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BRITAIN'S DECLINE; ITS CAUSES AND CONSEQUENCES

*Her Majesty's Ambassador at Paris to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

Over the past generation our foreign policy has contributed to our economic decline just as the latter has undermined our diplomacy (paragraphs 1-2).

2. We still ranked among the great powers immediately after the War; and in the mid-'50s we were still the strongest European power. It is our decline since then, particularly in relation to France and Germany, that has been so marked; and the prognosis for the future is discouraging. The despatch gives details relating to the UK, France and Germany; of our decline since the mid-'50s (paragraphs 3-7).

3. Many will try to refute the figures, including pastoral apologists. Our decline is shown not simply by the statistics but by the look of our towns, airports, hospitals, local amenities, etc. (paragraphs 8-9).

4. Poor productivity lies at the heart of the problem and there are important comparisons to be drawn on management, trade union structure and labour relations between ourselves, France and Germany (paragraph 10).

5. The effect of our economic weakness upon our foreign policy is discussed. We can no longer play our historic role. France's importance in Washington has grown although they have persistently pursued an anti-American policy. The French and Germans have been getting closer together. We harp on our poverty to justify a plea for budgetary changes in the Community so there is no burking the facts of our decline (paragraphs 11-15).

6. The despatch gives an account of the key decisions taken in British foreign policy from the '40s which have contributed to our present difficulties, e.g. over the ECSC, post-Messina discussions, post-Treaty of Rome situation and after the overwhelming referendum result. These decisions appear to have been based on a failure to grasp certain fundamental facts about the new relationships that have evolved in Europe. We have also overlooked one

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of the prime lessons of our own history. Moreover we have misjudged the nature of the Commonwealth; nor have we understood the yearning of the countries of Europe for a new framework (paragraphs 16-23).

7. Our foreign policy also has meant that we have been over-extended financially and that we excluded ourselves from the European Community when we could have had a chance of fashioning it to suit our interests. We also missed the opportunity open to the other members of the Community to develop intra-European trade before the oil price rise. We have fallen behind in many high technologies. Our age-long tradition of producing goods of high quality has been impaired. Our general stance in the Community has made us look an unco-operative member with inevitable results (paragraphs 24-26).

8. Looking to the future the despatch indicates grounds for hope arising from the great turn round that the French and Germans have achieved in a relatively short space of time. We have human advantages as well as North Sea oil. There are no simple solutions but certain conclusions are suggested by a comparison with France and the FRG: there should be a change in the style of our policy towards Europe; the British people should be made fully aware of how far Britain's economy has fallen behind that of our European neighbours; there would also appear to be a need to stimulate a sense of national purpose (paragraphs 27-33).

9. The despatch may go beyond the limits of an Ambassador's normal responsibilities but these latter cannot be fulfilled in Western Europe in the present uncertain state of our economy and of our European commitment. We can recover if the facts are known and faced. If we show the adaptability that is the hallmark of our history the warnings of this despatch may before long sound no more ominous than the recorded alarms of a war-time siren (paragraph 34).

(Confidential)
Sir,

Paris,

31 March, 1979.

Since Mr. Ernest Bevin made his plea a generation ago for more coal to give weight to his foreign policy our economic decline has been such as to sap the foundations of our diplomacy. Conversely, I believe that, during the same period, much of our foreign policy has been such as to contribute to that decline. It is to the interaction of these delicts, spanning my time in the Foreign Service, that this valedictory despatch is devoted.

2. The first part of the despatch deals with the facts of our recent decline, particularly in relation to France and Germany and suggests some of the causes. The second discusses the inter-relation between this decline and the foreign policy we have pursued. The third part concludes with some hopes for the future.

