Upper Clyde Shipbuilders

A Study of Government Intervention in Industry
... the way the money goes

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Centre for Policy Studies
London 1976

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First published 1976
Reprinted 1978
by Centre for Policy Studies
Wilfred Street
London SW1.
Typeset and Printed by
The Pentagon Printing Group,
Soho Square, London W1V 5TW.
© Centre for Policy Studies
ISBN 0 9504392 3 1

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Preface

by Sir Keith Joseph

It has been a characteristic of governments in this country during our lifetime that the more they fail in their basic functions, the wider the new powers they arrogate to themselves. The prime economic function of government – to maintain the value of the currency – has been abandoned. The civil service has vastly expanded and set itself the task of directing economic life with little knowledge of where wealth comes from and scant sympathy for those who create it. The fact that nationalized industries have become a millstone around our necks has not discouraged successive governments from expanding their duties and powers. On the contrary, governments are busy infecting nominally privately-owned enterprises with the same sickness, which is basically caused by absolution from having to pay their way.

Instead of creating the economic, political and moral climate within which people serve the public interest by seeking their own, governments itch to intervene right and left to suppress symptoms of structural weakness and side-effects of earlier acts of intervention. They end up by throwing good money after bad.

The past few years have seen intervention to "rescue" private firms expand significantly, to a point where workers in large enterprises have come to believe that, come what may, their employers will not be permitted to close down or shed labour.

This practice has come to be known by the exalted but misleading name of "job protection", though an elementary understanding of the economic process will show such efforts at job protection to be counter-productive in the course of time, undermining the economy and its capacity to provide well-paid employment. They constitute intervention designed to frustrate economic change at given points in the process, instead of facilitating the process while assisting workpeople affected to adjust to the changes necessitated. The same view has been cogently expressed recently by a government source. A Department of Industry Circular of January 1976 on criteria for granting assistance to firms under the 1972 Industry Act argues:

> The receivership or liquidation does not necessarily involve the complete cessation of the company's activities, since responsibilities of the receiver or liquidator towards the creditors will often be best fulfilled by maintaining the business as a going concern in order to secure the highest price. The resources of manpower, premises and equipment of insolvent businesses are, in many cases, taken up in whole or part by several enterprises expanding or starting up.

What earthly reason can there be for taking for granted, as most government rescue operations do, that problems – economic and attitudinal – which have defeated owners, managers and others with experience, detailed knowledge and interests at stake can be solved by the incursion of outsiders – however patriotic, well-intentioned and devoted – who have neither the specialised knowledge, the experience nor the personal stake, in the sense that they stand to lose neither money nor career if their advice turns out to be wrong. As the DoI report remarks 'People are more likely to take a hard-headed view of prospects when it is their own company's money at stake'.

As things have worked out, each rescue operation (which now number into tens since the early fifties) has been enthusiastically canvassed, dramatically presented, a new leaf in labour relations, vast savings and new vitality assured. Public money is advanced, the searchlight moves on. Rarely has subsequent performance been measured against promise, not even when more money is demanded later. It is nobody's job to monitor and report, to assess the cost to the community of each job saved, the effect on other firms in the industry, on trade union attitudes.

We politicians faced with a cliff-hanger are subjected to

immediate pressures, threatened with dire political results if we hesitate, let alone stop to think, urged that each is a very special case. It is known that John Davies had deep misgivings and tried intensely hard to persuade his colleagues that a rescue would lead inevitably to greater irresponsibility and thus to declining co-operation in productivity and to ever-increasing wage claims. He was unable to persuade his colleagues.

I am not apologising for politicians when I argue that our resolve would be strengthened by well documented and argued studies of previous acts of intervention and their consequences. The strong-willed would be further strengthened, the apprehensive would be helped to take strength.

The *Centre* has therefore decided to commission and publish a whole series of case studies in intervention. The UCS episode to date is as good a start as any. It straddled several administrations, in one of which I was a member, was the object of almost lyrical claims to be the harbinger of a new era in labour relations and creative management. It enabled a committed communist *apparatchik,* Jimmy Reid, to become a national figure overnight, it cost the British taxpayer tens of millions of pounds, with more to come, and left all the problems of ship-building in the region unsolved.

I am particularly grateful to Professor Sykes of Strathclyde University for giving us the benefit of his wide knowledge and experience. Mr Broadway's painstaking and lucid study will, I hope, set the tone for the series. I should welcome readers' comments and suggestions, since the *Centre* was established to catalyse reappraisal through dialogue.

Keith Joseph.

Foreword

There have been many books and pamphlets on the collapse of the Upper Clyde shipbuilding companies and the subsequent Government intervention. These have varied in quality, most have been ideologically committed attempts to spread the myth of the UCS 'work-in' and its 'victory' over a democratically elected Government, the less partisan have suffered from a tendency to look at the situation from a narrowly local viewpoint. This pamphlet is the first objective attempt to describe what occurred and to set it within the larger context of the British political economy. By treating the subject in this way Frank Broadway has been able to show not only how – in particular – the Upper Clyde Shipbuilders failed, but also to abstract more general lessons on the unfortunate, and apparently inevitable, consequences of state interference in industry.

The study raises many interesting points: three are of major significance at the present time. The first is the basic one of state intervention in industry: the second is that of the inability or unwillingness of Government to resist pressure from small but vociferous pressure groups: the third, the myth of the 'work-in' at UCS in defence of the 'right to work'.

In this pamphlet the range and effect of state intervention in the UCS is described simply and factually from the beginning to the present time. The impression left is one of total confusion and waste. The questions that faced the governments concerned were simple enough. Shipbuilding on the Upper Clyde was in dire straits: could it, or could it not be made viable? And, if it could, what price was the Government willing to pay? If it could not be maintained on a permanent basis what could Government do to replace shipbuilding by other sources of employment? It was clear enough at the time that a patching up operation was useless, shipbuilding would need a massive investment and a full-scale re-organisation, or an equally massive effort would be required to provide other means of employment. Both Labour and Conservative governments shied away from making the large-scale efforts that were necessary; they looked for easy solutions, they tried to do it on the cheap. It was a compulsive gambler's approach, dribbling away money a little at a time and hoping that the next bet would be on a winner. There was no sustained policy, no set limit to what they would spend, no clear aim or purpose. In the event both spent far more than they had intended to and had nothing to show for it. Never, at any point in the exercise, was Government in command of the situation – its intervention proved to be aimless, feckless and ultimately futile.

The second point is that the governments concerned, both Labour and Conservative, allowed pressure groups to dictate industrial policy to them. The Conservative government was guilty of allowing its judgement to be overruled by well organised – and publicised – but relatively unimportant external pressure. Labour behaved with total, and shameless, cynicism. When in office they had made clear their intention to put no more money into the Upper Clyde; in opposition they made a complete about face, demanded more state aid, and not only supported the UCS work-in but exalted it into a Crusade. In seeking to make political capital in this way they put themselves in pawn to the trade unions – were willing to sacrifice power for office. Mr Benn, and other Labour leaders, had fulsome praise for the Communist led 'work-in'; Mr Wilson himself wrote in the preface to a book on the UCS. 'What the men of the Clyde proclaimed, and what I went to Clydeside to assert, was "the right to work". And that principle cannot, and must not, be denied'. In opposition it gave some little personal and political advantage. In government such commitments set embarrassingly narrow limits on Labour's economic and industrial policies.

Party politics aside, the UCS episode marked a serious

decline in the authority of Government and of its power to act in the face of well-organised pressure groups however unrepresentative. It will take a considerable effort, and perhaps a national crisis, before any government – Labour or Conservative – regains the authority that properly belongs to a democratically elected Government and not to small, assertive, minority groups.

The third point concerns the myth of the 'work in' at UCS which defended the 'right to work'. As Frank Broadway points out the 'work-in' was a non-event. Despite the reiterated claims that it proved workers can 'run industry', can 'manage industry', the workers never ran UCS. The liquidator and the management continued as they would have done had there been no 'work-in' – to direct, manage and market for the group. Nevertheless a myth has been created that is very difficult to dispel. Seeing is believing. On television, and in press photographs, the shop stewards were seen meeting in the Boardroom – therefore they were directing; they were seen meeting potential customers and the representatives of the Marathon Company – therefore they were marketing. As to managing this, being more difficult to portray, was subsumed under directing. That the 'work-in' asserted the right to work is nonsense; the shipbuilding workers, the owners and management and, above all, the taxpayers are all worse off than if it had never happened. Nevertheless the myth of a successful work-in has been used to support other work, or sit-ins and demands for Government aid in cases ranging from Triumph Meridan to Chrysler; from Fisher-Bendix to Imperial Typewriters and the Scottish Daily News. And, in every case, there is nothing to show for it, the only winner is the extreme left with its aim of industrial disruption.

