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RECENT EXPERIENCES WITH NATIONAL
PLANNING IN THE UNITED KINGDOM

A STUDY

PREPARED FOR THE USE OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



SEPTEMBER 16, 1977

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LETTERS OF TRANSMITTAL

SEPTEMBER 13, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a study entitled "Recent Experiences With National Planning in the United Kingdom," prepared for the committee. The study examines planning exercises in the United Kingdom.

RICHARD BOLLING,
Chairman, Joint Economic Committee.

SEPTEMBER 9, 1977.

HON. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress,
Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "Recent Experiences With National Planning in the United Kingdom," prepared by Prof. Werner Z. Hirsch of the University of California, Los Angeles, under contract to the committee.

Professor Hirsch distinguishes between two forms of national planning. One form prescribes actions for private and public policymakers. The more relaxed form, followed by the United Kingdom, provides for the exchange of information among private and public decisionmakers so as to induce action consistent with a planned objective. The study examines each of the planning exercises undertaken since 1962 and concludes that while successful intermediate-term comprehensive planning is probably not yet feasible in the United Kingdom, there has been success in providing a hospitable environment for Government officials, leaders of private industry and labor to meet, share information and cooperate in planning their future activities.

The committee is very grateful for Professor Hirsch's contribution. Of course, the views expressed in the study are those of the author and not necessarily those of the members of the Joint Economic Committee.

HUBERT H. HUMPHREY,
Vice Chairman, Joint Economic Committee.

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RECENT EXPERIENCES WITH NATIONAL PLANNING IN THE UNITED KINGDOM

By WERNER Z. HIRSCH*

I. INTRODUCTION

As the debate about the Humphrey-Javits Balanced Growth and Planning Bill proceeds, there appears to be considerable confusion about the planning aspects of the bill. If this is to be an effort to plan, what form might planning take, who might do the planning, and how does planning fit into our mixed economy? The experience of other countries who have engaged in intermediate-term planning may help us clarify some of the key issues, enlighten the debate and enhance the chances for effective legislation. Because of these considerations, the chairman of the Joint Economic Committee, Senator Hubert H. Humphrey, asked me in 1975 to survey and evaluate intermediate-term planning in the United Kingdom since 1962.

What do we mean by planning? It is generally regarded as a method for delineating goals and ways of achieving them. In its most extreme form, planning involves a statement and/or process that directs private and public decisionmakers to take action in a more or less prescribed manner. In its more relaxed form, planning provides an environment in which information is exchanged among private and public decisionmakers so as to induce action that is consistent with a planned objective. The indicative planning that the French practiced in the 1960's, for example, falls into this second category, while planning by a nationalized industry falls into the first. While none of the five planning exercises discussed below falls into the first category, the National Plan of 1965 and the Industry Act of 1975—initially were contemplated to do so.

II. THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL'S (NEDC) PLANNING EXERCISE OF 1962

In 1962 the Government of the United Kingdom established the National Economic Development Council served by a professional staff—the National Economic Development Office (NEDO)—which also serves various Economic Development Committees (EDC's). Neither the Council nor the Office is a government department or agency. Although publicly financed neither is it involved in implementing government decisions. Basically the Council is a national forum for economic consultation between government, management, and unions. The EDC's bring together leading representatives of management, unions and government who use this neutral meeting

*Professor of Economics, University of California, Los Angeles. In its preparation, the paper has greatly benefited from information obtained by visits with senior British officials in London in September 1975 and September 1976.

place to study questions and prospects of individual industries, including those that relate to efficiency matters. There exist about 30 such industry EDC's.

As its first planning exercise, in 1962 NEDC examined the implications of a 4 percent growth per annum at the industry level and its implication for macroeconomic policies, e.g., manpower, investments, and balance of payments. In February 1963 "Growth of the UK Economy to 1966" was published (The Green Book). It contained an industrial inquiry with reference to implications of a 4 percent annual growth rate for capacity and output of 17 major industries, 4 of them in the public sector. The inquiry covered nearly half of industrial production, two-fifths of GNP, and half of total expenditure on fixed investment other than dwellings. Major objectives included monitoring industries' corporate plans, assessing the implications of the postulated 4 percent growth, and identifying problems that might impede higher growth rates. The exercise, thus, was to study the industrial dimensions of national growth on demand for products. How the economy was to be shifted on to this growth path was outside its terms of reference, as was the availability of adequate resources.

The 17 industries surveyed reported that if the economy as a whole grew at 4 percent, then they would grow at 4.8 percent per annum. Thus, the rest of the economy only needed to grow at 3.5 percent to achieve the overall 4 percent per annum. To achieve such a growth, manpower was not expected to constitute a major constraint, although increased scientific training was recognized as a necessity. Productivity growth was seen as stemming from investment rather than from more efficient use of resources. Industry structure was seen as a possible obstacle to growth, while economic concentration was considered helpful in raising productivity. Investment other than in manufacturing and in dwellings was estimated to grow at 6.5 percent per annum in real terms, while the growth of investment in dwellings was estimated at below 4 percent. The combination of higher total domestic investment and the achievement of a balance of payment surplus implied an increase in the percent of income saved by Britons. Exports were to expand at a calculated 5 percent by an improvement in United Kingdom competitive position. Most importantly while the low rate of United Kingdom investment in manufacturing and the slow rate of growth in productivity were recognized, it was simply assumed that they would change for the better in the future. Throughout, the document argued that the various problems that had to be overcome could be tackled effectively, if only the three parties committed themselves to succeed.

How successful was this 1963 planning exercise? Thirteen months after the effort was initiated, NEDC issued a document, that provides a partial answer. In response to the growth objective, public sector current expenditures had reached the level required, and public sector fixed capital formation, especially on building and works, had exceeded it. The investment plans of the electricity industry and the post office had fallen behind the 4 percent growth and targets were therefore raised.¹ Private investment, except in chemicals, was falling

¹ This decision apparently led to excess capacity in the electricity industry in the years which followed.

short of target. Skilled labor supply was smaller than expected, and labor productivity caused even greater anxiety among the planners. Further anxiety related to the balance of payments, with imports rising faster than had been planned. Capacity restraints appeared to trim down the growth in output, and investment in manufacturing was below target. Apparently a number of industries had been skeptical about the attainability of the growth target and had made corresponding investment decisions.

In table 1 we present a summary by D. J. Stout, which evaluates the outcome of this planning exercise. GDP, consumption, investments, public current expenditures, visible imports, and visible exports all fell substantially short of what had been planned. The shortfall varied from 14 to 32 percent.

TABLE 1.—GROWTH OF THE UNITED KINGDOM ECONOMY, 1961-66

[In percent]

	Plan (P)	Outcome (O)	O/P
GDP.....	22	16	73
Consumption.....	19	15	79
Investment.....	30	24	80
Public current expenditures.....	19	14	74
Visible exports.....	28	19	68
Visible imports.....	22	19	86
Import growth/GDP growth.....	100	119	-----
Investment growth/consumption growth.....	158	160	-----
Consumption growth/GDP growth.....	86	94	-----

Source: D. K. Stout, "Government and Private Industry: Medium-Term Policies," in "The Economic System in the United Kingdom," D. J. Morris (ed.) (Oxford University Press). (Forthcoming.)

III. THE NATIONAL PLAN OF 1965

The National Plan presented in September 1965 to Parliament by George Brown, then First Secretary of State and Secretary of State for Economic Affairs, was by Western standards grandly designed and all-encompassing. It was a "growthmanship" document, whose proclaimed objective was to break out from the vicious circle of low growth by removing underlying weaknesses. The central challenge was seen as achieving simultaneously a surplus of the balance of payments and rapid growth. There can be little doubt that the document was action oriented. It was enacted and included action check-lists in relation to the balance of payments, industrial efficiency, manpower policy, regional policy, public spending, and periodic reviews. The effort was indeed ambitious, and in the words of George Brown, " * * * a plan covering all aspects of the country's economic development for the next 5 years"; and in his eyes it furthermore was " * * * a major advance in economic policymaking in the United Kingdom."² It identified as Britain's objectives " * * * social justice and welfare, * * * rising standards of living, * * * better social capital, and * * * a full life for all in a pleasant environment."³ Specifically, it pinpointed the great problem of Britain as being that of a weak balance of payments, exacerbated by cycles of economic

² "The National Plan," Command 2764 (London: Her Majesty's Stationery Office, September 1965), iii.

