooted readiness to place itself in a subservient position to that of the BSC, places it in a poor position to act as a strong policy adviser to the Secretary of State.

In reality, it appeared that the Department's best hope was to improve its capacity for receiving "early warning signals" of variations from the forecast path, by means of acquiring information of a more detailed nature than had hitherto been the case, and with a greater degree of frequency. Thus the Select Committee was told by one of the Departmental officials that: ".... monitoring until now (March 1981) has been on the basis of the Corporation as a whole, rather than the businesses within it, and it has concentrated on the financial performance, in particular the cash flow forecasts. We are just about to receive the first batch of information under a new monitoring regime which will break down the commercial and financial information by at least eleven businesses within the Corporation which we will receive on a monthly basis, and which we will discuss with the senior management of the Corporation at a monthly meeting.....".(55) When questioned further, the official acknowledged that the Department would not now be monitoring just financial targets, but also manpower reductions, levels of orders, and exports.

9. CONCLUSION

The central "problem" of the BSC appears to stem from the unrealistic capital development programme agreed with the government during the early 1970s. It was considered that Britain could only compete internationally by developing plant which could match, in terms of size and productivity, that found in the rest of Europe, Japan and the United States. Throughout its life, the BSC has been an extremely powerful organisation and successive governments have only rarely challenged its authority (i.e., organisational self-interest has been a key factor in the development of UK steel strategy).

Once the basic strategy of development and rationalisation was adopted, its implementation achieved a self-propelled momentum which no external agency could halt. Initially, the BSC itself seemed reluctant to really face the price of the closure programme, and the outcome of the Beswick Review emphasised that neither government nor BSC perceived the enormity of the impending crisis. When the position began to worsen during the mid-1970s, the government's response was slow with only a slight speeding up of the closures programme. The Treasury tended to side with the BSC management in encouraging more drastic cost cutting exercises, but the Department of Industry and the trade unions favoured a more incremental approach. Thus from the Autumn of 1977 an incremental programme had started with the closures of Hartlepools and East Moors. This policy was accelerated when BSC losses began to mount, and the BSC was given its head to achieve closures at any cost.

The new Conservative Government hoped to hold BSC to strict cash limits and improved viability. This policy proved totally unworkable, but it did have the effect of forcing BSC management into a damaging confrontation with the unions which resulted in the steel strike of 1980, and a reduction in the workforce of 52,000. The Government could not control the financial position of the BSC, but the organisational behaviour of the BSC was nevertheless influenced by Government policy. In more recent times, the Government has been left with little choice but to give financial aid to the Corporation, while placing its faith in the Chairman's ability to turn the tide.

Governments have thus achieved only fleeting control over the affairs of the BSC. Parliamentary Select Committees have investigated the BSC on a number of occasions, and on one notable occasion obtained papers from the unwilling Corporation, but their role is largely one of commenting on past events rather than genuinely influencing BSC behaviour (indeed in June 1981 the relevant Select Committee was still complaining that they secured a copy of BSC's Corporate Plan only after "considerable difficult and delay", and then it was made available to Committee members on a confidential basis).(56) For the first decade of its history, the BSC was a highly centralised organisation. The management had been largely production orientated, and consequently the chief emphasis has been on major capital developments. As a result, BSC has possibly given insufficient attention to other agencies which can have a considerable effect on its financial fortunes. More recently, the BSC has attempted to build an advantageous relationship with the National Coal Board, although groups such as the (private) Steel Stockholders' Association and the Scrap Federation have often complained that the BSC takes unsufficient notice of their interests.