We are told that the 'right to work' was, and is, being enforced. This right has been claimed – and properly – since organised labour first emerged, and it is accepted as such by the major political parties. But the question arises, what does it mean? The right to work on what terms, under what conditions? Labour leaders are modestly reticent on this subject but they cannot be unaware that the current interpretation, as used in actual or threatened 'work-ins', is that there are no conditions. A man, it is claimed, has the permanent right to the same job – in the same industry, and in the same locality – as that in which he is at present. On this basis the Clyde would be producing improved versions of the Cutty Sark. This is no more than Luddism but it is, nevertheless, the ideological basis of the Upper Clyde 'work-in' – so bravely espoused by 'forge a new Britain in the white heat of the scientific revolution' Wilson, and the man he chose to carry out this policy, Wedgwood Benn.

However, these are but the major points. There are others of hardly less importance that bear on the problems of Government intervention. For example, the way in which the committees set up to advise on solutions to the problems tend to turn up with the kind of 'plausible optimistic' answers that please the Government but solve nothing – and how these are even further watered down to satisfy minority interests. The way in which orders are taken on at too low prices to provide the appearance of easy success, resulting in crippling losses at a later date. The effect on suppliers who loyally support the major companies only to find that the Government cynically refuses to pay them – there is no political kudos in saving them from bankruptcy. Worst of all is the effect on the morale of employees. Not the boost for productivity that Labour claims, but the stimulus for unjustifiable wage claims in the belief that with Government money involved 'the sky's the limit'. Frank Broadway has indeed written one of the most important, and most frightening, studies yet made of state intervention in industry.

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I. Introduction

Britain is clearly heading for state involvement in industry on a scale never previously contemplated. Added to the Labour Government's own plans for nationalization and the interventionist operations of a National Enterprise Board, we now have a procession of famous companies forced by inflation, unwise tax and economic policies, and sometimes by poor management and chaotic industrial relations, into accepting state shareholdings and directions on policy in return for the cash needed for survival.

Whether such intervention should take place at all, or on what scale, is a legitimate matter for debate. The record of state intervention in industry in Britain, whether through nationalization or through agencies such as the Industrial Reorganization Corporation, gives little ground for optimism that future essays will do anything except dissipate national resources and perpetuate rigidities in the economic structure. To all but the most committed ideologue, the lessons of the past suggest that Britain should either keep state intervention to a minimum, however persuasive the arguments, or, at the very least, should learn how to do it better.

The records of most of our nationalized industries and most examples of Government intervention, however well-intentioned, into individual companies point to these conclusions, and suggest that the most probable outcome of state aid is that the recipients will be back for more.

Among the many cases which might be cited, few illustrate the pitfalls of state intervention more fully and vividly than the troubled history of Upper Clyde Shipbuilders.

Here was a venture set up under the kind of auspices every moderate-minded interventionist loves. A committee of "wise men" (an accountant, two businessmen, two professors and a trade union general secretary, chaired by a well-known industrialist) produced a "blueprint" for the regeneration of the shipbuilding industry. All the conventional management wisdom of the time was deployed — mergers and "restructuring", economies of scale, modernizing investment, and the introduction of new managers and new techniques from outside the industry.

Equally, all the classic arguments for state intervention were prayed in aid. The list is a familiar one. There were jobs to be preserved in regions of high unemployment, the industry was a national asset which must not be run down, foreign performance was allegedly superior, but given a suitable injection of better management and once-for-all Government cash, it could become efficient, expanding, and prosperous.

Another committee of "wise men", headed by another well-known industrialist, was set up to implement the blueprint and to dispose of some £30m. of public money. This new agency of Government intervention, the Shipbuilding Industry Board, sent sub-committees to various parts of Britain to implement the blueprint policy of promoting mergers between shipyards on a geographical basis. While some shipbuilders were reluctant to lose their independence, the sub-committees carried the classic weapon of "persuasion" in state intervention: those who co-operated would have access to lots of Government money.

In its wisdom, the sub-committee which went to the Upper Clyde decided to preserve all five surviving independent shipyards in the Glasgow and Clydebank areas and to merge them into a single group. Not unnaturally, everyone made optimistic noises. The shipbuilders were pleased because at least three of the five yards involved were only dubiously viable if left to pursue an independent existence. The trade unions, who had feared the closure of at least one yard, gave the scheme their blessing. Amid optimistic press talk of a "superyard" Upper Clyde Shipbuilders was born.

Subsequent events showed the new group to be far from "super". For a brief three years and four months, it staggered from one financial crisis to another, dissipating some £20m. of Shipbuilding Industry Board and Ministry of Technology money on the way, mostly in operating losses. Both a Labour

Minister (Mr A Wedgwood Benn, no less) and his Conservative successor (Mr John Davies) warned that no more state aid would be forthcoming. When Mr Davies stuck to his word and refused another crisis plea for a further £5m. in June 1971, the UCS board called in a receiver. He announced a net deficiency of some £20m., including £12m. owing to the Government and £7.5m. to the unsecured creditors.

This was not the end of the UCS saga, and certainly not of the cost to the taxpayer. Encouraged by bitter political recrimination, and sympathetic newspaper and television coverage, some employees staged a Communist-led "work-in". Although this achieved virtually nothing in terms of supporting men at work, it created a myth of "victory" when the Conservative Government of the day appeared to have been forced to change its mind and to agree to support the continued existence of four UCS shipyards (instead of the one or two originally proposed) at a projected cost of £35m. Still more taxpayers' money went into the closing chapters of the story, when the Government provided a £12m. grant to help persuade Marathon Manufacturing of Texas to take over the fifth yard for oil rig building.

In all, the UCS venture has cost £90m. of public money, without producing any proven viable shipbuilding operation on the Upper Clyde. Only a derisory part of this sum has gone into capital investment, which was nominally the top priority: most of it has gone to meet losses. If the intention was to create employment, the expenditure on the UCS and its successors has in fact been accompanied by a fall of nearly 50 *per cent* in the 12,000 labour force employed by the five original shipyards. For better or for worse, the "work-in" has set a precedent for employee action, now widely followed in Britain, when redundancies are threatened.

This is not a train of events Britain will want to repeat, especially on the much larger scale implied by Government involvement in giant companies like British Leyland, or the National Enterprise Board proposal to take over 25 of Britain's top companies.

It is therefore worth taking a detailed look at the UCS story, not just on a "lest we forget" basis, but to see if any useful conclusions for public policy emerge.

moral support. Still more crucially they caught the vivid imagination of Mr George Brown, the Minister for Economic Affairs and Deputy Leader of the Government.

By December 1, 1965, the DEA had invited Iain Stewart to be chairman of a successor company at Fairfields. He and Mr Brown both envisaged a company in which half the shares would be held by private capital and, hopefully, trade unions, with the Government holding the other half. On December 22, 1965, the Minister announced the plan to the House of Commons. The motive, he claimed, was "not merely to save a recently modernized Scottish shipyard from extinction, but to provide a proving ground for new relations in the shipbuilding industry which could change the whole image of our country".

The new Fairfields company had a capital of £1,060,000 of which £400,000 was provided by four private investors (Stenhouse, Wolfson, Thomson and H.K. Salvesen). Four trade unions eventually provided £130,000. The Board of Trade took a £530,000 holding. In addition, there was a provision for cash loans at 7 *per cent* interest from the Board of Trade, and by November 1966 the new management had borrowed £940,000.

With this backing, Mr Stewart was free to proceed with what has since become known as the "Fairfields experiment", though it was accepted that the rescue should not be allowed to prejudice the possible merging of the shipyard into a wider grouping after the publication of the Geddes report. In the event, the "experiment" proceeded for just over two years when Fairfields was merged into the newly-formed Upper Clyde Shipbuilders group in February 1968.

What was done during the "experiment" is relatively easy to ascertain. From the outset, the new management never lacked or shunned publicity for its actions. Unlike any other British shipbuilder, the new Fairfields had a full-time publicity director, seconded from the Thomson Organization. Iain Stewart was a charismatic personality who provided the press with plenty of stories, while Fairfields' new management team, which included Oliver Blanford, from the Stephen yard, as managing director, and Jim Houston, from Singers, as productivity services director, spent a good deal of time

lecturing on what was being done at the shipyard.

