We don't need no . . . .

Robin Ramsay

The *Daily Mail* reported that one of Dominic Cummings' colleagues at the Treasury had been foolish enough to put down in an email his view that the UK doesn't need farmers. After all, he argued, Singapore has no 'agricultural sector'.[1] Singapore-on-Thames . . . . Somewhere in Whitehall I have no doubt that similar views are being expressed about the fishing industry.

This 'we-don't-need-no' kind of thinking began in the late 1970s, when the economic ramifications of North Sea oil began to be considered by the British political system. In 1978 the Conservatives (then in opposition) and the financial nexus (i.e. the City, Treasury and Bank of England) contemplated the coming oil wealth and concluded that manufacturing would decline when North Sea oil came on-stream. The argument went thus:

1. As Britain produced oil, it would need to import less oil. Assuming the British economy continued exporting as much as it had before oil, the result would be a growing trade surplus.
2. Such a surplus would push up the value of the pound.
3. A rising pound would make British exports more expensive, imports cheaper and British manufacturing would thus decline.

The financial nexus offered a solution to this problem: if exchange controls – i.e. state-imposed restrictions on the movement of capital out of the UK, then in force – were abolished, some British capital would leave and this wealth going out would counterbalance the new wealth coming in from the North Sea. There would be no trade surplus and thus no rising pound. Freedom to move money – what the City had sought since 1945, but had never really expected to get – would solve the problem.[2]

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1 <https://tinyurl.com/sts4sfq> or <https://www.dailymail.co.uk/news/article-8060473/Britain-doesnt-need-farmers-reveal-leaked-emails-senior-government-official.html>

2 Some of the material in this was used in 'Well, How Did We Get Here?' in *Lobster* 60. See p. 62 et seq. of <https://www.lobster-magazine.co.uk/free/lobster60/lobster60.pdf> where there is an account of Operation Robot, the attempt in the 50s to get financial 'freedom' for the City.

The economist Gordon Pepper was then the monetary expert at the City firm of Greenwells. Nigel Lawson tells us that he was also a man with Mrs Thatcher's ear.[3] Pepper edited a *Special Monetary Bulletin,* the 1 July 1977 edition of which was 'The Economic Implications of North Sea Oil'. Pepper concluded that sterling should be allowed to float freely and exchange controls should be relaxed, allowing the oil revenues coming in to be balanced by capital exports going out. He concluded:

> 'If the authorities do not intervene heavily in the foreign markets and resist an appreciation of the pound then North Sea oil will have a beneficial effect on the economy. If . . . they continue their present policy of intervention to push the [sterling] rate down, monetary growth will tend to be excessive and will damage growth.'

In one neat little package, concern about monetary growth produces the abolition of exchange controls and an appreciating pound – the two things the City wanted. But Pepper said nothing about the effects an appreciating pound would have on the domestic manufacturing economy.

On 27 August 1977 *The Times* reported Shadow Cabinet member Leon Brittan stating that, 'the best use the UK could make of the economic benefits of North Sea oil would be to let the pound rise in a genuinely free float'; on 29 October it reported Shadow Treasury minister David Howell advocating a 'strong pound'; and on 1 November it reported Shadow Chancellor Geoffrey Howe claiming that:

> 'Relaxation [of exchange controls] would also prevent the pound from rising artificially high and damaging the competitiveness of our exports . . . [and] would boost overseas investment and increase opportunities to improve Britain's invisible exports.' [4]

De-industrialisation is good for the UK

The idea that the oil revenues would raise the value of sterling and thus damage manufacturing was taken up in the business and finance media. On 26 November 1977, the *Economist* discussed the so-called 'Dutch disease' – the experience of the Dutch economy in the early 1970s when gas from the North Sea hit the Dutch economy. The resulting reduction in energy imports caused a trade surplus, and a rise in the value of the guilder. This made Dutch exports more expensive and imports cheaper. Writing for *The Times* in the same

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[3] Quoted in Peter Riddell, *The Thatcher Government* (London: Martin Robertson, 1983) p. 34.

[4] The general tenor of the oil debate can be seen in *The Times* Index for 1977, especially p. 375, under Economic Situation and Policy.

month, Hugh Stephenson also concluded that the 'Dutch disease' could be avoided by lifting exchange controls.[5] For the most influential financial journalist of the period, Samuel Brittan, scrapping exchange controls was the 'only serious way of preventing North Sea oil from imposing a contraction in manufacturing. . . .' [6] Brittan's piece was headed 'Deindustrialisation is good for the UK'.

