

## Keith Cowling

# The Heartland of Depression



The West Midlands region, centring on the vast, industrial conurbations of Birmingham, Coventry and the Black Country (now brought together as the West Midlands Metropolitan County), and including adjacent counties like Warwickshire and Staffordshire, is now in deep crisis. The recent history of this industrial heartland, with the car industry being perhaps the best-known activity, has been unique in two respects; in the relative decline from boom to slump and in the relatively advanced state of local interventionist policy. It therefore provides an extreme case for the examination and understanding of the process of decline of the British economy under the recent restrictionist policies of both Labour and Tory administrations and of the sort of response to local crises which are currently being formulated by left wing local administrations. Such examination and understanding can provide relevant input into the process of fleshing out the local and regional aspects of the alternative economic strategy.

### DE-INDUSTRIALISATION IN THE WEST MIDLANDS

The West Midlands is predominantly involved in manufacturing, and, within manufacturing, predominantly in engineering, producing mainly capital goods and consumer durables, particularly cars.<sup>1</sup> The state, in response to the economic crisis, has introduced a package of policies over recent years aimed at shifting the balance of power between capital and labour decisively in the direction of capital. This has been most marked in the period of Thatcher's government. The cost of achieving this is heavy and the West Midlands has borne the brunt of the onslaught because of its manufacturing base and the degree to which control over the manufacturing process within the region has been appropriated by labour.

Domestic manufacturing output can relatively easily be substituted by foreign manufacturing output: if the domestic currency appreciates relative to foreign currencies then foreign output will tend to replace domestic output in both domestic and foreign markets. Over the past three years the appreciation of sterling has been enormous and the recent decline relative to the dollar has by no means restored the international competitiveness of British manufacturing. The magnitude of the decline in international competitiveness has to be stressed. Britain's return to the gold standard in the 1920s is always talked about as a period of sharp decline in Britain's international competitiveness but the last few years has witnessed a decline which is probably four times as big — a roughly 40% reduction in international competitiveness.<sup>2</sup> For manufacturing particularly this represents a fundamental change affecting both import penetration and export performance. The dramatic impact is revealed in the most recent trade figures when for the first time in recorded history Britain's trade balance in manufacturing was in deficit.

The appreciation of sterling despite the relatively high level of inflation in the UK has been brought about by the conjunction of the increasing exploitation of British oil, the government's restrictive monetary policy which has forced up the domestic rate of interest, and government expenditure cut-backs which have held down the growth of domestic output and therefore reduced imports of raw materials into the UK. Coupling the massive resulting change in the exchange rate for sterling with domestic cut-backs in the face of a world slump, induced by a world capitalist consensus favouring 'monetarist' policies, has led to a rapid downward spiral in UK output with a particularly marked impact on manufacturing, and

therefore on the West Midlands.

### Impact on jobs and earnings

Since 1965 manufacturing employment in the UK had fallen by over 2.3 million by 1981, representing a reduction of almost 28%. For the West Midlands manufacturing employment fell even faster. More than 400,000 jobs were lost between 1965 and 1981, representing a reduction of 34%. Most of this reduction has come very recently. Between 1975 and 1981 more than 20% of manufacturing jobs were lost in the region, but it is in the period since 1980 that the stream of job losses has turned into a torrent, this period corresponding to the dramatic reduction in the international competitiveness of British industry. Between June 1980 and June 1981, 147,000 jobs were lost in the region and in the following six months another 35,000. Over the last six months job losses have averaged 7,000 a month leaving the current level of unemployment at 16.9% and climbing. This contrasts sharply with the position in 1965 when the region had an average rate of unemployment of 0.9%, equal lowest in the country along with the South East and East Midlands. Now the region's level of unemployment is only significantly exceeded by the North and Northern Ireland.

The region's plight is undoubtedly having an impact on wage settlements as well as jobs, and this will have a knock-on effect through the regional economy via the lower levels of expenditure of those in employment inducing further rounds of job cut-backs primarily in service sectors.<sup>3</sup> Most people are well aware of the very low wage settlements in BL over recent years, which have implied sharp cut-backs in real wages, but the general effect can be seen in the regional break-down of earnings as reported in the Department of Employment's *New Earnings Survey*. In 1968 earnings in the West Midlands were close to the highest in the country eg, the gross weekly earnings of full-time manual men, 21 years and over in the

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West Midlands ranked second highest in the country. By 1981 West Midlands earnings in this category had dropped to eighth position in the regional table (out of a total of ten regions), and the same was true for non-manual workers.

### Immediate outlook

What does the immediate future hold for the region? Plans for further major redundancies are in the pipeline, and more are being announced almost daily, along with further extensions of short-time working. Alvis, Automotive Products, Courtaulds, Talbot and various machine tool firms have all announced plans for very considerable job cut-backs, and even highly profitable enterprises like Rolls Royce Aero and GEC have recently made clear their determination to reduce significantly the size of their labour force. For example Rolls Royce Aero's declared aim was to reduce its labour force in Coventry by almost one-third between 1981 and the end of 1982 and this has now received union agreement.<sup>4</sup> Short-time working has been introduced for BL Metro production workers at Longbridge and this will inevitably mean cut-backs and short-time working in the automotive components sector, particularly within the region.

All this means that an increase in the average rate of unemployment in the West Midlands to over 20% in the near future is almost inevitable. In some cases, for example Jaguar cars, the situation will have stabilised or improved because of the recent appreciation of the dollar in response to Reaganomics, but this is a tiny chink of light in a picture of otherwise unrelieved gloom. Even in the case of new and

relatively successful products, like the Metro, cut-back rather than expansion is the order of the day. Until there is a massive shift in government economic policy, and/or in the economic policies being followed within the major Western advanced industrial countries, the regional economy will remain in deep slump.