In essence, the "experiment" combined two main lines of approach. There was a major attempt to improve labour relations within Fairfields, to bring about a better spirit among employees based on belief in a "new deal", and backed by such techniques as joint consultation and improved communications. There were frequent mass meetings at the Lyceum Cinema in Glasgow, addressed by Mr Stewart with union officers, including shop stewards, on the platform, aimed at securing workforce co-operation in productivity advance.

The other main line of approach was to attempt to channel employee co-operation to practical ends by the intensive application of work study, training and other management techniques. Over 200 productivity staff were employed, and 1,500 people were retrained. Several productivity and flexibility agreements were signed with the trade unions.

When the Fairfields "experiment" ended just over two years later, it was too soon to produce conclusive evidence of its success or failure as a practical business enterprise, although at a mass meeting of employees to mark the merger Stewart made claims which other shipbuilders regarded as extravagant about the success of the "experiment".

He claimed that Fairfields had achieved a 30 *per cent* productivity improvement during the second half of 1967, with prospects of at least 50 *per cent* more if the trend continued. Subsequently, Mr Stewart and other former members of the Fairfields management claimed that they had raised steel throughput to 61 man hours per ton, but UCS management had allowed it to slip back to around 100 man hours per ton.

While the productivity of the Fairfields yard just prior to the merger is not seriously in dispute, according to the old Fairfields management, productivity in the yards in 1964 was already below 70 man hours per ton, so the experiment only marginally improved steel throughput above its former figure.

Other shipbuilders qualify the achievement in a number of ways. They claim Fairfields used its Government funds to pay over the odds for concessions. A flexibility agreement gave an for grants or loans of Government money, primarily for use in modernization and capital re-equipment.

The plethora of trade unions represented in the industry was, hopefully, to be reduced to five. Both management and unions were to take action to improve a deplorable record in labour relations.

The Government's role was also spelled out. It was to make available £5m. for grants and £32.5m. for loans to companies implementing the Report's recommendations. It was to make a further £30m. available to provide credits to encourage shipowners to buy British-built ships.

It was also to establish a Shipbuilding Industry Board to administer the grant and loan funds, and to oversee the implementation of the Report's recommendations. The desirable membership of the Board should initially consist of three people: a chairman with wide experience of the problems of large industrial organizations, a trade unionist without shipbuilding industry connextions, and a technologist or engineer, also without any close identification with shipbuilding.

The Geddes Report was favourably received on all sides. The shipbuilders had a few reservations, but these were easily outweighed by the prospect of access to large sums of public money. The unions welcomed the prospect of saving many of the jobs at risk in areas of high unemployment.

What really brought widespread acclaim for the Report, however, was its plausible optimism and its faithful adoption of all the currently fashionable management theories. Here was a blueprint for restoring the fortunes of a once-great industry by an appropriate injection of management technology.

Not unnaturally, this was meat and drink to a Government which had promised a technological revolution, and which believed that a little enlightened intervention could work wonders in allegedly backward areas of British industry. Although the Geddes proposals were doubtless framed without any reference to politics, they admirably suited the Labour Government's thinking.

They were cheap. Only £5m. of the £67.5m. funds proposed by Geddes represented a permanent subvention

from the taxpayer. The rest would be returned as loan repayments when the industry achieved its hoped-for return to prosperity. Here was an excellent example of "pump-priming", the then fashionable theory that a modest expenditure of Government money could achieve highly favourable results if only it were applied in a sufficiently enlightened manner.

The proposed Shipbuilding Industry Board also had an instant appeal to the moderate-minded interventionist, who has some proper doubts about the ability of civil servants to run chunks of industry, but apparently unlimited faith that a committee of public-spirited "outside" businessmen and trade unionists will somehow solve all the problems which have baffled existing management. Enlisting the aid of such a body stills public disquiet about "state control", while preserving such obviously desirable features as accountability in the expenditure of public money.

Not surprisingly, then, the 1966 Labour Government gratefully accepted the Geddes Report, and proceeded to implement it with unusual speed and fidelity.

Some Afterthoughts on Geddes

"We are relaunching the British shipbuilding industry with this Bill", declared Mr Anthony Wedgwood Benn, the Minister for Technology, when in February 1967 he introduced the first reading of the Shipbuilding Industry Bill to implement the Geddes Report.

Six years later, the distinguished American-owned management consultants, Booz-Allen & Hamilton International reported factually on what this "relaunch" had achieved (*British Shipbuilding 1972, a Report to the Department of Trade and Industry,* HMSO).

The industry had not achieved the big increase in output to 2¼m. gross registered tons a year envisaged by the Geddes Committee. Despite several years of booming world demand for ships, output had remained obstinately stuck around the post – 1955 annual average of 1.2m. tons.

Nor had hopes that the industry could be "relaunched" on the cheap, with only £5m. committed in grants, been realized. The Labour Government and its Conservative been appointed a part-time member of the Board. He had worked with the Tilling Group since 1957 and his reputation rested on his work as chief executive of the Pretty Polly stockings and tights subsidiary. In April 1966 he had been seconded by the group to the Department of Economic Affairs as one of many "industrial advisers". This appointment was followed in November by the appointment as a part-time member of Mr Joe Gormley who was, at the time, secretary to the Lancashire area of the National Union of Mineworkers. These appointments certainly conformed to the Geddes Report's apparent determination that nobody with any previous connexions with shipbuilding should become a member of the Shipbuilding Industry Board.

Shortly after these appointments, responsibility for shipbuilding was transferred from the Department of Trade to the Ministry of Technology under Mr Wedgwood Benn.

The enthusiasm of the Government was only matched by the enthusiasm of some shipyards to qualify for assistance under the Geddes Report. On the Upper Clyde, the Stephen, Connell and Yarrow companies initiated talks about a possible merger as early as June 1966. By the autumn another set of merger talks was going on, with Fairfields anxious to take over the ailing John Brown yard at Clydebank, and extend its much publicized "experiment".

In much of these talks there was an unrealistic air of optimism. Only Yarrow of the five yards was consistently profitable, thanks largely to its specialization in naval construction. Connell had been only variably profitable and the Stephen yard had over recent years made losses which could obviously not be indefinitely sustained by the Stephen family's fortune.

The proposed Fairfield take-over of John Brown was even more insecurely founded. The John Brown yard was in a worse state than Fairfields, and for many years had only survived through the generosity of its parent group. It was at the time engaged on building the QE2, which was expected to result in a heavy loss and it had no significant orders in sight to keep its workforce of 5,000 busy.

The newly formed Shipbuilding Industry Board soon made it clear that it did not approve of either of the proposals being

prepared by the companies. In April 1967 it sent a Working Party to Upper Clyde with the following terms of reference:

> To co-ordinate arrangements for the study and valuation of shipbuilding assets and facilities on the Upper Clyde and to make proposals for the formation of a group, for the consideration of the firms concerned in accordance with the requirements of the Geddes Report.

Chairman of the sub-committee was Mr A.E. Hepper. The other members were Mr A.W. Giles, a managing director of merchant bankers Baring Brothers, and Mr J.A.H.F. Macmichael, a director of PE Consulting Group.

The Working Party finalized its report in July 1967. It recommended that all five yards on the Upper Clyde should merge and should then rationalize by phasing out the Connell and Stephens yards. The overall labour force was to be reduced from 13,000 to 7,500.

The major virtue of this particular plan was that it pleased all the participants. Other shipbuilders had assumed that the Working Party would adopt a more logical approach by simply leaving the large and antiquated John Brown yard to go out of business, but John Rannie, the managing director of John Brown, and a highly respected figure in the industry, was anxious to join the new group. Iain Stewart, of Fairfields, was happy because he assumed his new methods would be applied to the whole of the new group, and that some of his specially recruited top managers would take over top jobs in the consortium. Yarrow, the only consistently profitable company in the new group, held out for special terms allowing it to remain nominally independent, but with the consortium owning 51 per cent of its share capital. Charles Connell & Company also negotiated special terms, including a fee of £400,000 for contracts to be handed over and a commission arrangement on future orders.

The Working Party's report was apparently accepted by the Shipbuilding Industry Board with relatively little doubt about its practicability. This was surprising because, of the five companies involved, four had made a combined loss of £2m. in the previous year. There was suspicion that some of the orders to be inherited by the new group, notably the QE2 from John Brown, and the Jervis Bay order taken by

III. UCS, February 1968 - June 1971

A Poor Start

Upper Clyde Shipbuilders started trading on February 1, 1968. Few organizations can have been launched under quite such unfavourable auspices as this curious progeny of state intervention.