³ Ibid., p. 1.

expansion following by sharp retractions. Therefore, the Plan aimed, “* * * to break out of this vicious circle and to introduce and maintain policies which will enable us to enjoy more rapid and more sustained economic growth.”⁴

The Plan recognized that Britain's economy is a mixed one in which, however, the Government sector is very important. By coordinating the forward estimates of both government and industry, it was hoped that public expenditures could be planned more realistically as long as government had the best possible estimates of industry's expected growth and claim on resources. In turn, industrialists were to benefit from knowledge about the plans of other industries and the intentions of government. For these purposes an Industrial Inquiry was undertaken to learn from all major industries what a 25 percent national growth from 1964 to 1970, contemplated by the Plan, would mean for them. By making projections for each major industry it was hoped that firms and industries were being given useful information for their own decisionmaking and that these forecasts could also be used as a control device. Specifically, it was said, “If an industry falls below projection it will be valuable to discover why. In some cases (e.g., if consumers' preferences have been wrongly forecast) no action by Government may be indicated. But in other cases (e.g., if productivity failed to rise) it will serve as a useful warning signal for action by industry, by Government or by both in cooperation.”⁵

According to the Plan, national productivity was to grow at an annual average of 3.8 percent between 1964 and 1970, and achieve a 4 percent annual growth rate well before 1970, a rise substantially greater than that over the preceding 10–15 years. This required an average increase in manufacturing investment of about 7 percent a year in real terms from 1964 to 1970.

Hand in hand with a 25 percent increase in GDP, investment by manufacturing and construction industries was to increase by 55 percent, nationalized industries by 30 percent, housing 32 percent, roads 74 percent, and other public services 50 percent.⁶ While defense expenditures were to increase by only 6 percent, the consumption of social and other public services were to increase by 27 percent and personal consumption by 21 percent. Detailed forecasts of increases in output, employment, and output per head from 1964 to 1970 were made for 48 industry groups and subgroups. To obtain consistency of forecasts of production and demand, information obtained from questionnaires for the Industrial Inquiry were compared with estimates by the Department of Economic Affairs based on the pattern of growth of final consumption, investment, export demand, etc. In converting this pattern of final demand into a pattern of industrial growth, use was made of the Social Accounting Matrix and the Associated Model of the Economy developed by the University of Cambridge Department of Applied Economics.

It was concluded that the 25 percent growth in GDP would result in its increase by £8 billion between 1964 and 1970 in 1964 prices. Of this increase, £2 billion were to be used to correct the balance of payments and to increase investment in private and nationalized

⁴ *Ibid.*, p. 1.

⁵ *Ibid.*, p. 3.

⁶ *Ibid.*, p. 15.

industries, especially manufacturing and construction.⁷ The remaining £6 billion were to be divided between additional personal spending, housing, and public expenditure on defense, health, education, roads, etc.⁸ This meant that increases in public expenditures were to be held to an average of 4½ percent a year at 1964 prices, which included 500,000 additional housing units during this period.⁹

There were some serious shortcomings in this ambitious undertaking. Economic planning in the United Kingdom in the early 1960's was strongly affected by the French experience with indicative planning, although British planners modified the French system. Part of the criticism has centered on the assertion that the British brand of indicative planning did not go far enough (Robinson, 1967). Some observers have argued that there was insufficient commitment, particularly since the National Plan did not set out a quantified action program to show how import-saving and export growth were to be achieved (TUC, 1968). No taxation program was initiated in support of the National Plan's objectives. (Barker and Woodward, 1971). The Plan was more "subjunctive" than "indicative," backed by only voluntary policies on prices and incomes and by nonselective investment objectives.

Altogether without a mechanism for resource allocation, the National Plan was wrongly based on what industry would do if it believed in an aggregate outcome; yet in the absence of enforcement industry had little reason to do. The Plan should have decisively altered the divisions between investment and consumption, between the production of tradeables and nontradeables, and between the output of particular industries. Moreover, uncertainty about government intentions were insufficiently reduced by the Plan (Meade, 1971). The voluntary approach was based on the belief that the economic life of Britain could be enhanced by a process of collective auto-suggestion which would overcome the threat of over production and the ensuing low profit and high unemployment. Moreover, the extreme optimism of the early sixties about the possibility of emulating Continental growth rates was entirely unjustified. Certain planners expressed the belief that there was an upward trend in underlying productivity growth (Beckerman, 1972).

Some observers concluded that George Brown had produced neither a plan nor a forecast, but a target set arbitrarily above trends and this, accordingly, was very difficult to sell to industrial decisionmakers (Ball and Burns, 1968).

While general agreement between the political parties on all aspects of a national plan can seldom be expected, progress over a number of years depends essentially on confidence that there will be no radical change in the plan's direction (TUC, 1968). French planning, in contrast to British planning, increasingly outlined a continuum of medium-term economic policy as a whole, considered together in terms of widely agreed objectives (Political and Economic Planning, 1968). A grave mistake was to tie the National Plan to a single target figure of 25 percent growth over the period, thus damning the whole initiative as soon as the target turned out to be too optimistic. Thus, multivalued objectives would have been superior (Hutchison, 1968).

⁷ Ibid., p. 15.

⁸ Ibid., p. 15.

⁹ Ibid., p. 16.

There was also much criticism about the statistical data behind the Plan. They were mostly too crude and often out-of-date. The table of inputs and outputs, for example, was based on the 1954 census. Because of the perennial fear of self-validating forecasts of inflation, the estimates at current prices, which industry needed to base investment decisions on the Plan, were not provided (Posner, 1971).

Finally, the methodology employed in the preparation of the Plan was not clearly displayed. Not only was the Plan too ambitious, it also caused loss of credibility by stipulating too high a growth rate. There was neither a clearly defined strategy for pushing the economy from where it was to the 4 percent growth stage nor a mechanism for implementing the strategy. Moreover, no path was indicated which would have enabled analysts to see how underperformance in the early years would need to be compensated for later.

The results of the National Plan have been evaluated in table 2. E. K. Stout found that outcome fell short of planned GDP, consumption, investment, and public current expenditures from 60 to 44 percent. Actual visible exports and visible imports exceeded planned ones by 9 and 13 percent, respectively, which however, was affected by devaluation.

TABLE 2.—NATIONAL PLAN, 1964-70

[In percent]

	Plan (P)	Outcome (O)	O/P
GDP.....	25	14.5	58
Consumption.....	21	11.0	52
Investment.....	38	23.0	60
Public current expenditures.....	27	12.0	44
Visible exports.....	36	39.5	¹ 109
Visible imports.....	26	29.5	¹ 113
Import growth/GDP growth.....	104	203.0	-----
Investment growth/consumption growth.....	181	209.0	-----
Consumption growth/GDP growth.....	84	76.0	-----

¹ Affected by devaluation.

Source: D. K. Stout, "Government and Private Industry: Medium-term Policies," in "The Economic System in the United Kingdom," D. J. Morris (ed.) (Oxford University Press). (Forthcoming.)

In the presence of the balance of payment crisis of 1966 and a growth rate that turned out to be substantially below 4 percent, the National Plan was abandoned. Most knowledgeable observers concluded that the Plan failed totally, a fact which to this day has had a chilling effect on comprehensive national planning in the United Kingdom.

IV. THE 1969 EXERCISE, "THE TASK AHEAD—ECONOMIC ASSESSMENT TO 1972"

After a planning vacuum following the scuttling of the National Plan in 1966, government in consultations with NEDO prepared its "Economic Assessment to 1972." This effort might be looked upon as government's desire to admit Parliament and the public to the government-NEDC exercise.

The notion of planning presented in this document was alleged to involve a continuous forward exercise of foresight, hopefully eliciting planned responses to the conditions foreseen. Unlike the National

Plan of 1965, this document did not constitute a "plan" but a "planning document." The focus was on medium term (1969-72) assessment of demand prospects and resource availability. The intent was to provide a macroeconomic framework to discuss resource allocation at the industry level. One overwhelmingly important concern of the planning exercise related to the great balance of payments problems facing the United Kingdom at that time. Priorities were: First, to improve the external balance into surplus; second, to try for competitive efficiency by identifying opportunity areas for resource shifts, improvement in productivity and money income restraint to keep down unit cost; and third, to bring about higher resource utilization, including better regional balance.

This exercise conceived planning to require the following efforts:

1. Analysis of the present and past trends,
2. Forecasting under uncertainty with due regard to possible variations in outcome,
3. Government-industry discussions under the aegis of the Council,
4. Study of constraints and impediments, and
5. Action to overcome these hindrances in order to improve performances.