On paper, if wealth going out is balanced by wealth coming in, the effect on the exchange rate should be zero. But it seems to have occurred to no-one in this period that, on top of the appreciation of the pound expected from its imminent status as a 'petro-currrency', the government would raise interest rates to 'control the money supply'. Which is what the Conservative government elected in 1979 did. Increased interest rates made the pound attractive, pushing up the value of sterling. Frank Blackaby noted that, during the great rise in the international value of the pound in 1980, while the government hoped that a substantially increased capital outflow would help to keep the exchange rate down, it did not happen:

> 'Far from *discouraging* capital inflows, the government – pursuing a high interest-rate policy in the interests of its money supply target – has *encouraged them.*' [7] (emphases added)

The abolition of exchange controls and a government willing to impose high interest rates 'to control the money supply' produced what Tom Nairn described as 'dream conditions for London's financial apparatus in 1980 and 1981'.[8]

For that 'financial apparatus' in London, the beauty of the simple-minded 'monetarism' which the Thatcher government espoused in 1979 and 1980 was the way it justified putting up and keeping up interest rates. Until sterling M3 – the measure of the money supply chosen by the Conservative government – behaved in the way predicted by the theories, interest rates (and the value of

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[5] Hugh Stephenson, *The Times* 7 November, 1977.

[6] The *Financial Times*, July 3 1980. The same view was expressed by Roy Peters in 'Overseas Portfolio Investment – Developments Since the Abolition of Exchange Controls', in the *NatWest Quarterly Review*, May 1981: 'It may be that the only way to protect manufacturing industry in the short term is to ensure that there are sufficient outflows on the capital account to stop sterling rising further.' There are, of course, other ways to prevent a currency appreciating, of which maintaining extremely low interest rates is the the most frequently used.

[7] Frank Blackaby, 'Exchange-rate Policy and Economic Strategy' in *Three Banks Review*, June 1980. Blackaby worked for National Institute of Economic and Social Research (NIESR). See his obit at <https://www.theguardian.com/news/2000/may/20/guardianobituaries>.

[8] Tom Nairn, *The Break-up of Britain* (London: Verso, 1981) p. 392

the pound) would rise. Throughout 1980, as sterling M3 refused to behave, the value of the pound rose – eventually up to $2.40, the level it had been in 1967 – and British manufacturing slumped.

Oil revenues provided a convenient explanation for that rise in sterling. A headline in the *Sunday Times* Business News of 20 July 1980 proclaimed, 'How North Sea oil is killing our industry'. Writing in the July 1980 journal *Fiscal Studies*, P. J. Forsyth and J. A. Kay further stated that '. . . [a] contraction of manufacturing output, and an increase in the domestic absorption of imported manufactures, are the *only means* by which the British economy can benefit from the North Sea'. [9] (Emphasis added.)

Former Treasury mandarin, Leo Pliatzky:

> 'It was a strange period to look back on. There appeared to be a great gulf between attitudes in much of the City and in industry throughout the country. In some quarters there was a Khomenei-like fanaticism about, a reluctance to see the connection between high interest rates and a crippling exchange rate. North Sea oil had made sterling a petro-currency, it was alleged; the days of manufacturing were over.' [10]

Deindustrialisation was being considered. We learn from Frank Blackaby that, in 1978,

> '. . . a senior Treasury official laconically remarked, "Perhaps we can either have North Sea oil or manufacturing industry, but not both."' [11]

Later, the City's commentariat changed the story. It wasn't that we had to lose manufacturing to make room for oil but that Britain was on a natural evolutionary path towards a post-manufacturing, service economy. It did not matter that Britain was making fewer and fewer products: they would be replaced by 'financial products' – a term which came into use in the mid-1980s as the language followed the money. This became the received wisdom within the Treasury. Political journalist Edward Pearce recounts how a 'Treasury knight' – i.e. one of the very senior civil servants in the Treasury – said to him of John Major's period as prime minister (1992–97):

> ' . . . that though very fond of Mr Major, we worried a little at his anxiety about manufacturers. He wasn't very happy with the analogies we made

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[9] Forsyth and Kay were to repeat this claim in *Fiscal Studies* exactly one year later, acknowledging that their previous 'conclusion has been the subject of considerable controversy' – although they did not explain how a contracting manufacturing base and increasing imports could in any way benefit the UK.

[10] Leo Pliatzky, *The Treasury Under Mrs Thatche*r (Oxford: Basil Blackwell, 1989), p. 128

[11] Frank Blackaby, see note 7.

> about Switzerland, *so prosperous entirely from service industries*, so it was necessary to let him make friendly things (sic) to the manufacturing people.' [12] (emphasis added)

Mrs Thatcher also bought this line. In his memoir, the former BBC political correspondent, John Cole, describes asking Mrs Thatcher for an example of how this 'service' or 'post-industrial economy' would work:

> 'She cited an entrepreneur she had met the previous week, who wished to take over Battersea power station and turn it into what we both then knew as a "Disneyland", but subsequently learned to call a theme park.'

The next day Cole recounted this to the Economic Attaché of the United States embassy:

> 'He looked at me in genuine astonishment, thoughtfully laid down his fork, and exclaimed: "But gee, John, you can't all make a living opening doors for each other."'[13]

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[12] The *Guardian* 8 January 1992. There appears to be nothing on these lines in Major's autobiography.

[13] John Cole, *As It Seemed To Me* (London: Weidenfeld and Nicolson, 1995) p. 209