Even before operations began, the group's major hope of ever reaching viability was destroyed. The trade unions flatly rejected the central proposal of the sub-committee report: that the labour force should be reduced from 13,000 to 7,500. Only when Mr Hepper had guaranteed work for two years for all 13,000 did the 15 trades unions agree to discuss the "Workers' Employment Charter" which was supposed to usher in an era of happier labour relations.

The yards were short of orders and certain to lose money on many of those in hand, which had been booked at cut prices. With no prospect of significantly running down his labour force, Mr Hepper felt he had no alternative but to scour the world for more orders.

His success as a salesman was at a heavy price. Contracts were at fixed rock-bottom prices, which were certain to show losses after inflation.

The scale of the probable losses was increased by another problem the new group inherited. Prior to the merger, the general manager at Fairfields (without the authority of the board) had committed that company to a wage rise. With insufficient working capital for even normal business purposes, UCS could not risk a strike, and therefore conceded the rise all round the group.

By August 1968, UCS was making provision in its accounts for a loss of £4.84m. on orders booked since it

started operations the previous February.

The board of directors was far from united in its approach to these initial problems. There was a crucial disagreement between Sir Iain Stewart, deputy chairman, and his fellow directors.

Sir Iain, who had master-minded the "Fairfield experiment" and was convinced it had been a success, wanted to fill several key appointments in the new group with his own senior staff. He wanted to see the methods he had instituted at Fairfields applied throughout the consortium, and was particularly keen that Jim Houston, his productivity services director, should fulfil a similar function for the whole group.

The other Upper Clyde shipbuilders were highly sceptical of the Fairfields experiment, and were in a majority on the UCS board. They refused to accept Mr Houston for a senior post. Mr Hepper, who was convinced that Fairfields could not have survived without the merger, also showed no enthusiasm for him, or for Fairfields' managing director, Oliver Blanford.

On March 6, only five weeks after the merger had been consummated, Sir Iain Stewart resigned from the UCS Board.

Bailed out, with Repeat Performances

Given the difficulties the new group faced, its shortage of working capital, and its policy of taking orders at loss-making prices to keep its employees in work, it was only a matter of time before financial crisis occured. The first of many liquidity crises which dogged the brief history of UCS duly arrived in February 1969, just over a year after it had started business. While this crisis was probably hastened by the delays in completion and acceptance of the QE2 and the consequent deferment of a final payment of around £1.5m. due from Cunard, it only brought forward the inevitable.

UCS in fact warned the Shipbuilding Industry Board in November 1968 that additional finance would be needed. Prospects seemed reasonably favourable, because the 1968 Industrial Expansion Act had amended the 1968 Shipbuilding Industry Act to enable the Board to provide up to £20m. in grants, with ministerial approval, instead of the £5m. in total grants proposed in the Geddes Report. By late February the UCS liquidity problem had become acute. The group submitted a detailed cash statement and an urgent request for £6m., which was met in March by a grant of £3m.

By April 9, the group was again hammering at the Board's door. Consultants called in to work out a corporate plan to achieve viability admitted a bleak to-day, but – predictably – promised jam to-morrow. The report forecast a loss of £8m. over and above that already estimated for contracts inherited from the founder companies. (When the first report and accounts were published in August, the actual loss proved to be £10.3m.) £7m. was required to boost working capital (£4m. immediately) and £5m. for capital investment, mainly in the former John Brown yard at Clydebank. All being well, the report surmised, the value of the workload would increase by 60 *per cent* and productivity by 45 *per cent* over four years, bringing financial viability in 1972–3.

The Shipbuilding Industry Board was not convinced. It rejected the UCS demands, but submitted alternative proposals to the Ministry of Technology.

For two cliff-hanging months, UCS tottered on the edge of liquidation. Creditors pressed for payment while suppliers demanded cash on delivery for materials and components; the British Steel Corporation refused to accept new orders, and the Export Credit Guarantee Department refused to underwrite contracts for four export orders which would otherwise have been available to the company.

For a few weeks, negotiations between the three parties were kept secret, but Mr Hepper, who had spent four agonising days at the Ministry of Technology announced during the first weekend in May 1969 that unless support was forthcoming the group would not have the financial or other resources to complete contracts under construction. Speculation, he said, had had "extremely damaging effects on our plans, financial position and confidence". In reply to questions in the House, Mr Wedgwood Benn greeted this statement as "completely irresponsible" commenting that "there is no safety net beneath any firm or industry in this country".

The eventual outcome of this particular crisis, which

dragged on until June 18 was the provision of £9.3m. of government aid consisting of £5m. working capital, with £4.3m. for fixed capital spending, with a promise by the Shipbuilding Industry Board "to discuss the developing financial situation of the company early next year" and a reported statement from Mr Wedgwood Benn that "not one penny more" would be made available.

The deal was, of course, a commitment of taxpayers' money to a prospectus which no commercial organization would have dreamt of supporting. Some conditions were, however, attached which gave some hope of at least slowing the rate at which the company was gobbling up public money.

There was to be immediate reduction of 1,300 in the labour force, followed by a further 1,300 redundancies during the next 12 months. A productivity agreement was to be negotiated with the Boilermakers' Society. The Fitzpatrick House head office ("the Kremlin") was to be closed down, eliminating 270 staff jobs.

In addition, there were to be major board changes. Most signicantly, Anthony Hepper was to relinquish the post of managing director while remaining chairman, and a new man appointed, who was to be a shipbuilder – a considerable departure from previous Government attitudes. The rescue of Fairfields, the constitution of the Geddes Committee and the Shipbuilding Industry Board, and the initial top management set-up at UCS had all been based on the apparent assumption that almost anyone could run shipyards better than shipbuilders!

In the event, UCS secured a distinguished recruit as its new managing director: Mr Kenneth Douglas came from the successful Austin & Pickersgill yard, developers and builders of the SD14 "Liberty replacement" cargo vessels and bulk carriers, at the same time achieving substantial productivity increases.

Mr Douglas joined UCS in August 1969, and by November talks were under way with several export customers for orders for the new "Clyde" 18,000-ton standard cargo vessels. The company was, however, facing fresh problems.

It was once again running short of working capital, and doubts about its continuing viability were prejudicing new orders. The company's approach to the Shipbuilding Industry Board met with an unsympathetic reception. This was apparently because its need now well exceeded the £3m. which had been cut from the total required in May. In addition, the Board quite properly took the view that it was responsible for the whole of the British shipbuilding industry, and not just propping up one ailing company. Of the total of £32.5m. in loans and £20m. in grants which the Board could theoretically dispose of, UCS had already had nearly £13m. while more efficient yards, like Scott Lithgow on the Lower Clyde, who could have used money for modernizing and extending facilities, had received none.

UCS accordingly went to the Ministry of Technology. Mr Harold Lever, the Paymaster-General and effectively No. 2 to the Chancellor, was despatched to Glasgow to investigate and negotiate, presumably on the shrewd assumption by Mr Wedgwood Benn that he would have less difficulty in cajoling further funds from the Treasury than the free-spending Ministry of Technology. On December 11 news was leaked in Glasgow that the Ministry was making a £7m. loan from the Civil Contingency Fund. It was explained that the requirements of regional development and exports had made it necessary for the Government to bypass the Shipbuilding Industry Board, and it was conceded that it would not have been right to put more money into the Upper Clyde group on strict shipbuilding industry grounds.

This was a considerable change from Mr Wedgwood Benn's claim only six months previously that progress had been made which opened up new possibilities for the creation of a viable shipbuilding industry on the Upper Clyde.

Labour Relations

One of the problems UCS inherited was a disastrous tradition of labour troubles and low productivity in the Upper Clyde shipyards. No fewer than 15 trades unions operated in the yards, often under conditions of intense rivalry. One of the unions, the Boilermakers' Society, regarded its members as superior to any of the other trades engaged in shipbuilding, and consistently refused to enter into joint deals between management and the unions.

Inter-union rivalry had over the years produced chaotic structures and a plethora of restrictive practices. At the time UCS was formed, there were over 500 different pay grades. Jealously-guarded demarcation procedures, combined with a long tradition of work avoidance, produced a situation which Sir Iain Stewart described as "two hours' work for eight hours' pay". That it was common practice to spin out work so as to secure large amounts of overtime was shown at the time of the merger when some 20 per cent of all hours worked were at overtime rates. Among the results of very low productivity on the Upper Clyde was an unenviable reputation for late delivery, which not only handicapped the company in obtaining new orders, but directly drained it of working capital.