Government was to set the scene and create the climate for the implementation of the planning activity. Effective tripartitism was considered the essential process which would enable economic recovery to take place. Planning was seen to be a continuing process subject to repeated revisions in an ongoing consultative monitoring of United Kingdom's economic efficiency and development.

The specific objective was to convert the external payment deficit into a surplus of about £0.5 billion and contribute this amount to the Government debt of more than £2.0 billion. The swing of resources into the external sector was to be achieved through structural changes and a general increase in efficiency. Specifically, labor was to be redeployed, management better educated, R. & D. promoted, and standardization and improved quality of products sought. Rather than agree on a growth target, as was done by the National Plan, this exercise involved a 3½ percent per annum "illustrative" growth rate.

Special detailed consideration of The Task Ahead was proposed for selected industries, with EDC's as one of the avenues of consultation. At the same time, government continued to deal with trade associations and firms, while consultation with the public sector continued through normal channels.

In May 1970 government issued "Economic Prospects to 1972—A Revised Assessment." It took account of the consultations with industry which had taken place during 1969 through the EDC's and other consultative bodies. A number of industry reports had resulted which assessed their industry's prospects to 1972, examined possible constraints to improve performance, and recommended specific actions for government and industry to take. The exercise was designed to assist corporate planning by providing, among others, consistent macroeconomic assumptions prepared by the Department of Applied Economics of Cambridge University. Much was made of the notion that the exercise merely sought to help the economy achieve its hoped for destiny. Furthermore, much was made of the notion that the document was not a plan, but a basis for further forward planning and

decisionmaking by government and industry. That it was not a plan was apparently considered to be an important condition for acceptability at that time.

The 1970 document revised downwards the range of possibilities for growth. Also, the pressure of demand over the projected period was revised downwards. The projected annual growth rate in GDP was lowered from the range of 3-4 percent to 3-3¼ percent. The export growth requirement of 5.8 percent per annum between 1967 and 1972 was dropped to 4.25 percent. The EDC exercises indicated that only a steadily growing home market could lead to the creation of new capacity, without which the export performance would be disappointing. (The automobile industry, especially, argued that home and export markets are complementary.)

The Economic Assessment was much more modest than the National Plan, and one could discern a general desire to apply the lessons learned from previous exercises. The transformation of the 1968 payments deficit into a substantial surplus by 1972 became a primary objective, in sharp distinction to the National Plan when the balance of payments was treated as a residual factor. The trade surplus was, in fact, achieved by 1972 and some credit has been given to the planning exercise. Government and industry participated actively through EDC's and the prevailing expectation was that this kind of work would continue on a continuous basis. It was hoped that action at the industry level would follow in a second phase from the detailed working out by EDC's of the policy issues and recommendations made in the individual industry report. The next step then would be an updated review of the forward look. However, this expectation was not proven correct. The publication of individual industry reports in the first half of 1970 was followed by a change of Administration, and the new one was less enthusiastic about planning.

Table 3 summarizes results of the Task Ahead exercise. GDP, investments, and public current expenditures fell short of planned values, while consumption, visible imports and visible exports substantially exceeded them.

TABLE 3.—"TASK AHEAD," 1967-72 (BASIC PLAN)

[In percent]

	Plan (P)	Outcome (O)	O/P
GDP.....	17	12.0	71
Consumption.....	12	14.5	121
Investment.....	21	11.0	52
Public current expenditures.....	9	8.0	89
Visible exports.....	32	35.0	109
Visible imports.....	22	37.0	168
Import growth/GDP growth.....	129	308.0	-----
Investment growth/consumption growth.....	175	76.0	-----
Consumption growth/GDP growth.....	71	121.0	-----

Source: D. K. Stout, "Government and Private Industry: Medium-Term Policies." in "The Economic System in the United Kingdom," D. J. Morris (ed.) (Oxford University Press). (Forthcoming.)

V. THE 1971-1972 "INDUSTRIAL REVIEW TO 1977"

In 1971 the National Economic Development Council in consultation with government, management and labor launched a new planning exercise—Industrial Review to 1977. While the Task Ahead—Economic Assessment had emphasized the balance of payments, the

new effort concentrated on the changes in the environment with which selected United Kingdom industries would have to deal, especially those changes resulting from entry into the Common Market. The exercise was carried out against two "illustrative" growth rates. It was hoped to improve the analysis of resource requirements with fuller quantification of manpower implications and a better analysis of investment requirements. Each industry described the existing position, while the Treasury offered illustrative growth assumptions and NEDC provided for the forward look information on demand, trade and output, resource implications, etc. By and large, the same industries were selected as in 1968, e.g., motor manufacturing, mechanical engineering, electrical engineering, machine tools, electronics, chemicals, textiles, clothing, agriculture, food manufacturing, foundries, and paper. Steel was not included since there was a separate strategy exercise by the British Steel Corp. A 3.5 to 5 percent growth rate was assumed and the Treasury produced some projections for the two cases. However, these projections were much less detailed than in *The Task Ahead*. The final results were presented by the staff to the Council in July 1974. The major important conclusion was that a 3.5 percent growth could be sustained by these industries, provided action was taken on certain constraints, but that a 5 percent growth presented serious obstacles.

The Industrial Review appears to have developed some new methodology, particularly models appropriate to this kind of work. A comprehensive industrial input-output model was used on an experimental basis and results were subjected to internal cross checks.

VI. THE INDUSTRY ACT OF 1975

The 1974 Labor (Party) Manifestoes called for a National Enterprise Board. It would extend public ownership into profitable manufacturing industries by acquiring firms and would administer publically owned shareholdings. Reasons for acquisition included to control prices, stimulate investment, encourage exports, create employment, and plan the national economy. Furthermore, the Manifesto provided for Planning Agreements, which could compel firms to furnish crucial operating and investment information for harmonizing their plans with national planning objectives.

This plank, as so many others in Labor Party Manifestos, had been advanced by the left wing of the Labor Party. As so often before and thereafter, the parliamentary Labor Party, and particularly Prime Minister Harold Wilson apparently held much less extreme views with regard to nationalization and planning. This fact together with strong opposition from the Conservative Party, led to the enactment of the Industry Act of 1975 with greatly watered-down provisions. In its language the Act is strikingly ambitious; but the detailed provisions furnish neither sticks nor carrots.

In its White Paper on the Regeneration of British Industry, the Government had underlined the national need for, "a vigorous, alert, responsible and profitable private sector, working together with the Government in a framework which brings together the interests of all concerned: those who work in industry, whether management or on the shop floor, those who own its assets, and those who use its products and depend upon its success."¹⁰

¹⁰ Department of Industry, "The Content of a Planning Agreement" (London, 1975) p. 1.

In order to accomplish these objectives, the Government relied on two major instruments—a National Enterprise Board and Planning Agreements.

The National Enterprise Board has the following purposes:

- (a) The development or assistance of the economy of the United Kingdom * * *;
- (b) The promotion in any part of the United Kingdom of industrial efficiency and international competitiveness; and
- (c) The provision, maintenance or safeguarding of productive employment in any part of the United Kingdom.¹¹

Accordingly, the functions of the Board are—

- (a) Establishing, maintaining or developing, or promoting or assisting the establishment, maintenance or development of any industrial undertaking;
- (b) Promoting or assisting the reorganization or development of an industry or any undertaking in an industry;
- (c) Extending public ownership into profitable areas of manufacturing industry;
- (d) Promoting industrial democracy in undertakings which the Board control; and
- (e) Taking over publicly owned securities and other publicly owned property, and holding and managing securities and property which are taken over.¹²

The immediate objective was to help identify bottlenecks in key industries so as to stimulate firms to be ready to respond effectively to increased export demand when reflation in the world's economies takes place.

But the legislation, as finally enacted by Parliament, had few compulsory features. Rather than providing £1.0 billion annually, the National Enterprise Board was given a total borrowing power of up to £1.0. Virtually all compulsory features were eliminated from the Act.

What was the National Enterprise Board's experience during its first year? In the presence of ready access to funds and vague statutory provisions, it became easy to assign to the National Enterprise Board responsibilities that most likely had never been envisaged by those who initially wrote the Manifesto. Specifically when, immediately following the enactment of the bill, Rolls Royce (1971) was in serious financial difficulties, the Board made it its No. 1 responsibility to "bail out" the failing company. Likewise, when shortly thereafter British Leyland with about 200,000 jobs faced financial difficulties, the Board once more stepped in to provide major financial assistance. Thus at the end of the first year of its operations (in September 1976), the National Enterprise Board had invested virtually all its funds in two large companies, i.e., British Leyland and Rolls Royce (1971), plus less than a handful of smaller firms.