Recent events suggest that the financial crisis is forcing BSC into developing a wider network of relationships. For example, "Phoenix" projects signify an attempt to build a new relationship with the private sector (steps of this nature in the early days of the BSC included the voluntary ceding of 50% of Round Oak steelworks to its former owners, Tube Investments, and also the appointment of GKN's Managing Director as a part-time Board Member), while the Corporation needs the co-operation of supplier agencies (often other public Corporations) in order to cut costs. Thus in November 1981, MacGregor complained that the electric arc steelmaking operations in Sheffield were in very serious jeopardy because of high energy costs and poor availability of high quality scrap. The Corporation had reduced its energy consumption by 12% in 1981, yet electricity charges remained 15% higher than European levels.(57)

The steel unions, by their passivity, have in the past assisted in the development of a narrow steel policy. Moderate by nature, they have not usually been consulted with regard to the BSC's corporate plans (although the BSC has appointed worker directors since its inception, their contribution to policy-making appears to have been slight). BSC's loss of status caused by its financial problems is, however, likely to make policy-making more pluralist in nature. Nevertheless, it should not be assumed that the government will automatically increase its control over the BSC simply because of the size of the Corporation's debt. The technical and managerial expertise held by the Corporation is considerable and the more money government pumps into the BSC, the more it will have to rely on BSC management to produce "success". The political commitment by successive governments to an independent British steel industry appears to ensure the continuation of a powerful BSC in one form or another. It is also likely that factors beyond the control of the UK government alone will continue to have an important impact on BSC.

In fact the whole problem of the relationship between government and nationalised industries has re-appeared on the political agenda in the UK. For example, the Central Policy Review Staff produced a confidential report to the government which may herald a much closer relationship between government and the public corporations in which there will be more effective "second guessing" of the Corporation's plans. Certainly the record of "arm's-length government" has been a disaster in the case of steel. It seems reasonable to argue that had government been <u>directly</u> responsible for the steel industry, then it might have been more likely to ensure that decisions were economically and commercially sound. Lack of direct responsibility seems to have encouraged the Department of Industry to rely very heavily on BSC's commercial and technical judgement, notwithstanding the fact that the financial consequences would eventually fall on the government of the day. Thus, despite (or some might say because of) the Conservative Government's adherence to a strict monetary policy, it found itself saddled with a virtually open-ended commitment to fund the losses of the nationalised industries.

If governments (and untimately the taxpayer and workers in the industries) are to foot the bill for failure, then governments must develop the necessary expertise to see that plans are soundly based and encourage an awareness of the number of interdependencies involved in implementing a strategy for any one industry. As Hugh Heclo has noted in the American context

"..... partitions which were previously assumed to separate policy areas are more often being called into question..... The interplay of what were once thought to be exogenous factors for a given programme is increasingly seen as integral to its very substance."(58)

This observation certainly holds true for steel policy in the UK. Thus, it is possible to list a number of factors (apart from the general impact of the macro-economic delcine of the UK) which could and did play an important role in the decline (but not quite fall?) of BSC. For example, more attention should have been paid to the possible consequences of a declining world market; more attention should have been paid to the impact that developments in other national steel industries - particularly Japan - could have on BSC; more attention should have been paid to the effect of existing managerial and worker attitudes to productivity; and more attention should have been paid to the relevance of other sectors of British industry to the fortunes of BSC (for example, it has been suggested that it was the new Commodity Acts, by which the flow of materials through industry is traced, which provided the insights leading to BSC's review of its home market prospects).(59) This last point possibly raises the most fundamental issue concerning attempts by British governments to devise strategies for key industries. The process of strategy formulation has been bedevilled by the consequences of the segmentation of policy-making, which has been identified as a common feature of policy-making in Western Europe. When the fortunes of key industries are so inter-connected (an excellent example can be found in the devasting effect that British Leyland's decline has had on UK tyre manufacturing) then much greater effort must be made to achieve what can be termed "co-ordinated rationality".(60) If some form of co-ordinated rationality is to be achieved then the concept of relatively autonomous public corporations will need to be substantially modified.