The completion of the QE2 was a classic example of the work force's traditional attitude. Apart from the interminable delays to completion, many deliberately aimed at boosting overtime payments, pilferage reached spectacular proportions. Glasgow legend has it that carpets carried up one gangway during the completion were promptly carried off the ship down another to be sold for the benefit of some members of the workforce. When an Aubusson carpet was lifted in the first class bar there was no sign of the parquet flooring which should have been underneath.

With a high-minded faith in human nature, the Geddes Report had envisaged a major improvement in industrial relations in shipbuilding. It hoped that the 15 trades unions involved would reduce themselves to five, either through amalgamations, or transfer of members. It also hoped for effective productivity agreements which would justify higher wages. All this seemed plausible at the time, simply because trade union leaders can usually be prevailed upon to accept such ideas in principle. Actually implementing them around the negotiating table or on the shop floor or in the shipyard is a very different matter, and performance in shipbuilding has fallen a long way short of the Geddes hopes.

One of the key factors in the failure of UCS was inability to achieve major improvement in labour relations and in productivity. The outlook was bleak from the start, because at the time of the merger the five constituent companies were all massively over-manned. The Hepper Sub-committee formulated its proposals on the optimistic assumption that the new consortium would be able to shed 3,000 employees rapidly, and a further 2,000 within a year or so. It was on this basis that the Shipbuilding Industry Board had given its blessing to the Upper Clyde scheme.

In the event, the unions refused to accept the redundancies. Instead, they pressed for and obtained from the inexperienced new management, a guarantee of work for the existing labour force of 13,000 for two years. The forlorn hope was that this concession would buy co-operation for increasing productivity and eliminate disputes and absenteeism. Backed by the guarantee of employment, the concessions made by the unions were modest, and a good price was exacted.

No real progress was made in labour relations at UCS until the company appeared to be facing liquidation in June 1969. This spectre even led to an offer to accept a cut in pay. After this cliff-hanger, the trades unions accepted the breach of the "no redundancy promise" and the renegotiation of productivity agreements. There was a very low incidence of disputes until March 1970.

While UCS undoubtedly secured some improvement in labour relations and productivity during its last two years, it never achieved the co-operation it really required. Most of the advances were the result of hard bargaining, which resulted in a price which virtually gave away all the potential savings from productivity increase. Thus, although Kenneth Douglas brought about quite dramatic increases in the tonnage of steel throughput per man, he never succeeded in reducing the actual labour cost per ton of steel handled. The willingness of UCS to concede higher rates of pay in return for productivity promises was an embarrassment to other shipbuilders throughout Britain, who were naturally under pressure to match the increases.

It seems possible that UCS could have been viable had it begun life with a drastic reduction in the labour force, and had then secured genuine co-operation in increasing productivity without paying too high a price for it. In the event, the co-operation achieved was mostly too little and too late.

Calm before the storm, 1970

When the £7m. "Mintech" loan to UCS was announced in December 1969, Mr Wedgwood Benn, the Minister of Technology, told the House of Commons that no Government could be responsible for "undefined and continuing losses".

Although his remarks were presumably intended to be a "last chance" warning to UCS, his action in making the loan seemed clear evidence of Government determination to give the company every opportunity to achieve viability. It meant that UCS had received an injection of £15m. of working capital from public funds during 1969. The Government had also become the largest shareholder in the company: £3m. of the funds provided had been convertible stock, which brought the state's shareholding up to 48.4 per cent.

With cash in the kitty, and the apparent reassurance of Government backing, UCS regained some of its commercial credibility and briefly gave a rather deceptive appearance of prosperity.

Orders flowed in for the "Clyde" ships and bulk carriers: the total order book was built up to £90m. over the 18 months to June 1971. In 1970, the company delivered 12 ships, against 7 in 1969 and only 3 in 1968. In the five years prior to the merger, the five constituent companies had between them achieved average deliveries of 8 ships a year.

Steel throughput was also gradually increased, and fairly substantial redundancies were set in train which reduced the labour force by 25 *per cent,* over 15 months.

All was not, however, as well as it seemed. UCS was caught up in a financial crisis afflicting shipbuilders throughout the world. Britain's well-managed Swan Hunter group suffered losses of over £4m. in 1969 and over £6m. in 1970. Yards in Sweden, Germany, Holland, and Japan all reported severe financial troubles from fixed-price contracts. At Upper Clyde, the problems were compounded by the backlog of "sacrificial" orders booked during 1968–69, by the long delay in cutting the labour force, by slowness and over-runs in delivery and by slack financial control.

More crippling still, a rash of disputes and go-slows in the spring, summer and autumn of 1970 cost the company a sum estimated by Mr Hepper at £5m. This was a crippling loss to a financially shaky organization.

Even the hitherto highly profitable Yarrow subsidiary, the specialist naval constructor, started making losses. It had been a condition of the merger that Yarrow could "opt out" if it wished, and in April 1970 it announced its intention of doing so. The separation was finally achieved in February 1971, with the aid of a £4.5m. Ministry of Defence loan. This departure was not an embarrassment to the rest of the UCS. Yarrow had always fitted uneasily into the group, and there had been frequent disputes over the allocation of funds made available for capital spending by the Shipbuilding Industry Board.

The beginning of the end

The superficial calm of 1970 was abrupbtly broken for UCS in October, when Mr Nicholas Ridley, newly appointed Parliamentary Secretary at the Department of Trade and Industry, informed Messrs Hepper and Douglas that the Government could not sign the customary guarantees which would enable the company to obtain bank credits on the security of ships under construction.

This decision by the Department was prompted by a report from Mr Alexander Mackenzie, Government director on the UCS board and a well-known Glasgow chartered accountant, that on the basis of figures he had seen, the company would be insolvent within a matter of months. The decision was not taken by Mr Ridley alone: both the Secretary of State, Mr John Davies, and the Minister of State, Sir John Eden, were parties to it, and were involved in all subsequent dealings with the company. The decision was legally and morally correct: the guarantees were a form of security to commercial lenders, and it would have been a breach of faith to provide them if genuine doubts existed about the survival of the company and the completion of the ships.

The effects on UCS of withholding the guarantees were severe. In addition to the already deteriorating working capital position, the company was deprived of some 80 *per cent* of its expected income. By the time the guarantees were eventually restored, in February 1971, over £5m. had been

held back from the cash flow.

Evidence does not support the many allegations that this was a Tory plot to kill off UCS. The attitude of the Department of Trade and Industry in subsequent meetings was businesslike and constructive, but UCS found (as it had already discovered in its dealings with Mr Wedgwood Benn) that Government paymasters move much less quickly than commercial lenders. Only three weeks after the October meeting, the company returned with detailed forecasts of its construction programme, profitability, cash and assets position which appeared to provide a good chance of survival. After a month's delay a meeting with Mr John Davies resulted in the UCS management being instructed both to renegotiate prices on some contracts, and to attempt to raise some additional equity capital. For its part the Government would write off £10m. of loans in return for a higher dividend entitlement when UCS eventually became profitable.

These constructive ideas were hardly the work of someone determined to kill off the company. Renegotiation of contracts in fact brought in nearly £3m., though mostly after liquidation. However, it delayed restoration of the guarantees, and disentangling Yarrow added further delays.

As it became increasingly short of cash, UCS resorted to all the shifts of financially shaky companies. Relations with suppliers became tense as bills remained unpaid, and pressing creditors were fobbed off with unfulfilled promises or payments on account. Despite these drawbacks the flow of supplies was reasonably well maintained by many local suppliers who hesitated before stopping supplies to their biggest customer. The Government's position as the largest shareholder was also regarded by many suppliers as a guarantee of eventual payment. However, as the months proceeded, production schedules were disrupted by interruptions to supplies and the distortion became progressively worse. Ironically, the company's success in obtaining orders and the consequent expansion in its production programme meant a higher demand for materials and components and greater disruption when they were not forthcoming.

In January and February 1971, in spite of these difficulties, Messrs Hepper and Douglas were maintaining that the company had lost its "lame duck" image, and that profitability would be achieved, as forecast, by the end of 1972.