Planning Agreements constituted the second half of the act of 1975. A Planning Agreement was defined as "a voluntary arrangement as to the strategic plans of a body corporate for the future development in the United Kingdom over a specified period of an undertaking of the body corporate * * *, being an arrangement entered into by the body corporate and any Minister of the Crown which in the opinion of that Minister is likely over the specified period to contribute significantly to national needs and objectives."¹³

¹¹ "Industry Act 1975—Chapter 68" (London: Her Majesty's Stationery Office) p. 2.

¹² *Ibid.*, pp. 2-3.

¹³ *Ibid.*, pp. 18-19.

Thus, Planning Agreements were designed to improve both the quantity and quality of industry's contribution to the development and growth of the economy. Decisionmaking by government and private sector was to be improved by sharing information about plans and objectives, so that the effectiveness of action to achieve agreed objectives is enhanced.

The heart of the Planning Agreement system is a series of consultations between the Government and companies, hopefully leading to an agreement about strategic plans. These consultations are to take place annually, although there is room for revision during the course of the year should circumstances require. The Planning Agreement is not an agreement in the sense of a civil contract enforceable by law, but represents a statement of the firm intentions of both sides. The relations between government and private firms are wholly voluntary, based on consent.

Government assistance can take a number of forms:

(a) Planning Agreement companies may benefit from the underwriting by government of regional assistance.

(b) The Government can provide selective financial assistance by way of grants and loans in order to encourage companies to align their plans with national needs and encourage investment.

(c) The Government may use its resources in support of export programs, to assist the firm through the Manpower Services Commission, to meet planned requirements for skilled workers, and to consider the possibility of using its powers under the Science and Technology Act of 1965 in support of research and development.

(d) Most important, however, is the flow of information between government and companies which it is hoped will improve the efficiency with which management, manpower and capital are deployed. Moreover, government should gain increased sensitivity through a closer understanding of the industry's problems and planning objectives.

(e) Planning Agreements provide workers the opportunity to be consulted about and involved in companies forward plans. Workers have a right to be informed about decisions affecting wider areas than pay and working conditions, and it is hoped that this will result in a greater spirit of cooperation.

(f) Although the main consultations should take place annually, they should be timed to coincide with the companies' own planning cycle. The main concern is with strategic issues. Agreements should record consensus about the company's objectives and policies, and the way in which these can best be related to the Government's economic strategy and consensus about the action that government, management and, where appropriate, unions intend to take to see that company plans and projects are successfully carried out.

Planning Agreements should result in a two-way flow of information between government and companies. Union representatives from companies, while not formally parties to Planning Agreements, take part where they so wish in consultations on agreements with government. Companies are expected to benefit from better access to government officials and to learn more about their ideas about tax policies,

foreign trade, etc. In the first year, 100 of the largest manufacturing companies accounting for almost half of all United Kingdom manufacturing were expected to enter Planning Agreements.¹⁴

What then was the first year's experience with planning agreements? A year after the act had been passed, not a single Planning Agreement had been entered into. In the opinion of one high senior official in the Department of Industry there is little likelihood that any Planning Agreement will ever be signed, except perhaps with one of the handful of companies in which the board holds a majority of shares.

VII. SOME RECENT ORGANIZATIONAL DEVELOPMENTS

Perhaps one of the most significant organizational innovations is the establishment in 1971 of the Central Policy Review Staff (CPRS). Early in his administration, Prime Minister Heath established CPRS, after much of the ground work had been laid by David Howell, M.P., and Margaret Thatcher, M.P. The White Paper on The Reorganization of Central Government stated:

In recent years, * * *, it has become clear that the structure of inter-departmental committees, each concerned with a separate area of policy, needs to be reinforced by a clear and comprehensive definition of government strategy which can be systematically developed to take account of changing circumstances and can provide a framework within which the Government's policies as a whole may be more effectively formulated. For lack of such a clear definition of strategic purpose and under the pressures of the day to day problems immediately before them, governments are always at some risk of losing sight of the need to consider the totality of their current policies in relation to their longer term objectives; and they may pay too little attention to the difficult, but critical, task of evaluating as objectively as possible the alternative policy options and priorities open to them.

The Government recognise that the task of producing a strategic definition of objectives, in the sense described above, is a new and formidable one and can only be approached gradually. They therefore propose to begin by establishing a small multi-disciplinary central policy review staff in the Cabinet Office (CPRS).¹⁵

Its task is to enable ministers and cabinet to:

* * * take better policy decisions by assisting them to work out the implications of their basic strategy in terms of policies in specific areas, to establish the relative priorities to be given to the different sectors of their programme as a whole, to identify those areas of policy in which new choices can be exercised and to ensure that the underlying implications of alternative courses of action are fully analyzed and considered.¹⁶

CPRS was headed first by Lord Rothschild and is led now by Sir Kenneth Berrill. Scope and style of work have been heavily influenced by the Prime Minister and the head of CPRS. Under Prime Minister Heath, there was relatively close cooperation between the Prime Minister's office and CPRS, including many personal meetings with Lord Rothschild. Perhaps because of the nature of the problems that loomed large at the time, many efforts involved science and technology inquiries. Under Prime Minister Wilson personal meetings with Kenneth Berrill are rare and most of the communication is in writing.

¹⁴ The National Executive Committee of Labor was critical of the Industry bill and demanded greater commitment to state intervention (Times of London, Sept. 16, 1975, p. 1).

¹⁵ White Paper on the Reorganization of Central Government, Command 4506 (London: Her Majesty's Stationery Office, 1970), p. 13.

¹⁶ Ibid., pp. 13-14.

Moreover, Prime Minister Wilson had a separate group advising him personally on planning policy, located directly in 10 Downing Street.¹⁷

In the opinion of Kenneth Berrill one of the great challenges facing intermediate and long-term planning relates to macroeconomic assumptions.¹⁸ He considers it important for the Government to define clearly what assumptions a department is permitted to make by itself, and which ones it must obtain from either other government departments or a central agency. In the past, nationalized industries, for example, have often made different and incorrect inflation assumptions.

Macroeconomic assumptions of more than 5 years are "tricky". Therefore in the United Kingdom, the Treasury has a 2-year and a 5-year forecasting model, each of which tries to tie together various sectors. But nothing is tied together beyond 5 years. The Treasury's 2-year forecasting team and model has separate groups on the world, central resources, monetary issues, etc. The 5-year forecasting effort feeds directly into the Public Expenditure Survey.

VIII. SUMMARY AND CONCLUSIONS

Our main concern has been with planning exercises since 1962. These intermediate-term exercises must be examined in a broader context, however, which considers their setting among the United Kingdom's institutions, and in the light of other types of planning efforts. Concerning the first, two new administrative organizations were formed during that period—the National Economic Development Council and the Central Policy Review Staff. The first is somewhat removed from politics and direct government interference, while the second is directly responsive to the Prime Minister. In addition, of course, the Treasury is responsible for much of Britain's macroeconomic policymaking, and microeconomic planning takes place in the Department of the Environment. Moreover, since 1968 an annual White Paper is published by the Government, giving the 5-year rolling program of public expenditures. This annual statement is the culmination of forecasts by the Treasury from its intermediate-term forecasting model, the Public Expenditure Survey (PESC) and discussions in the Select Committee on Expenditure of the House of Commons.

Intermediate-term planning is further complemented by short-term planning within a program budgeting framework. For brevity's sake a paper on "Program Budgeting in the United Kingdom" is appended as an appendix.

¹⁷ In September 1975, there were 16 professionals on the staff of CPRS, including Berrill and his deputy. Average age was 33, and half of the staff came from government, mainly private secretaries of ministers from each major department. The second half came from outside government, and these were co-opted for a period of 2 years, e.g., from the oil industry, merchant banking, manufacturing, academics, etc. All work is usually done in small teams of two to three people, always including one in-house person, and each team works on a short- and a long-term project. In this manner, it is possible to get people to do relevant long-term research. An effort is made to have those who are on the staff meet for lunch almost daily with people in industry and government departments.

About two-thirds of the work of CPRS is assigned to it by cabinet, and one-third is proposed by the staff itself. CPRS prepares statements for consideration by the cabinet; it also sometimes summarizes positions taken by different departments in order to facilitate a clearer statement of a problem; and finally it participates in an annual strategy presentation at Checkers for all cabinet members. This particular meeting gives the staff the satisfaction of having personal contact with cabinet members.