I

THE ACCOUNT OF OUR DECLINE

3. In the immediate aftermath of the War we continued to rank as one of the great powers, admittedly a long way behind the US and the USSR but nevertheless at the same table as them. A quarter of the world's population did after all still belong to the British Commonwealth and Empire. I myself was able to observe Churchill, Attlee and Bevin dealing on equal terms with Stalin and Truman at the Potsdam Conference when no German or Frenchman was present. With the eclipse of Empire, and the emergence of the US and USSR, it was inevitable that we would lose comparative power and influence—and to be sure we have been in relative economic decline since the middle of the 19th century (when we were still producing two-thirds of the world's energy, and half its iron and cotton cloth and when *per capita* income in the UK was over twice that in Germany and one-third greater than in France). But in the mid-'50s we were still the strongest European power militarily and economically. We were also well ahead of all continental countries in the development of atomic energy.

4. It is our decline since then in relation to our European partners that has been so marked, so that today we are not only no longer a world power, but we are not in the first rank even as a European one. Income per head in Britain is now, for the first time for over 300 years, below that in France. We are scarcely in the same economic league as the Germans or French. We talk of ourselves without shame as being one of the less prosperous countries of Europe. The prognosis for the foreseeable future is discouraging. If present trends continue we shall be overtaken in GDP per head by Italy and Spain well before the end of the century.

5. A few figures tell the tale of our relative decline:

Comparative growth of GDP since 1954
(based on figures in US\$ at 1970 prices
and 1970 exchange rates)

	1954	1960	1977
UK	100	117	175
France	100	133	297
Germany	100	164	310

In 1954 French GDP was 22 per cent lower than our own; German GDP was 9 per cent lower. By 1977 French GDP was 34 per cent higher, and German GDP 61 per cent higher than ours.

GDP per capita (UK = 100)
(based on figures in US\$ at 1970 prices
and 1970 exchange rates)

	1954	1960	1977
UK	100	100	100
France	93	103	141
Germany	93	121	146

Productivity, *i.e.* output per person employed, was about the same in the UK, France and the FRG in 1954, with the UK marginally highest. The following table shows how we have fallen behind since then.

Growth of productivity since 1954
(based on figures in US\$ at 1970 prices
and 1970 exchange rates)

	1954	1960	1977
UK	100	116	168
France	100	131	266
Germany	100	140	277

6. The exchange rate at any one time may certainly have distorted comparisons of the purchasing power of the pound in relation to the franc and the mark, in the sense that a pound could buy more in London than its equivalent at the prevailing rate of exchange in Paris and Frankfurt, with the result that the index figures for the UK in the above figures may be too low. But the trends, which are based on one price level and constant exchange rates emerge clearly. The graphs in the Annex show the trends.

7. As regards percentage of world trade the UK has likewise declined badly in relation to France and Germany (see Annex). If you take our share of manufactures exported by present OECD countries the following figures show the trend.

Share of manufactured goods exported by OECD countries
(per cent at current prices)

	1954	1960	1977
UK	18.9	15.0	8.5
France	7.2	8.7	8.9
Germany	12.2	17.4	18.8

What the apologists will say

8. I am aware of the efforts made to contest the relevance of these statistics. Many people believe that the lower prices that exist in the UK offset the impact on living standards of relatively inferior wages. But you cannot get away from the fact that a low GDP means a smaller national cake and that there is less wealth to go round. Some will assert that the figures do not represent the true relative strength. (But see paragraph 6 above.) Others will argue that the British way of life, with ingenuity and application devoted to leisure rather than to work, is superior to that elsewhere and is in any case what people want. I do not doubt this; nor do I question the agreeableness or quality of life in the UK or the tolerance of the British people. There is depth in our society that others have not achieved. This is inestimable—though it cannot be taken for granted. My purpose is to show how we are faring in relation to others and to suggest the possible effect on our lives of continuing economic decline. On the basis of historical experience it seems to me that it would be wrong to assume that a way of life, based as ours is on a relatively favourable and stable economy, will necessarily remain unimpaired if the conditions change. I cannot say that I have much sympathy for those who seek to justify our present state of affairs by a pastoral apologia. They remind me of the French and German nobility of the 18th and

19th centuries who were against progress which was synonymous with industrialisation. In any case the UK has a large population, accustomed to and skilled in industrial life, who, within the confines of the British Isles, would suffer a sharp drop in standards if they were destined to become the pioneers of a de-industrial revolution.