How they expected to survive the intervening period is unclear. Losses during 1970 had been running at a rate of £4m. a year, and the forecast for the first half of 1971 was a loss of £2.8m. Inflation was continuing to affect costs, and the company had conceded a large wage increase to the boilermakers at the end of 1970, once more setting the pace for the whole shipbuilding industry. While UCS could hope quickly to recoup some of the deferred cash when the guarantees were restored, there was a mounting total of debts.

While it is quite usual for companies in desperate trouble to maintain a show of outward confidence, it seems possible that the UCS board did not appreciate the seriousness of the short-term outlook. This optimism seems to have inhibited any search for urgent and drastic economies (such as closing the Clydebank yard or a further redundancy programme) or urgent discussions with the trade unions aimed at improving productivity and speeding the completion of vessels. Equally, it seems to have given the Department of Trade and Industry a mistaken impression of the company's ability to survive without further Government help, to the extent that the final crisis in June 1971, came as something of a surprise.

In the first week of February, UCS issued a statement rebutting completely any suggestion that it was going into liquidation and adding that its "temporary cash stringency" would shortly be resolved. On February 11, in announcing the Yarrow disengagement to the Commons, Mr John Davies stated that no Government aid was to be provided for UCS, and refused to express an opinion about the company's future viability. A few days later, loan guarantees for ships under construction were restored.

IV. Collapse and After

The Road to Liquidation

When it referred to resolving its "temporary cash stringency", it seems probable that the board hoped that once the guarantees were restored and progress payments flowing again, the company could scrape through the spring and summer by meeting its most immediately pressing cash needs. The higher prices it had negotiated would reduce the rate of loss, and gradually make more cash available. Productivity was improving: average weekly steel throughput was 867 tons in 1970, by the summer of 1971 it was 1,300 tons. It was assumed that cash problems would slowly ease as ships were completed, and the group would move into profitability in 1972.

In fact, UCS was inexorably moving towards another massive cash crisis. Even with the guarantees restored, the available money was insufficient to meet the huge backlog of debts. Much of the trade credit UCS had sacrificed by failure to pay on time was never restored, so that many supplies could only be obtained by paying cash on the nail, effectively shrinking the already inadequate working capital. The distortions in the production programme were never fully remedied, so that progress payments came later than expected. Even fate took a hand: two completed bulk carriers were trapped in dry dock for nearly a month by a strike at the adjoining Barclay Curle yard.

Although the UCS management knew of the acute day-to-day problems it was strangely unaware of the overall trend. The company's accounts department provided monthly management accounting statements, and, when required, cash flow forecasts and profit projections, all of which were sent regularly to the Department of Trade and Industry from February 1970. These accounts did not, however, bring home to anyone the seriousness of the situation – partly because production of accounting figures was increasingly delayed (the December 1970 management accounts were not produced till March 1971) but mainly because the form and content of the accounts did not highlight the drift to insolvency. In particular, the company did not prepare "worst assumption" cash flow forecasts to show the situation which would develop if the more optimistic expectations of management were not fulfilled.

Surprisingly, in view of all the day-to-day problems, it was not until May 7, 1971 that instructions were given to prepare a special cash flow forecast which (a month later) showed that the cash flow position was insufficient to assure payment of wages the following week. The UCS board informed the Department of Trade and Industry of the situation, putting its immediate cash requirement at £6m. and stressing that it was not asking for Government assistance, simply informing its largest shareholder of the situation.

The Government claimed to have been completely surprised by the revelation – a claim which has been the subject of some controversy as it is known that both Mr Alexander MacKenzie, the Government director on the UCS board, and the UCS financial director had told the Department of Trade and Industry in April and early May of continuing acute cash difficulties. These warnings were probably treated by Ministers and officials as no more than a continuance of the knife-edge situation in which UCS had traditionally existed. The evidence, indeed, suggests that it was not until early May that the UCS senior management itself began to suspect that the situation was desperate.

From June 7 on, everyone concerned with the unhappy Upper Clyde venture went through a week of agonising indecision. As the week progressed there were meetings between Messrs John Davies, Hepper and Douglas, at which the Minister simply "took note" of statements about Upper Clyde's problems without indicating any line of Government action. On the Sunday following the receipt of the cash forecast there was a meeting between Mr Davies and Mr

Hepper in the Minister's Cheshire constituency, at which the Minister made no promise of help whatsoever. The following morning the Cabinet met and endorsed the refusal to provide further funds for UCS. At approximately the same time the board of the company applied to the courts for a liquidator to be appointed.

The Aftermath

The decision to refuse further funds to UCS was an enormous political embarrassment to the Conservative Government. Clydeside had a rate of male unemployment of 9.6 per cent at the time. The implications of the decision were represented (or to be more precise, misrepresented) as involving the loss of 7,500 jobs at Upper Clyde itself and 15,000 jobs among suppliers. In addition, the decision laid Ministers open to charges of killing the company on grounds of ideological prejudice.

An added embarrassment to the Government was the leaking (initially in the *Guardian*) of the so-called "Ridley Report". This was not a Cabinet paper, but consisted of notes and proposals prepared by Mr Ridley in 1969 when the Conservatives were in opposition. It proposed the separation of Yarrow from UCS, and the refusal of any further aid to the group. This would lead to the bankruptcy of the UCS. Mr Ridley suggested putting in a Government "butcher" to cut up the group and to sell (cheaply) its assets to Lower Clyde and others, to minimize upheaval and dislocation.

The train of events at UCS did, of course, follow in broad outline the Ridley proposals. Critics naturally accused the Government of a deep-laid plot to implement the "Ridley Report", although John Davies denied that he had ever seen it.

What the Government, in fact, proposed, when it refused aid to UCS, was not the total extinction of shipbuilding on the Upper Clyde. The Government would co-operate with the liquidator in breaking up the group and putting the shipyards and their employees to as profitable use as possible. A small group of experts was to advise on the best form of reconstruction, and the Government would make available what funds were necessary to assist the liquidator in this task, and to complete unfinished ships.

These intentions were predictably ignored in the enormous political row which followed. Despite his own warnings as Minister of Technology that no further funds would be available to UCS, Mr Wedgwood Benn had no hesitation in characterizing the decision as a betrayal. It was claimed repeatedly that the company was in sight of viability, although Mr Davies stated that the UCS chairman had been unable to predict a date when the company would be able to reverse its deficit. Mr Harold Wilson claimed that the only problem was the deficiency of working capital, although his own Government had been responsible for the initial capitalization of UCS.

Away from the debate, the provisional liquidator announced liabilities of £28m., and saw no hope of any payment to the unsecured creditors whose supplies had kept the company going over the previous six months or more.

"Wise men" appointed to report on the reconstruction were: Mr Alexander McDonald, chairman of the Distillers Company; Sir Alexander Glen, chairman of the British Tourist Authority; and Mr David MacDonald, a director of both merchant bankers Hill Samuel, and of Austen & Pickersgill, the north-east shipbuilders.

They were later joined by Lord Robens, former chairman of the National Coal Board.

Their report effectively endorsed the decision not to continue to subsidize UCS. It suggested that the normal processes of liquidation should take their course to the extent of the liquidator selling off the Scotstoun and Clydebank shipyards to anyone prepared to take them over. The Government, however, should consider supporting a new company consisting only of the Fairfields yard at Govan and the Linthouse steel working capacity.

Right from the time when the liquidation was announced, some of the shop stewards at UCS had threatened a "work-in". The idea had not been taken very seriously at first, either by the liquidator, the Government, or the employees. However, in the intensely emotive atmosphere following the collapse, it became possible for extremist leaders to rally enough support to go through the motions of an employee

take-over. The actual scale of the work-in was very small. Even the most extravagent claims for its "success" did not put the number of men kept at the yard and paid by the organizers above 800, and the probable maximum was vastly less. Over 6,000 men who went on working at the yards were, in fact, employed by the liquidator and paid with funds provided either by the Government or which had accrued from collection of debts by the liquidator.

The organizers of the work-in were determined to claim "success", to the extent of deterring UCS employees threatened with redundancy from applying for alternative jobs available at Scott Lithgow and Yarrow. Strongly emotive appeals were made to UCS employees to maintain the solidarity of the work-in, and to refuse to accept employment at the other yards. Some people who were thought to have applied, or to contemplate applying, were interviewed by committees of shop stewards. People who accepted redundancy were urged not to sign on for the dole, presumably because this gave a measure of the lack of success of the work-in. In fact, by the end of January 1972, 235 men and 3 women had signed on. An additional 353 people applied for voluntary redundancy and went into early retirement with a lump sum.