¹⁸ Based on discussions with Sir Kenneth Berrill in Whitehall on Sept. 17, 1975.

Finally, an examination of intermediate-term planning and policy-making would be deficient without some consideration of planning by nationalized industries. Rather than attempt a review of this subject which would be a considerable undertaking, we would like to point to some distortions of major magnitude which have come about perhaps unexpectedly. When the labor government in the post-World War II period decided to nationalize certain industries, it intended to improve their performance beyond the level that private enterprise had attained. But repeatedly, temptations not to engage in full-cost pricing has faced officials. Specifically, when in periods of major inflation labor unions attained substantial wage increases in nationalized industries, the desire to reduce inflationary pressures often persuaded government not to pass on the entire wage increase in terms of higher prices. Both labor and conservative governments succumbed to this temptation. As a result, products of many nationalized industries have been selling in recent years at prices which are substantially subsidized. These commodities and services selling below cost have given unreliable demand signals. Moreover, in periods of relatively high unemployment, labor governments particularly, have been reluctant to take steps to improve efficiency, e.g., to shut down outdated plants or eliminate unproductive labor practices. The result until recently has been a widening of the difference between price and cost.

The consequence of unreliable demand signals has been over-consumption of such subsidized goods and services, resulting in inefficient resource use and increasing government deficits. We might refer to this as the "unplanned" byproduct of nationalization. It has accompanied the various other intermediate-term planning activities of government, and presently creates a combined deficit of about \$2 billion a year.¹⁹ Very recently the Government has been attempting to bring the prices of some nationalized industries closer to cost.

By and large, intermediate-planning of the last decade and a half in the United Kingdom can be characterized as a succession of at least five major discrete planning exercises. The National Plan of 1965 appears to have severely shaken the confidence of both the private and public sector in intermediate-term planning. Nonetheless, since its inception in 1962, the National Economic Development Council appears to have been successful in providing a hospitable environment for government officials, leaders of private industry and labor leaders to meet and explore methods by which they can more effectively cooperate in planning their future activities. There appears to be merit in such efforts, particularly if government is ready to provide reasonably precise estimates of its activities together with their best estimates of their likely effects on key parameters, such as the interest rate, rate of unemployment, price level, and balance of payments. Furthermore, these forums become more potent if systematized channels and procedures exist by which participants in these meetings can report back to their organizations, effectively feeding the information obtained into their own decisionmaking process.²⁰

¹⁹ Los Angeles Times, Mar. 21, 1976, p. 2-1-A.

²⁰ A lengthy conversation with the director of one of Britain's large chemical companies serving on an EDC revealed the following: Serving for a year on the EDC for the chemical industry meant participation in about a dozen meetings attended by able members and staff. The work was enlightening, and helpful information was exchanged, much of which was of direct use to his firm. Altogether he concluded that his participation on the EDC improved his firm's planning efforts.

Rather than calling such tri-partite meetings planning efforts, it would be more appropriate to consider them activities that facilitate better forecasting and planning by both government and industry. These efforts can make positive contributions to improved decision-making. Significantly, the experience in the United Kingdom has shown that such meetings in the absence of powerful instruments to implement plans, however, cannot be expected to bring to fruition specific national plans.

The fact that George Brown's National Plan prepared in the middle sixties was unsuccessful continues to plague those who favor comprehensive national planning in Britain. So does the great discrepancy between the Labor Party's Manifesto and subsequent preamble of the Industry Act of 1975 and its implementation. The resulting cynicism about planning in the United Kingdom must be a source of major concern. Moreover, British planning experience indicates that instruments however thoughtfully designed to assist the economy through nationalization and economic planning can all too easily be misused for political convenience. Inefficiencies are difficult to prevent and "desirable" income redistribution is far from assured. Telling examples are the Enterprise Board's use of funds and the nationalized industries' unwillingness to engage in full-cost pricing. In recognition of these facts, there is a move afoot to emphasize planning process rather than substance, and to stress small-scale sectoral rather than comprehensive national economic planning. It may be concluded from our survey of fifteen years of economic planning efforts in the United Kingdom that successful intermediate-term comprehensive planning is probably not yet feasible.

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APPENDIX

PROGRAM BUDGETING IN THE UNITED KINGDOM*

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[In recent years the United Kingdom has perfected a program budgeting system that appears to be thoughtfully tailored to the existing incentive structure of key elements in government. To provide cabinet and ministers with better analytic information or alternatives and to provide a process for coherent decision making by the various ministries, a three-legged decision-making system has evolved. The Public Expenditure Survey, the Programme Analysis and Review, and the Central Policy Review under Lord Rothschild make up the fulcrum on which budget decision making rests, and with this, the implementation of what the government perceives to be the country's objectives. This three-pronged attack appears to have strengthened overall planning and facilitates making corrective decisions in the spirit of the general strategy that is supposed to underlie them. In addition, the central government budgeting for local governments appears to be improved.]

Program budgeting has been developing gradually in the United Kingdom. Some of its earlier roots go back to the middle 1950's, and since there has been a process of uneven, though continuous, evolutionary development. Specifically, the ideas for an annual public expenditures survey (and with it the Public Expenditure Survey Committee—PESC) can be tracked back to the middle 1950's. Another landmark was the 1961 Plowden Report on the Control of Public Expenditure, urging that "... there should be more effective machinery for the taking of collective decisions and the bearing of collective responsibility by Ministers on matters of public expenditure."¹

The watershed was October 1970, when a government White Paper on The Reorganization of Central Government was issued. It declared:

This Administration has pledged itself to introduce a new style of government. More is involved than bringing forward new policies and programmes: it means . . . improving the efficiency of the machinery intended to achieve the aims it sets itself. . . .

The review of governmental functions and organization which has been carried out over the last four months is intended to lay the necessary foundations. The aims in that review have been:

(i) To improve the quality of policy formulation and decision-taking in government by presenting Ministers, collectively in Cabinet and individually within their departments, with well-defined options, costed where possible, and relating the choice between options to the contribution they can make to meeting national needs. This is not confined to new policies and new decisions, but implies also the continuing examination, on a systematic and critical basis, of the existing activities of government.

(ii) To improve the framework within which public policy is formulated by matching the field of responsibility of government departments to coherent fields of policy and administration.

(iii) To ensure that the government machine responds and adapts itself to new policies and programmes as these emerge, within the broad framework of the main departmental fields of responsibility.

The fulfilment of these aims will improve the efficiency of government.²

*Reprinted from *Public Administration Review*, March/April 1973, pp. 120-128.

¹ "Plowden Report on the Control of Public Expenditure," Command 1432 (London: Her Majesty's Stationery Office, 1961).

² "White Paper on the Reorganization of Central Government," Command 4506 (London: Her Majesty's Stationery Office, 1970), p. 3.

The White Paper went on to outline the creation of the Central Policy Review Staff (CPRS) in the Cabinet Office and the development of Programme Analysis and Review (PAR).³

This generally agreed that the October 1970 White Paper could not have been written were it not for significant spadework by the Conservative Research Department and some forward-looking Members of Parliament in the late 1960's and by a team of businessmen who immediately after the 1970 election were brought to work in the Civil Service Department.⁴

The importance of improved government decision making in the United Kingdom is underlined by the rapid growth of the public sector. Thus, public expenditures as a percentage of GNP increased from about 10 to over 50 per cent in the 20th century. Such a large sector of the economy not only uses many resources but also can become very unwieldy and thus offer great rewards to efficient governance.

THE UNITED KINGDOM GOVERNMENTAL STRUCTURE AND ENVIRONMENT

Program budgeting in the United Kingdom must be examined in the light of the particular political and constitutional environment in which the government operates. Let us remind ourselves of some pertinent major features: Unlike the government of the United States, the government of the United Kingdom is not federated. There are only two tiers of government, the national government and the local authorities. The latter receive more than half of their funds from the national government and by most criteria do not have a life of their own. Instead, each local authority has only limited opportunity to be different from its cousin.

High-level government decisions are made collectively by the cabinet, on which senior ministers serve, who in turn are responsible for the operations of their departments. The government's overall budget is derived by compromise among cabinet ministers who negotiate among themselves what the overall level of the departments' budget will be, the Prime Minister sitting in the chair. Particularly in the short run, the Prime Minister cannot impose his will.

The civil service with its great tradition is highly developed, and in the eyes of ministers well entrenched. While the service offers distinct advantages it also seems to generate great frictions. For example, ministers may find themselves in conflict with their permanent civil servants, the latter strongly resisting outside advisers, particularly academicians.⁵ As a result, in the past ministers have often gotten insufficient relevant information about the main characteristics of attractive options and their implications.