9. You only have to move about Western Europe nowadays to realise how poor and unproud the British have become in relation to their neighbours. It shows in the look of our towns, in our airports, in our hospitals and in local amenities; it is painfully apparent in much of our railway system, which until a generation ago was superior to the continental one. In France, for instance, it is evident in the expenditure on household equipment and in the growth of second homes. But lest these be thought subjective judgments let me give two figures that illustrate what has happened over the past 20 years or so.

	<i>Average earnings of non-managerial staff in manu- facturing industry</i>		<i>Number of registered private vehicles in millions</i>	
	<i>(£ per hour)</i>			
	<i>1954</i>	<i>1977</i>	<i>1954</i>	<i>1977</i>
UK	0.22	1.61	3.2	14.9
France	0.18	1.92	2.7	16.5
Germany	0.15	2.95	1.4	20.2

Nor do I believe that counter-attack based on our recent reduction in inflation affects the general picture. (This and other retorts are of course required for immediate diplomatic purposes; but that is outside the scope of this despatch.) Such a line of argument begs the question of why we ever allowed inflation to rocket in 1975 to rates far higher than those in France or Germany. Nor does it touch the essential and long-term problem of productivity. Output per man-hour in manufacturing industry (in £ per hour) was as follows in 1977:

UK	2.70
France	4.50
Germany	7.10

Contributory causes

10. This is not the place to discuss comprehensively the causes of our poor productivity which epitomises our decline. The subject is not one of easy solution. But having spent the past seven years in France and the FRG I have been struck by certain comparisons.

Management

(a) Generalisations on this subject are inevitably unscientific. In many British industries there is no doubt about the high quality of management. But anyone serving abroad soon becomes aware of a lack of professionalism in British management. We have a different attitude towards a career in industry. In the FRG—as indeed in Germany since the time of Bismarck—industry has tended to attract the best people, whereas in the UK those leaving school and university seem less

- prepared to make a career in industry than to join a merchant bank in the City of London or one of the public services. It is partly a question of tradition and prestige but also one of finance. According to the latest figures, the average salary of a middle grade manager, adjusted for taxes and differences in cost of living, is nearly twice as high in France and Germany as in the UK.
- (b) In France industry for a long time did not attract the best people, a failure that was partly responsible for France's delayed industrialisation. But there has been a remarkable change in outlook in the past quarter of the century and the élite of the country, such as those who graduate from the Ecole Nationale d'Administration, move freely between the top ranks of government and industry. There is a certain parallelism here between France and the US. The present French Foreign Minister, Monsieur François-Poncet, began his career in the Foreign Service and then had a spell in industry before returning to the public service. Or, take the new head of Peugeot-Citroen, Monsieur Jean-Paul Parayre, who at the age of 41 holds one of the most onerous posts in the country. A graduate of the Ecole Polytechnique, he worked as an official in the Department of Industry before leaving the civil service to enter industry. His present salary is over twice that of the Chairman of British Leyland, leaving many fringe benefits out of account. The maximum tax on his salary is 60 per cent whereas that on Mr. Edwardes's is 83 per cent.
- (c) Unfortunately, there is evidence here of the drain upon our engineering and managerial resources produced by the poor relative financial rewards in British industry. Not only are British engineers and managers leaving the UK for overseas French projects but they are coming to work for French and multinational firms in France. For example one major French engineering firm employs 10 British engineers in Paris. It is relevant to record here the great importance the French attach to their famous engineering schools (the Polytechnique and the Ponts et Chaussées etc.) and to the training of engineers as all-round managers. This opens up for the profession the plums of high industrial command.
- (d) So far as the management of major capital projects by government is concerned our vision appears limited and our purpose changeable, at any rate compared with France and the FRG. This is particularly noticeable in transport. We started work on two large plans, the third London airport and the Channel tunnel, only to cancel both. To arrive nowadays at London airport from a French or German airport is to be made immediately aware that our standards have slipped.