Despite its very small direct impact, the work-in received a wholly disproportionate amount of publicity. One of the Communist leaders, James Reid, proved to be a sympathetic television personality, and was constantly paraded before the viewing public. When Government spokesmen were brought on to reply, the impression they gave was highly defensive. The work-in was technically illegal, but it received open support from the Labour Party and from much of the trade union movement. A standing ovation was given to 30 UCS shop stewards during the Labour Party Conference in October, and Mr Wedgwood Benn (chief Opposition spokesman on trade and industry) said UCS workers had done more to advance industrial democracy in ten weeks than all the blueprints Labour had worked on in the previous ten years.

To proceed with implementation of the Report of the Advisory Group (the "four wise men") the Government commissioned a study from Hill Samuel. Initially, the study was to be confined to the prospects for the Govan-Linthouse complex, but in October Mr John Davies accepted that prospects for keeping the Scotstoun yard open should be included in a feasibility study. This was claimed as a "victory" by the work-in organizers, but inclusion of Scotstoun had, in fact, been strongly urged on productivity and marketing grounds by the Connell family, the pre-UCS owners of the yard. Hill Smauel employed Maynard PRC, a Swedish management consulting firm to produce an analysis of the technical and marketing prospects for the yards. Mr Davies also announced that he had commissioned a study from PA Management Consultants on industrial prospects for the Clydebank yard, though he made it clear there was no intention of including the yard in Govan Shipbuilders' operations, as the work-in leaders were demanding.

The Hill Samuel report, published in March 1972, recommended inclusion of Scotstoun and nationalization of Govan Shipbuilders for a period of at least five years. It was suggested that Govan might make a small profit in the fourth year, subject to several key assumptions including a productivity increase of 120 *per cent.*

The report made it clear there was no commercial justification for Govan Shipbuilders:

> In our view, there can be no question of the establishment of Govan Shipbuilders, in accordance with this report, being a proposition which could attract commercial support. The decision whether or not to establish it must, therefore, be judged on other considerations.

Legislation was immediately introduced to provide Govan Shipbuilders with £35m. of state capital to see it through its first five years. The Govan and Scotstoun yards and the Linthouse Steelworks were thus all preserved.

In August 1972, Marathon Manufacturing Company of Houston, Texas, took over the remaining Upper Clyde yard at Clydebank for oil rig building. Marathon paid the liquidator £15m. for the assets, but was promised Government aid of £12m. to establish an operation with an estimated capital cost of £38m.

After the sensations of the previous few years, Govan

Shipbuilders and Marathon for a while ceased to command the public eye. There were, of course, announcements of losses by Govan, £1m. in 1972 and £2.2m. in 1973 and £5.75m. in 1974, but these were anticipated in the Hill Samuel report. In addition, the communists and other extremists were busy exploiting the myth of the success of the "work-in".

By April 1975, shipbuilding on the Upper Clyde was back in the news, and in familiar fashion. Govan Shipbuilders announced an anticipated loss of £15m. on existing contracts, with no profit expected until 1978. A deputation of Scottish MPs duly pleaded with the Government to dole out another large chunk of taxpayers' money.

In August, Industry Secretary Eric Varley announced fresh loans of £6.9m. to Govan Shipbuilders in addition to writing off losses of up to £10.3m. on existing contracts. This further assistance of £17.2m. brought total aid to Govan up to £59.4m. He gave the reasons for this generosity as the company's forecast of profits in 1978, and the preservation of 5,320 jobs at Govan.

Marathon Manufacturing has also had troubles on the Upper Clyde. In the first 2 years 4 months of operations there, to the end of 1974, it lost over £3m. Over roughly the same period, it made a profit of £1m. at a comparable yard in Singapore.

In 1976, at a time of acute difficulties for world shipbuilding, Govan was predictably back in the queue for government aid. Apart from requiring the familiar subvention to meet current losses, the company was desperately short of orders and wanted backing to quote loss-making prices in bidding for a large order for ships from Kuwait. A £50m. order was duly announced, but no effort was made to conceal the fact that the Department of Industry had taken on a big but undisclosed new subsidy commitment to enable Govan to 'compete' for the business.

It can properly be objected that at present most of the world's shipbuilding industries are subsidized, either overtly or covertly by their governments. In Britain such subsidy is provided in the most arbitrary way be a series of *ad hoc* decisions to support notorious 'lame ducks', made by ministers under intense pressure from MPs and trade unions.

If one questions why Govan should be given continuous and virtually open-ended support, while a company like Drypool is allowed to go bankrupt, the only possible answers are cynical. Govan had an established place in the dole queue from long residence there. Drypool had stood on its own feet until it finally ran into difficulties. Govan had established pressure groups of proven vociferousness, Drypool did not. Scotland has a Nationalist party, Humberside does not. If Government is to intervene in industry, its decisions should be based on less capricious grounds.

V. Conclusions

Upper Clyde Shipbuilders and its successor have so far absorbed over £80m. of public funds without succeding in the primary objective of re-establishing shipbuilding in the Glasgow area on an independently viable basis. Depressingly, neither the traumatic experience of the UCS collapse nor the subsequent lavish outpouring of taxpayers' money have brought a significant improvement in the two factors which have long jeopardized shipbuilding on the upper reaches of the Clyde: poor productivity and late deliveries. Last year, Govan was heavily and publicly criticised by the general manager of Kuwait Shipping (the company's largest customer) for the steadily increasing length of delivery time after the contract date.

Apart from proving an expensive failure by any sensible economic criterion, the Upper Clyde experiments have been socially and politically divisive to an extreme degree. It is difficult to think of any industrial issue which has aroused so much impassioned and emotive controversy in Britain.

One result has been widespread acceptance of beliefs that have profound potential consequences for the economy. It is widely believed, for example, that it is politically impossible for any British Government to allow any large employer to collapse and go through the normal processes of bankruptcy. Equally, the myth of "success" for the Upper Clyde work-in has encouraged similar action whenever companies attempt to carry through closure or redundancy programmes, however necessary they may be on economic grounds. Ill-advised Government support for manifestly unviable "workers' co-operatives" has encouraged belief in the invincibility of the work-in.

Labour immobility is a key factor in Britain's post-war productivity record. A belief that the Government can always be pressurized into preserving jobs, irrespective of the economic justification, obviously compounds the problem to an extent that can only accelerate Britain's industrial decline.

Action to preserve unviable enterprises pre-empts resources which could otherwise be put to constructive use. The UCS-Govan Shipbuilders venture, for example, has so far absorbed nearly £80m., at current prices, to preserve 5,320 jobs. There is absolutely no guarantee that indefinite continuing doles from the taxpayer will not be required. The "right-to-work" so vociferously demanded by supporters of the UCS work-in (including Mr Harold Wilson) is obviously the right to work at the expense of fellow taxpayers.

The £80m. absorbed by UCS and Govan has largely been frittered away in meeting losses, and has produced little in the way of new productive assets. The same money could have built a new shipbuilding complex on a "greenfield" site lower down the Clyde which would have been genuinely viable in world markets. It could equally have endowed Clydeside with up-to-the-minute new factories in world growth industries. Alternatively, the £15,040 spent (so far) to preserve each job at Govan, would have provided each employee with any amount of retraining and rehousing necessary to place him in a job where his services were genuinely productive without need for continuing Government subsidy.

There are more urgently relevant matters for debate arising from the UCS experience than whether the UCS concept was ever viable, or whether the old company would have struggled through to profitability if only the Conservative Government had supported it in 1971 (and maybe in 1972 and 1973 . . .).

One of these is the difficulty British Governments experience in obtaining and interpreting advice on industrial matters. The UCS-Govan saga has been shaped by six different reports from committees of businessmen, academics, trade unionists, consultants and bankers. With the benefit of hindsight, it is easy to deride the wholly unjustified optimism of most of these documents. Any reading of the Upper Clyde

story should induce a healthy sceptism about "blueprints" for the rescue or regeneration of ailing companies or industries, however eminent their authors.

The story also lends little credibility to the theory that some state agency run by experienced businessmen, trade union leaders and the like can inject greater realism into interventionist experiments. It was a sub-committee of the Shipbuilding Industry Board which set up the Upper Clyde consortium. The Board played no constructive role in the subsequent history of the company. Once UCS was bogged down in financial troubles, it was the Ministry of Technology which took over. On the wider canvas of the whole shipbuilding industry, the Board doled out taxpayers' money without any insistence that the modest provisions on productivity and industrial relations laid down in the Geddes Report should be met.