We have advocated that governments need to develop their own expertise, together with a greater awareness of the need for "co-ordinated rationality," but it has to be acknowledged that it is easier to prescribe this solution than to put it into political practice. In this respect it may not be the acquisition of expertise which will prove to be governments' only obstacle to the implementation of this policy. There are invariably political presssures pushing a government towards making a particular decision, and which may have little to do with "co-ordinated rationality." Although the British steel industry has not been particularly susceptible to decisions made on regional grounds, we saw that on at least one occasion investment was split between Scotland and Wales, because the government wished to avoid upsetting important interests in either of those Countries. In general, decisions on investment in, and closures of, steelworks nearly always became emotive political issues, although we have also seen that if the financial situation is dire enough, then governments (and the interests involved) are prepared to accept the political consequences of radical action.

Given the massive sums of public money injected into the BSC over the years, it could be said that the preservation of a British steel industry has required a strong political commitment from both Conservative and Labour governments. Yet at the time of writing (late 1982) there are few signs of conditions in the industry improving. Instead the talk is of further rationalisation linked with still more state aid. Implicit in all government assistance given to the BSC has been the assumption that it is an interim measure designed to tide the Corporation over until the return of more prosperous times. Governments have an obvious vested interest in maintaining optimism for the future state of the economy, while the steelworkers themselves are also naturally loath to expect the worst. McKinseys injected a note of caution at the time when the decision on the major investment strategy was being made in 1972, but this voice of dissent was of little significance in the policy-making process.

If a genuine "power base for pessimism"(61) had existed at this time, then the story of the BSC over the past decade might have been different. Although the Iron and Steel Division of the DoI could potentially take this role upon itself, it is perhaps asking too much that it would be allowed to widely publicise any politically sensitive findings or policy recommendations. The Government appears to recognise the need for external checks, for it now intends to have the efficiency of each state-owned industry subjected to outside scrutiny at least once every three or four years. This job will be undertaken either by the Monopolies and Mergers Commission or by management consultants (the BSC's Audit Committee could be seen as a body performing a similar function).

A good recent example of the political problems to be encountered by pessimists is provided by the Government's treatment of its own Central Policy Review Staff (more popularly known as the Think Tank). The CPRS was given the task of coming forward with policy options for the major public services, in a situation where minimal growth might prevail for a long period of time. Its final (unpublished) Report included a suggestion that responsibility for financing the health service could be switched from the public to the private sector. Despite the strong commitment of the Conservative Government to denationalisation in general, the contents of the Report caused such disquiet amongst many members of the Cabinet, and also backbench Conservative MPs, that it was rapidly shelved (at least until after a General Election). Regardless of the merits of the Report's contents, the speedy manner in which it was dropped demonstrated the difficulties in opening a debate on the policy implications for a low growth economy.

The experience of the Think Tank suggests that the "power base for pessimism" would need to be one step removed from government - at least far enough away to have the freedom to publish its reports and initiate public discussion on their contents (the agency could also act as a valuable "early warning system" by closely monitoring the affairs of the BSC). The pressure exerted by such an organisation could provide a valuable input to the policy-making process, although ultimately it must be recognised that final decisions will rest with government.

The abolition of the BSC's statutory duties was closely tied to the Conservative Government's hopes that large sections of the Corporation could be returned to the private sector. The poor health of the industry makes the fulfilment of these hopes a remote possibility for the forseeable future, but the new authority and potential power given to the Minister does provide an excellent opportunity for the Secretary of State (and his Departmental officials) to take greater direct responsibility for the fortunes of the steel industry. It is often argued that greater intervention by the Secretary of State would make decision-making too political in character, but we have seen that major decisions in an industry such as steel inevitably have political implications. Greater responsibility for the Minister would make him more accoutable for the fortunes of the industry, and hopefully less likely to accept the invariable optimism of BSC management. In this respect, the autonomous evaluating and monitoring agency could be particularly valuable, by both advising and warning the Minister, and also generating public debate.

In reality, it is perhaps only a lowering of public expectations in general which will ultimately generate a wider discussion on policy options for low growth, but changes in the institutional framework at the centre could at least engender some hope that the British steel industry would be subject to more realistic decision-making than hitherto has been the case.

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