Trade Union Structure and Labour Relations

- (e) In trade union structure, as in management, our present difficulties are rooted in the distant past; they do not arise from recent decisions and cannot be quickly or easily cured.
- (f) Neither the FRG nor France have craft unions. Membership is based not on occupation but on the industry in which the person works. There is, therefore, no temptation for one craft in an industry to pursue its sectional interests at the expense of another or of the company as a whole. The numbers of trade unions in the two

countries is much smaller than in the UK, as is the proportion of the work force belonging to them. In the FRG there are 17 industrial unions fully integrated within the DGB (German Trade Federation). Since each of these unions would have members among all grades of manual and clerical workers in the plant they would not have conflicting sectional interests. French trade unions are grouped into six major confederations. A major employer in the engineering industry would have to deal with not more than three unions, and each of these unions would claim to represent all workers in the plant. There are 115 trade unions affiliated to the TUC.

- (g) These features make it easier in France and the FRG to negotiate settlements and to make them stick.
- (h) In both the FRG and France the closed shop is against the Constitution; hence illegal; in both countries collective agreements are binding contracts enforceable in law. In neither country is it the practice for people to go on strike before a wage agreement has expired (in the FRG it is illegal to do so). In contrast to the UK, strikers in the FRG and France do not receive regular income tax rebates while they are on strike. Nearly always in the UK in recent years a strike has led to a very favourable settlement for the employees; in France and the FRG this has not been so, e.g. the Steel strike in the FRG and the Air Traffic Controllers work to rule in France. The Labour Counsellor here cannot think of a single strike in France in the past two years that has achieved its objective.
- (i) There is no shop floor control over production in France as there is in Britain. No French manager thinks twice about changing people's duties or their timetables if that is required for efficiency, nor does he hesitate to install new machinery and instruct people that from Monday onwards they will be working at x instead of y. Neither in France nor Germany has responsibility for production shifted out of the hands of management into those of trade union representatives.
- (j) The paradox of the British labour scene at the present time is that, despite the contribution our unions have made towards a better safety record in our factories, their influence and ready resort to strike pressure have not secured better general employment conditions than in France and the FRG: not only are real wages lower but hours of work are longer.
- (k) The following figures are telling:

			<i>Percentage of labour force in trade unions</i>	<i>Number of days lost in industrial disputes in all industries and services (in thousands)</i>	
				1957	1977
UK	...	...	50	6,012	10,142
France	...	...	22	3,506	2,434
FRG	...	...	44	69	86

II

INTER-RELATION BETWEEN THE ECONOMY AND
FOREIGN POLICY

11. The bearing of our weakness upon our foreign policy is almost too obvious to require analysis. In the immediate post-war world we were the second most important power in the Far East with all the influence that that carried. We played a major part in the 1954 Geneva Conference on Indo-China and in the formation of the South-East Asia Treaty Organisation the same year. We were the predominant power in the Middle East from Iran to Libya, from Iraq to Aden; we were the only outside power that had troops there, except for the Russians for a short time in Northern Iran. The Suez débâcle in 1956 was a sudden eye-opener to the decline of British power in the Eastern Mediterranean—as indeed it contributed to it. Our subsequent withdrawal from the Persian Gulf—which as many predicted was followed by the loss of Western influence over the price of oil—may have been inevitable at some stage, but it was precipitated by the devaluation crisis of 1967. General de Gaulle was able to say the same year that the UK was too weak economically to be able to join the Common Market.

12. At the present time, although we still retain certain extra-European responsibilities, e.g. in Rhodesia and Cyprus, we are unable to influence events in the way we want because we do not have the power or will to do so. It is true that we may have a special relationship with the US, and, based as this is upon certain shared traditions and responsibilities it will continue. But any one who has followed US policy towards Europe closely over the past few years will know how much our role as Washington's European partner has declined in relation to that of the FRG or France. France, in fact, over a period of nearly two decades pursued a blatantly anti-American policy, but its importance to the US is much greater now than at the beginning of that period, because of its economic strength.