Over the period of maximum state intervention, between 1967 and 1972, days lost through disputes in shipbuilding rose from three times the national average to five times, though there was a decrease in demarcation disputes within the total.

The record of the Industrial Re-organization Corporation, which operated over roughly the same time span as the Shipbuilding Industry Board, gave little ground for optimism that a more broadly based agency can do better. Several companies aided by the Corporation, including British Leyland, came back to the Government for more cash, while others, including Rolls Royce and Herbert Ingersoll, went bankrupt. Similar experience on an ever larger scale scale will doubtless follow from the new National Enterprise Board. It is difficult to avoid the conclusion that if industrial realism is required, there is no substitute for people risking their own money and their own jobs.

Another crucial difficulty is the total lack of credibility British Governments experience when they try to say "thus far and no farther". The repeated warnings of Mr Wedgwood Benn that financial support could not indefinitely be extended to UCS went largely unheeded by management, workforce and, particularly, the trade unions. It is inconceivable that trade unions and employees would have lost Upper Clyde some £5m. during 1970 had they really believed that no further Government support would be forthcoming. Indeed, Mr Wedgwood Benn's furious denunciations when the Conservative administration eventually allowed UCS to go bankrupt may indicate that there were good grounds for trade union disbelief in his warnings that no further funds would be provided.

Failure to secure any significant and meaningful degree of workforce co-operation was one of the most depressing features of the UCS experience. The idea that nationalization or state intervention somehow improves industrial relations has been repeatedly disproved by experience. The Upper Clyde story suggests that exhortations to co-operate in some bold new Government-backed plan to rescue an industry or a company produce equally minimal effects. Although the Fairfields experiment was implicitly based on a major attempt to gain employee co-operation, its main practical effect was to conceded wage increases far in excess of any achievement in improved productivity. Despite, or perhaps because of its perpetual financial difficulties, Upper Clyde throughout its brief history was a pace-setter in wage inflation.

Ironically, on two occasions when the workforce genuinely believed that the survival of the company was in danger there was a powerful voluntary movement to offer to accept wage cuts. When a few days before the final UCS crash the workforce promised to accept a 20 *per cent* wage cut it was, of course, too late to achieve the survival which more wholehearted co-operation might have ensured. There is no reason to suppose from current attitudes in the nationalized industries and in British Leyland that any lessons have been drawn from the UCS experience.

A feature of British Government intervention in industry has always been an apparent inability to stop the process. Events on the Upper Clyde in 1971 and 1972 show clearly the political pressures which are created once the habit of state support has been established. In effect the doles from the taxpayer must go on, or the Government of the day must face the emotive charge of "creating unemployment".

The wider the area of state intervention, the greater the range of creation of vested interests in continuing doles from

the taxpayer, irrespective of the economic results achieved. This is surely a wholly unacceptable situation, and one which our Parliament should control in the national interest. Its worst possible procedure is that which it adopted in the Conservative 1972 Industry Act and is now repeating with Labour's Industry Bill and the creation of the National Enterprise Board. Giving Ministers virtually open-ended powers to keep doling out support money means they will always succumb to the political pressures to "save jobs" and Parliament will have no control. Parliament could reassert its historic right to control expenditure by insisting on voting one single specified maximum sum for each rescue. In order to avoid the sum being squandered in the belief that the same considerations which led to its granting would lead to its repetition, the money should be released in a series of "tranches", with the release of each "tranche" being dependent on the prior fulfilment of specified performance criteria.

The performance criteria should be laid down in specific terms by Parliament. No discretion at all should be allowed to Ministers, who will always succumb to political pressures to throw good taxpayers' money after bad.

Such an approach should concentrate the minds of the management, workforce and trade unions on the co-operation which was so clearly lacking while £20m. of public money was wasted by the Upper Clyde Shipbuilders.

The over-riding message of the UCS venture, underlined by a generation of experience of nationalized industry, is that the assumption of perpetual state support is substantially destructive of commercial judgement, meaningful employee co-operation, proper financial control, significant productivity increases and most other things which make for economic efficiency. Policies to put a term on state support could therefore be a first step towards limiting the damage done by state intervention and nationalization to the British economy.

VI. Summary

1. The Geddes Report was over-optimistic, particularly in its forecasts of the market British shipbuilding could secure. The estimates of finance required to implement its recommendations were unrealistically low, and hopes of trade union co-operation proved to be largely unfounded. Such over-optimism is predictable in reports to Government by committees of "wise men".
2. The voluntary merger moves between Connell, Stephen and Yarrow, and between Fairfields and John Brown, might have produced one independently viable shipbuilding organization on the Upper Clyde. Government insistence on a more grandiose scheme stopped these mergers.
3. The first plan put forward by the Upper Clyde Working Party, for merger of all five companies, followed by closure of two yards and 3,000 – 5,000 redundancies might have produced in independently viable enterprise. It was abandoned because of pressure from the trades unions and the shipbuilding companies.
4. The eventual "superyard" plan had relatively little hope of success, even had substantial cuts in the workforce and a policy of standardized production been adopted from the outset. UCS was doomed from the start by the guarantee of continuing employment and the policy of accepting orders for any type of ship at any price to keep the workforce employed. Huge potential losses could only be met from public funds, right from the outset, an implication which does not appear to have been understood by the Ministry of Technology, though it must have been known to UCS management.

5. The gross undercapitalization of UCS throughout its existence imposed crippling handicaps on a dubiously viable company. This was emphasized in 1971 by Mr Harold Wilson, Prime Minister during the first two and a half years of its existence. During the Labour government's term of office there were several financial crises when cash provision was always on a "cliffhanger" basis and at levels well below the company's estimate of its needs, which were probably themselves unrealistically low. According to the chairman, Mr A.E. Hepper, financial inability to withstand a major strike led to the "no redundancy – orders at any price" policy, and to acceptance of excessive wage demands. Long delays in payment of creditors led to erratic supplies and production delays.
6. Experience at UCS did nothing to substantiate the fashionable theory that shipbuilding needed an injection of outside "professional" management. It was not until an experienced shipbuilder, Mr K. Douglas, arrived at UCS as managing director in the autumn of 1969 that marketing policy and productivity improvement were put on a sound basis.
7. Industrial relations did not improve in the manner optimistically envisaged by the Geddes Report. While some concessions were made by the trades unions, such as simplification of the wage structure and belated agreement to redundancies, co-operation with management was inadequate. Industrial disputes dissipated scarce funds and resulted in an unenviable and costly reputation for late deliveries. The company's inability or unwillingness to resist wage demands made the Upper Clyde an embarrassing pace-setter for the rest of British shipbuilding. There was none of the change of attitudes hoped for by Geddes: Clydeside traditions of pilfering and indiscipline continued unabated. Such minimal co-operation could hardly have persisted had the workforce not believed that the Government would always bail UCS out of trouble and preserve jobs.
8. The evidence does not support charges of a "Tory plot" to kill of UCS. While the withdrawal of Government

guarantees between October 1970 and February 1971, undoubtedly added to the company's difficulties, its death warrant was probably sealed by losses due to industrial disputes and other problems during the summer of 1970. These were estimated by Mr Hepper at £5m. Far from being welcome to the Conservative Government, the collapse of UCS was an enormous political embarrassment, offering an emotive cause which was irresponsibly exploited by the Opposition.

9. The Upper Clyde "work-in" was ineffective in keeping men at work. Nearly all the men who stayed on were paid by the liquidator, and some who were willing to take redundancy pay and move to available employment on the Lower Clyde were deterred by the shop stewards. The apparent capitulation by the Conservative Government, when it agreed to include the Scotstoun yard in Govan Shipbuilders, gave rise to a myth of "success" for the work-in which has been repeatedly exploited by militants and has increased timidity about redundancy in British politics and industry.
10. Both successor companies to UCS, Govan and Marathon, have so far failed to achieve financial success. The support required from public funds for Govan will now substantially exceed original estimates, though these were generous by UCS standards. The main problem for both Govan and Marathon is low productivity – arising from inadequate workforce co-operation – a prime cause of the failure of UCS.
11. When Beagle Aircraft ran into difficulties, the then Government accepted that the existence of a large state shareholding had encouraged suppliers to believe that the Government would keep the company going and had thus led to the extension of credit which would otherwise have been withheld. There is a clear moral in the refusal to extend the principle to UCS for firms trading with the growing number of companies now existing with apparent state support.