A further problem is created by the prevailing secrecy of government departments. If one looks at nondefense departments, this secrecy is glaring, particularly if it is compared with the situation in the United States. Thus, virtually all documents are classified and not available to anyone except a small number of insiders. For example, all PAR reports are classified, and during the January 1972 Hearings of the Select Committee on Expenditure of the House of Commons, repeated requests by members of Parliament to be informed about what programs are subjected to analysis and for copies of PAR reports were denied.⁶

THE THREE-LEGGED SYSTEM: PESC-PAR-CPRS

In recognition of the need of the cabinet and its ministers for better analytic information on alternatives as well as a need for a better process for coherent decision making by the various ministries, a three-legged decision-making system with appropriate procedures has evolved in the United Kingdom in recent years.

³ Ibid., pp. 13-14.

⁴ In the Conservative Research Department this effort was spearheaded by Mark Schreiber, who in 1970 became Special Advisor to the Civil Service Department. The leading Conservative Members of Parliament were David Howell, who in 1970 became Parliamentary Secretary of the Civil Service Department, and Mrs. Margaret Thatcher, who in 1970 became Minister of State for Education and Science. A leading member of the team of businessmen was R. J. East, who stayed on as Special Advisor to Chief Secretary of Treasury.

⁵ The Labor government under Harold Wilson had brought in a small number of academicians to serve as advisors. Examples are Lord T. Bolough and Prof. N. Kaldor. Some of these advisors became highly controversial and in a most visible manner. As a result it has been easier for the civil service to argue against outside advisors. Early in 1972 the Conservative government under Edward Heath had brought in from the outside only about half a dozen top-level advisors.

⁶ Likewise, the Committee in February 1972 sought to obtain from the Treasury intermediate projections in relation to PESC and on which budget estimates were based, and this request also was denied by the Treasury. Minutes of Evidence Taken Before the Steering Sub-Committee of the Select Committee on Expenditure, Jan. 27, 1972, pp. 16-17.

The Public Expenditure Survey, the Programme Analysis and Review, and the Central Policy Review under Lord Rothschild are the fulcrum on which budget decision making rests and, with it, the implementation of what government perceives to be the country's objectives. This three-pronged attack is designed to strengthen overall planning and to assure that corrective decisions are carried out in the spirit of the general strategy that is supposed to underlie them. Thus, PESC-PAR-CPRS should be looked upon as formalized extensions of what before were the Treasury's traditional functions in dealing with the various governmental departments. PAR, CPR, and PESC are basically administrative procedures which apply systematized sense to facilitate political decision making and subsequent managerial control of implementation.

PESC is concerned with broad priorities of government use of resources; PAR is concerned with the intent and detailed evaluation of individual bricks in the PESC edifice; and CPRS brings to bear a strong centralizing interest in the outcome, because of its concern with safeguarding the overall coherence of government policies from both a doctrinal and a practical viewpoint.

Of the three legs of the system, PESC is the most venerable and best developed; PAR was instituted in 1971 and is slowly seeking to attain equal billing with PESC. CPRS also was founded in 1971 and while young, it is establishing itself rapidly because of the central position it occupies.

History, Objectives, and Procedures of PESC

The origins of the Expenditure Survey go back to the middle 1950's. However, it was the Plowden Report of 1961 that was directly responsible for the survey's initiation. The main conclusion of the report was:

... that decisions involving substantial future expenditure should always be taken in the light of surveys of public expenditure as a whole, over a period of years, and in relation to the prospective resources. Public expenditure decisions, whether they be in defence or education or overseas aid or agriculture or pensions or anything else, should never be taken without consideration of (a) what the country can afford over a period of years having regard to prospective resources and (b) the relative importance of one kind of expenditure against another. This may appear to be self-evident, but in administrative (and, we would hazard the opinion, in political) terms is not easy to carry out.⁷

Regular surveys should be made of public expenditure as a whole, over a period of years ahead, and in relation to prospective resources: decisions involving substantial future expenditure should be taken in the light of these surveys. . . .⁸

The Labor Government of Harold Wilson used the survey as the basis of a chapter on the public sector in the National Plan of 1965. Since, it has become accepted by all parties.

Since 1961, Public Expenditure Surveys have been undertaken on an annual basis. Here are the Survey's main features:⁹

- (a) The forecasts of expenditure represent costings of existing policies.
- (b) The Surveys cover all expenditure by the public sector regardless of the way in which the expenditure is financed. But because payments are made from one part of the public sector to another, e.g., the Exchequer grants to local authorities, and the Exchequer contribution to the National Insurance Funds, it is necessary to ignore such internal transactions and only score the expenditure at the point at which it is disbursed by the recipient authority. It is thus not sufficient merely to add up all the expenditure by all parts of the public sector; overlaps must be eliminated to arrive at a valid total.
- (c) The figures are analysed by function, that is to say by reference to the object of the expenditure. This enables comprehensive figures to be drawn up showing the relative amounts spent or proposed to be spent on, e.g. defence, health, education, social security, assistance to industry and so on. These are the main figures on which major decisions by Ministers on the size and pattern of future expenditure are normally taken.

⁷ Plowden Report, op. cit., para. 7.

⁸ Ibid., para. 12A.

⁹ "Public Expenditure Survey Systems" in *Third Report from the Expenditure Committee*, Session 1970-71 (London: Her Majesty's Stationery Office, 1971), pp. 18-19.

(d) The figures are also analysed by economic category (current expenditure on goods and services, gross domestic fixed capital formation, grants to persons and so on).

(e) The figures in each Survey cover a period of five years—that is to say, the 1961 Survey covered the period up to and including the financial year 1965–66 and each following survey rolled the figures forward a year. Some major programs, e.g. large capital projects, require a longer period than five years for their planning. Some require less. Major policy changes, e.g. in defence, can often take five years or more to show their full effect. On the other hand, over a whole range of public expenditure, forecasts for more than five years ahead tend to be less soundly based than is desirable for decision-taking purposes.

The annual Surveys of expenditure have been, from 1961 onwards, linked for purposes of managing the economy with annual forward assessments of the economy, generally covering periods of five years. The objects have been, first, to explore the interaction of public sector demands, as they emerge in the Surveys, with other likely demands, and to enable the whole to be related to the resources likely to be available; and second, to do this in good time for any necessary adjustments in the public sector programmes to be made in an orderly manner.¹⁰

Thus, in the early months of the year, and no later than the end of February, departments prepare returns showing what they expect to spend in constant prices over each of the next four or five years in each of their programs and sub-programs, assuming no change in the current announced policies. In short, they project preempted real expenditures. At the same time, departments also submit requests for additional resources and, at least in theory, proposed reductions of resources, on the basis of explicitly stated policy changes. Departmental statements are put together by PESC chaired by a deputy secretary of the Treasury. During March and April discussions are held between the Treasury and individual spending departments. The result is the annual PESC report which becomes available by the end of June. This report is then placed before the cabinet, which decides during July–October, in the light of general economic prospects and its own priorities, what, if any, changes to make in either the total or the composition of public expenditures. (In a sense these are changes made in the projections which initially were made on the assumption of the continuation of “existing policies.”) Once agreed upon, these totals and allocations become the governing framework of official policies for the next year. These then are the planning intentions for all capital and current, central and local, government expenditures for four to five years, including those for nationalized industries, investments, etc.

The annual PESC decisions are published toward the end of the year in the annual public expenditure White Paper. This White Paper is debated two days in the House of Commons, followed by detailed scrutiny by the Select Committee on Expenditure and its various program subcommittees.

During the year additional spending can be approved only if compensating savings are found within the same block of expenditures as the increase, or if there is a cabinet agreement that the management of the business cycle is such that increases are required and in order. Last year’s decisions together with any modifications made by the cabinets during the year within the self-imposed constraints of previous PESC totals are then fed into next summer’s PESC. Thus continuing and overall control is assured for the annual adjustments as priorities change in the light of new conditions.