13. As regards Europe, the fact must be faced that for the first time for centuries British policy cannot be based upon the prevention of any single power dominating the continent because, out of weakness, we would be unable to do this. For more than a decade after 1945 we held back from joining in schemes of greater European unity; we were confident of our superior strength in relation to our European neighbours, and we did not think that anything would succeed without us. Then when the others showed that they were determined to go ahead on their own we found that we were unable to prevent them doing so or to shape what emerged in the way we wanted. For long we underestimated the economic prospects of our European neighbours and for even longer we overestimated our own strength and influence in relation to them.

14. The recent intensification in the Paris/Bonn relationship owes a good deal to our economic weakness, as to our a-European diplomacy. President Giscard is not really very interested in us at the moment and gives the impression that Anglo/French relations only feature in his mind when the annual Summit comes along. It is sometimes said in London that if only we pursued our interests in Europe as ruthlessly as the French did we would have a scoring rate as high as theirs. This is another example of how we overestimate our influence and our nuisance value: we do not count in Europe like the French; the other countries of the Community know that they can get along quite well—some better—without

us as they have done for years. But there is another distinction which I must make in parenthesis here. French policy is certainly hard-headed now, but there is more to it than that: it is constructive about Europe (e.g. direct elections, the European Council, the Three Wise Men) which makes the ruthlessness both more effective and more acceptable to the rest of the Community.

15. I should also interject here that British representatives abroad naturally do their best to prevent too pessimistic a picture of our economy from gaining ground; and indeed, there are important tasks of correction and proportion to be carried out. But the facts of our decline are too well known for us to be able to persuade foreign observers that there is really little wrong with our industrial scene. Indeed we harp on our poverty to justify our plea for budgetary changes in the Community. In France we have come nowadays to be identified with malaise as closely as in the old days we were associated with success. In many public statements Britain is mentioned as a model not to follow if economic disaster is to be avoided. It is striking how at French functions where a British representative is present and there is a need for some obliging observation about us to be made, speakers seem unable to find anything to refer to that has happened since 1940-45, a period which still indeed affords us a good deal of capital. The French Press is full of articles about Britain's plight, not least depressing for their patronising search for favourable elements such as our language and our humour.

Foreign policy decisions

16. We had every Western European government ready to eat out of our hand in the immediate aftermath of war. For several years our prestige and influence were paramount and we could have stamped Europe as we wished. Jean Monnet and others on the Continent had originally hoped to build a European economic union around the nucleus of a Franco/British Union. It was the failure of the British to respond to this idea that led them to explore alternative approaches, in particular the idea of a coal and steel community based upon a Franco/German rather than a Franco/British axis. This was a turning-point in post-war history. The French were not very tactful in the way they confronted the British Government with the proposals for the Schuman plan. But Monnet knew by 1950 that the British Government was not prepared to make the leap necessary to join the sort of organisation that he was thinking of, one that would achieve lasting Franco/German reconciliation and set Europe on a new course. He sensed that London did not really believe that the idea would come off, and that in any case their fears of supranationality would deter them. He was correct in his analysis. But what is amazing looking back is the way in which the British Government reached so important a decision. The full British Cabinet never dealt with the question. Neither the Prime Minister nor the Foreign Secretary (Mr. Bevin was in hospital) nor the Chancellor of the Exchequer, nor the Lord Chancellor, were present at the Ministerial meeting which took the decision against British participation in the European Coal and Steel Community (ECSC). At the start of his Foreign Secretaryship, Mr. Ernest Bevin was in favour of a European customs union, but this was anathema in the rest of Whitehall, particularly in the Treasury and Board of Trade. Furthermore, as the Centre and Right came to power in France and West Germany in the late '40s, the idea of a socialist Europe, for which there had been enthusiasm in the Labour Party, looked impracticable. Continental socialists continued to favour progress towards European union and this difference in outlook came to be an important cause of the gap that has existed ever since between them and the Labour Party. In 1950 the National Executive Committee of the Labour Party declared: "In every respect, except distance, we in Britain are closer to our kinsmen in Australia and New Zealand