History, Objectives, and Procedures of PAR

The PAR originated efforts to tighten up PESC concepts and procedures between the December 1963 White Paper on Expenditures of Mr. Maudling and

¹⁰ The results of these surveys were reflected in White Papers in 1963 and in 1966 (Command 2235 and 2915). A White Paper in January 1968 set out the detail of the post-devaluation reductions in public expenditure in 1968–69 and 1969–70 (Command 3515); and a year later the decisions reached in the 1968 survey in respect of 1970–71 were included in a further short White Paper (Command 3936). The first of the present annual series of Public Expenditure White Papers was published in December 1969 (Command 4234) and reflected the decisions reached in the 1969 survey for each of the five years up to 1973–74. As foreshadowed in the Green Paper: “Public Expenditure: A New Presentation” (Command 4017), the December 1969 White Paper incorporated a number of presentational changes and also gave more explanatory material and analyses of expenditure than before. An interim White Paper in October 1970 summarized the effects in 1971–72 and 1974–75 of the present Government’s changes in public expenditure plans under the title “New Policies for Public Spending (Command 4515). The second of the annual series of Public Expenditure White Papers: “Public Expenditure 1969–70 to 1974–75” (Command 4578), which has recently been published, gives further details of the effects of new policies and of the other results of the 1970 surveys.

the February 1966 White Paper on Expenditures of Mr. Callaghan. The 1970 White Paper and the prime ministerial announcement of January 14, 1971, have been followed up by periodic references to it by the Prime Minister.¹¹ They have legitimized PAR and greatly encouraged its implementation. The 1970 White Paper on The Reorganization of Central Government pointed to the fact that so far—

The most important feature in the planning and control of public expenditure has been the development of the detailed and comprehensive annual Public Expenditure Surveys, linked with the medium-term economic assessments. Through these surveys, a rational and systematic basis has been developed for the broad allocation of resources to the public sector, and for detailed allocation to its component parts. The resulting system is a powerful instrument of demand management and financial control. It provides one of the basic elements in the information Ministers need to enable them to balance the claims of competing blocks of public expenditure.

However, there are two important respects in which it does not provide all the information that is needed for this purpose. It does not call for explicit statements of the objectives of expenditure in a way that would enable a Minister's plans to be tested against general government strategy: nor can it regularly embody detailed analysis of existing programmes and of major policy options on them. Much work has been undertaken in special *ad hoc* policy reviews and in long-term studies, but it has become increasingly clear that the public expenditure survey system should be further strengthened.¹²

In the light of these considerations, a system for regular reviews has been designed for selected programs. PAR is an additional input into PESC. It supplements the Public Expenditure Survey by providing ministers in a systematic manner with a wide range of promising options—through careful analysis by various means—and their likely implications. PESC is essentially a centralizing operation in which costings of current government policies are funneled up to the top, where they are adjusted in the light of their economic significance and of general government priorities and then sent back down the line; PAR, however, is concerned with individual programs. PAR information about programs is given not only to the particular ministry but also to other cabinet members.

The objectives of PAR are to contribute to government's overall strategy by focusing on issues for corrective ministerial consideration, to be an instrument of strategy by testing departmental objectives against it, and to bring under regular review the major ongoing programs, even though apparently no immediate decision may be called for.

The annual cycle of PAR work starts in the autumn with collective ministerial choices of topics for PAR studies in cooperation with CPRS. In the first year about a dozen such studies were undertaken. These decisions are made after the main annual PESC decisions in July or September. A PAR study normally takes a year to an autumn deadline, though it might take longer than that. The responsibility of a particular PAR report rests with the particular department; the Treasury, the Central Policy Review Staff, and other affected governmental departments participate as necessary. Usually the Treasury calls the first meeting in order to discuss the general scope of the study, and from time to time follow-up meetings take place. Throughout, members from the Treasury and CPRS participate and often provide challenging and critical reviews. When the report is completed it is submitted to the appropriate cabinet committee. There it is discussed during the winter and early spring in time for any policy changes which may be indicated to be fed into the summer PESC operation.

Up to now no particular format has been developed for PAR reports and studies. Benefit cost analyses, operations research techniques, management economics, and other methods are applied. Some of the first questions usually are, "Why are we doing this at all?" "Could we achieve the same results with less effort by using definite methods?" and "Could we achieve better results by using the same method differently?"

¹¹ As recently as Jan. 26, 1972, Prime Minister Edward Heath provided the House of Commons a quick sketch together with a further endorsement.

¹² White Paper, Command 4506, op. cit., p. 14.

In order to ensure high-quality PAR methodology and to bring about a reasonable amount of homogeneity, a committee on PAR, i.e., PARC, has been established, the same Treasury official chairing both PARC and PESC. In major departments with separate finance and planning offices, the finance office areas represents it on PESC and planning represents it on PARC. It should be realized that PARC is not a main vehicle for PAR, but mainly a methodology-coordinating committee. It monitors PAR methods of analysis, time tables for studies, and initial choice of topics. It neither receives nor appraises PAR reports individually.

With PAR studies designed to produce better knowledge of alternatives and their consequences, the experience of the United Kingdom, though it is relatively short, indicates that these studies are more appropriate in investigating large programs with numerous alternative means of achieving their objectives than in analyzing instruments or organizations. Not unlike those of other countries, the efforts of the United Kingdom show great difficulty in clearly defining objectives which are relatively specific and ends and not means.¹³

After efforts to define objectives have been completed, much attention is given to bringing together as many activities as possible that contribute to the attainment of these objectives and the resources devoted to these activities. While some of these efforts cross departmental lines, others do not. For example, education involves activities which are overwhelmingly within the boundaries of a single department within the United Kingdom. However, resources devoted to the particular program in the private sector are also included in the consideration. Work on the resource costs of the program in the public sector can benefit from Public Expenditure Survey information about the resources being put in under these various activities. However, the Public Expenditure Survey usually does not go beyond five years and many of the PAR studies must have a longer time horizon.

Major efforts are made to identify the main determinants of the use of resources: trends, technological or demographic considerations which are mainly giving rise to the expenditures, and their relative importance. This for example includes questions about the number of children who are coming in for primary education, the number of pensioners who are coming into benefits, crime rates, rising standards across the population or in a particular sector, obsolescence of social equipment, etc. Such an attempt to see what the determinants of expenditures of a program are, and identification of preempted activities about which Parliament has relatively little control in years to come, can lead to a clearer picture of what is governing the growth of the program and its expenditures.

After the determinants of expenditures have been identified, the next step is to identify the range of possibilities for influencing these determinants. Thus, not only are policy variables identified, but also emphasis is placed on knowledge of how to influence policies. These policy variables are then related both to objectives and to resources involved. This often reveals that within the political realities of life the minister has relatively few policy options available. Under those circumstances there is a strong incentive to invent new options, but in all cases their relative merits are appraised.

History, Objectives, and Procedures of CPRS

The Central Policy Review Staff (CPRS), often associated with the name of its first chairman, Lord Rothschild, was established in 1971. The White Paper on The Reorganization of Central Government pointed out that:

The existing system of inter-departmental committees is designed to maintain the collective responsibility of Ministers for the Government's policies in each of the main sectors of governmental concern, by bringing together the differing views of Ministers and ensuring that the final decisions command the agreement of the Cabinet as a whole. For this purpose the system works well; and it is capable of continuous modification to meet the increasingly complex and technical character of the processes of government and administration in modern society.

In recent years, however, it has become clear that the structure of inter-departmental committees, each concerned with a separate area of

¹³ Objectives used by PAR studies include reduction of the number of people inadequately housed or reduction of the number of families with an income below a specified level, etc. It is recognized that many programs involve several objectives. For example, the objectives of foreign aid programs include the development of the relevant underdeveloped country, as well as helping the developing countries in a manner which is not inimical to the interest of the United Kingdom.

policy, needs to be reinforced by a clear and comprehensive definition of government strategy which can be systematically developed to take account of changing circumstances and can provide a framework within which the Government's policies as a whole may be more effectively formulated. For lack of such a clear definition of strategic purpose and under the pressures of the day to day problems immediately before them, governments are always at some risk of losing sight of the need to consider the totality of their current policies in relation to their longer term objectives; and they may pay too little attention to the difficult, but critical, task of evaluating as objectively as possible the alternative policy options and priorities open to them.

The Government recognise that the task of producing a strategic definition of objectives, in the sense described above, is a new and formidable one and can only be approached gradually. They therefore propose to begin by establishing a small multi-disciplinary central policy review staff in the Cabinet Office [CPRS].¹⁴

The staff of CPRS forms an integral element of the Cabinet Office and, like the Secretariat and other staffs in the Cabinet Office, is at the disposal of the government as a whole. Under the supervision of the Prime Minister, it works for ministers collectively. Its task is to enable ministers and cabinet to:

... take better policy decisions by assisting them to work out the implications of their basic strategy in terms of policies in specific areas, to establish the relative priorities to be given to the different sectors of their programme as a whole, to identify those areas of policy in which new choices can be exercised and to ensure that the underlying implications of alternative courses of action are fully analyzed and considered.¹⁵

Thus the main task of CPRS is to assure an overall coherence of government policies. For this purpose it usually brings to bear a much broader integrating view than most departments or particular programs within them would usually have. It seeks to relate individual departmental policies to the government's strategy as a whole. It therefore plays an important part in the Public Expenditure Survey, and promotes studies in depth of interdepartmental issues which are of particular importance in relation to the control and development of the government's strategic objectives.

For various reasons, CPRS does not want to reveal too clearly how it goes about carrying out its task. However, it is quite clear that members of CPRS are invited to and very often attend PESC as well as PAR meetings. CPRS gets involved very early in Public Expenditure Survey work as well as in the identification of particular areas for which PAR studies are to be undertaken. While ministers can veto certain programs for PAR investigation, they are apparently less likely to do so if the particular program has been recommended for review by CPRS. Also, because a representative of CPRS sits in on most meetings dealing with particular PESC and PAR problems, CPRS can have a major influence on the quality and integrity of the work carried out. This is particularly important, since virtually all PAR work is carried out in the particular department in which the program is launched. Also, since the opinion of the chairman of CPRS, either in writing or in person, is placed before the cabinet when budget decisions are made, departments are likely to take most seriously any recommendations coming from CPRS concerning either the initiation of PAR studies or their execution.

CENTRAL GOVERNMENT BUDGETING FOR LOCAL GOVERNMENTS

In the United Kingdom a very large share of current and capital expenditures are funded by the central government. This funding is based on a complicated set of formulas which are invoked during negotiations between high civil servants on behalf of the Minister for Local Government and executive directors of associations representing local authorities.¹⁶ These negotiations together with expenditure forecasts have until now been on a biannual basis, and it is presently contemplated to make them annual.

¹⁴ White Paper, Command 4506, op. cit., p. 13.

¹⁵ Ibid., pp. 13-14. CPRS has a small staff of highly qualified professionals—in the spring of 1972 they numbered less than 20.

¹⁶ They are the Association of Municipal Corporations, County Council Associations, London Boroughs Association, Rural District Councils Association, Urban District Councils Association, and the Greater London Council.

Current expenditures in 1971-72 were funded by the Treasury to the tune of 57½ per cent; until recently this figure has increased by an average of one per cent per year. More than 90 per cent of the Treasury subvention takes the form of a Rate Support Grant, which is basically a block grant. The remainder are specific, earmarked grants. The overall central government subvention for current expenditures amounts at this time to about £2 billion annually. Seventy-five per cent constitutes a Need Element, i.e., the expenditure level required to provide the various statutory services for the local authorities' populations; 13 per cent constitutes a Resources Element, i.e., payments for which authorities qualify if their resources (as measured by their penny-tax products per capita) fall below a national average; 7 per cent constitutes a Specific Grant Element; and 5 per cent constitutes a Domestic Element. The Domestic Element is effectively distributed to taxpayers rather than to local authorities and makes up to each authority the difference between (a) what it would have received in taxes, were domestic taxpayers to pay the full tax applicable to other taxpayers, and (b) what it actually receives.

So far, the Department for Local Government has not made any PAR studies. However at this time it is engaged in a detailed study of the financing of local authorities, and it relies on substantive PAR reports of specific departments.¹⁷ These PAR reports, which often cost out alternatives, are considered by the cabinet in conjunction with PESC and a decision is reached about the size of the Treasury's total budget to substitute local authorities. The amount takes the form of a range, a rather narrow range at that, known only to the cabinet and the civil servant who will negotiate with the associations. The need for a range reflects uncertainties about the expected changes in the number of people to be served by local authorities and about price changes over time. Often there are differences between the forecasts of the associations and those of the central government. Yet constituents must be served in terms of agreed-upon manpower, facilities, etc.

This system of negotiating for central government grants can provide a powerful incentive for local authorities and their associations to engage in a variety of analytic studies, designed to persuade the central government of the merit of their case for specific programs. The more and the better the PAR studies are that central government uses for its decisions about local authorities, the greater will be their desire to match these capabilities of central government with their own.

SUMMARY

A system of governance has evolved over the years in the United Kingdom that can be inimical to the generation of appropriate information for use by ministers and the cabinet. On the one hand, virtually all information produced by government is classified; as a result, the information is not subject to careful outside review and appraisal. On the other hand, while civil servants stay in the department for years and decades, ministers, i.e., the politicians, have a very short life expectancy, often not much in excess of 18 months. During that period, the minister does not have political appointments in his department, except for a few junior ministers from his own party. As a matter of fact, the civil service has made it extremely difficult for ministers to bring outside advisors into the departments, be they academicians, other professionals, or businessmen.

Secrecy about information and the absence of outside advisors and consultants all contribute to an environment that might not produce the best and most reliable information for decision making. Within such an environment the three-legged system that relies on PESC, PAR, and CPRS can greatly improve the quality of information and decisions. The Public Expenditure Survey enables ministers to settle broad allocations to public sectors and priorities within them in a systematic and comprehensive manner. PAR provides a penetrating analysis of the purposes intended to be served by the programs and their effectiveness in the light of alternatives. At the same time, CPRS provides the centralizing influence. With their help, the cabinet collectively and individually can translate political values into specific policies and viable programs.

Under the new system there tends to be a strong incentive for ministers to see to it that good information is generated and ultimately presented to the cabinet. The reason is that in this manner the minister can hope to improve his chances of making a good impression in the cabinet and of obtaining funding for programs of his department. The civil servant also favors the system, especially technically

¹⁷ "Green Paper on the Future Shape of Local Government Finance," Command 4741 (London: Her Majesty's Stationery Office, 1971).

competent PAR reports. With the help of reliable information, he often feels that governmental operations are improved, while his own role is strengthened.

With the new budgeting system of the central government relying heavily on pertinent information and analysis, local authorities have strong incentives to improve their decision base. Only in this manner can they hope to obtain maximum financial support for the programs dearest to their hearts. As a matter of fact, the University for Local Government is now seriously considering asking local authorities to submit periodically well-thought-through and well-documented spending plans. Such a step can improve efficiency of local authorities and the integration of local and central government activities.

Clearly the above are merely conjectures about how well the new system is likely to perform. It is too soon for an actual appraisal. But it would be wrong to point only to the positive aspects of the new budgeting system. One of its apparent shortcomings is insufficient regard for the need to carefully integrate micro-economic efficiency concerns with macroeconomic revenue and expenditure decisions designed to produce agreed-upon full-employment, growth, and price-level results. In theory, the cabinet brings to bear micro as well as macro economic concerns when agreeing on a budget. However, in fact there is no systematic procedure for such a step. The Treasury and Civil Service Department, among others, are aware of this problem and appear to be giving it considerable thought.

This brings us to some comparative concerns. It is important to keep in mind the unique structure and environment of the United Kingdom in government assessing the likelihood of success of such a budgeting system in the United Kingdom or comparing it to the system in the United States. It must be remembered that in the United States the Executive Branch of the government makes merely a budgetary recommendation to the Congress. This is done by the President with the aid of the Office of Management and Budget. Thereafter, the proposed budget goes to the Congress where it is broken up into scores of separate pieces that are considered by separate substantive and, later, appropriations committees of the House and the Senate. They are never put together again systematically. Under conditions prevailing in the United States there is much less secrecy and much more general information and debate. At the same time, there is relatively little benefit to be derived by a department that produces output-oriented programmatic budgetary information or analytic studies, particularly since they can be embarrassing to it. Thus, a study which shows that a certain departmental program is not cost-effective cannot be readily hidden away; it may be subpoenaed by a congressional committee and used against the department.

There is much to be learned from the recent efforts of the government of the United Kingdom to use program budgeting techniques, just as it apparently benefited from the experience of the United States in the 1960's. Perhaps the least important and most commonplace lesson is that major changes in governmental decision-making procedure are likely to fail if they are introduced on a wholesale basis across the board, particularly without proper preparation. The more significant lesson, in my view, is the need to thoughtfully tailor new procedures to the existing incentive structure; the alternative is to carefully modify the incentive structure in a manner that makes for a rapidly evolving organic acceptance on a broad basis of the proposed new budgeting system. As federal, state, and local governments in the United States keep searching for improvements in their operations, they are well advised to give thought and consideration to a promising marriage between incentive structure and change proposals. And there is much to be learned about this from the recent experience of the United Kingdom.