### Business attitudes

This is clearly recognised by the top managers of industrial firms within the Midlands. The Council of the West Midlands Section of the Confederation of British Industries was the first to take issue with the government over its talk of an upturn in the domestic economy.<sup>5</sup> There are obviously now strong elements within the CBI nationally calling for a change in government policy and the industrial heartlands of the West Midlands will be strongly represented in this movement. Splits are beginning to appear in business's position on Thatcherism and those elements with a strong industrial base within the British economy, and with a limited presence internationally, will have a rather different perception of the issues than will the City and those industrial firms whose production is less deeply rooted within the domestic economy. Dominant elements of West Midlands capital can be expected increasingly to urge significant changes in domestic economic policy. They have certainly used the Tory inspired slump to secure fundamental changes in the organisation of production, witness for example the BL Metro plant and Rolls Royce at Coventry<sup>6</sup>, but the point is that these changes, considerable though they might be, have not solved the capitalist problem. Consider the case of BL under Edwardes which clearly had a vanguard role in the process of reasserting managerial control over production and a reduction in real wages.

Over the period since 1968, when BL in its present form was created out of the union of British Motor Holdings and Leyland Motors, BL persistently made profits *except* for a single year — 1975, despite the fact that many have, probably justifiably, claimed that management over this period was incompetent. Since Edwardes took over in November 1977 BL had made profits in *only* a single year — 1978, the one year in which his policies would of necessity have limited impact. Since then his regime has been responsible for a persistent accumulation of huge losses, totalling more than one *billion* pounds over the past four years. In his retirement speech Edwardes said "The picture is of a sustained reduction in losses

<sup>1</sup> In 1965 1.18 million people were employed in manufacturing in the West Midlands, representing 50.6% of total employment. This contrasted with the national situation where only 36.2% were employed in manufacturing in the same year. Direct employment in the production of vehicles in the West Midlands numbered 227,000 at that time.

<sup>2</sup> See estimates made by Marcus Miller which are reported in an article by Jeremy Bray, *New Statesman*, August 8 1980.

<sup>3</sup> The particularly difficult bargaining environment for labour is revealed by the extremely high ratio of unemployment to vacancies in the West Midlands compared with the nation as a whole. For example, in the West Midlands County in June 1982, for craft and similar occupations for every one vacancy there were 75 unemployed whereas for the nation as a whole (GB) there were 23 unemployed. For general labourers there were 669 unemployed for every vacancy in the County compared with 190 for the nation as a whole (GB). (Source: *Briefing Note — Unemployment*, West Midlands County Council, Economic Development Committee).

<sup>4</sup> See *Financial Times*, August 19, 1982 p6.

<sup>5</sup> See *Financial Times*, August 9, 1982 p24.

<sup>6</sup> The Metro case is quite well-known, with substantial increases in labour productivity being gained in the production of a new product in a newly equipped plant, but the more recent cases of Rolls Royce, Parkside, Coventry is in many ways more remarkable. The deal agreed with unions requires a 70% increase in productivity within the next three years without the advantages of a completely re-equipped plant as was true in the Metro case.

. . ." but failed to point out that the level of losses is very similar to what it was in 1979 when his policies were beginning to be inaugurated, and that the previous profit performance of the company had been superior.' Now of course too much should not be heaped at Michael Edwardes' door, given that it can be reasonably argued that the economic environment surrounding BL was generally a hostile one during the Edwardes era. However what has to be stressed is that the fundamental problems of the British industrial economy cannot be solved by policies encapsulated in a mixture of Thatcherism at the national level and Edwardesism at the industry level. That there are fundamental problems is not in doubt, that there is no other way of dealing with them is not a serious proposition.

### A STRATEGY FOR RECOVERY

Two things should clearly emerge having considered the recent economic holocaust of British industry as represented by the extreme case of the West Midlands. First that a fundamental change in the macroeconomic stance of the central government is essential for general recovery to take place. And second, that in addition there must be a change on the micro side — at the level of decision-making within the enterprise and within the region, otherwise there will be an inevitable return to the old cycle of events. Keynesianism, as reflected in reflationary policies by the state, is a necessary but not sufficient condition for substantial recovery.

The general elements of a reflationary macroeconomic policy are now familiar as part of the various versions of the alternative economic strategy (AES). Perhaps it would be useful to pick out the main elements of such a strategy as they relate to the recovery of the manufacturing sector within the UK, with obvious extension to the recovery of the West Midlands. It is now transparently clear to anyone with eyes to see that the main restraint to any expansion of output and employment in British manufacturing is the lack of demand for such output. The CBI *Industrial Trends Survey* reveals that in July 1981 98% of respondents (ie firms in their sample) in machine tools believed 'that lack of demand was likely to be an important factor in limiting output in the coming months', and only 1% believed that 'plant capacity would be an important factor in limiting output . . .' Similarly in motor vehicles, 92% believed the former and 8% believed the latter. Clearly the stimulation of demand by the government could be expected to result in an expansion of output, hours of work and ultimately employment in these key sectors of West Midlands industry. There would be obvious knock-on effects through both the regional and national economy, for example via steel, electricity and coal, sectors which are also experiencing very high levels of excess capacity.

### Input controls

All this looks fine except that the question arises, if demand is stimulated by a combination of fiscal (ie injections of government expenditure and/or tax cuts) and monetary measures, how can we be sure that this will not immediately be siphoned-off in an expansion of imports and a subsequent deterioration in the balance of trade? As we have argued British manufacturing has been recently devastated by a combination of declining international competitiveness, due to an appreciating currency, and a domestic and international slump engineered by restrictionist state policies. If we were simply to relax such restrictionist policies the impact on the world economy would be beneficial but the impact on British manufacturing and specifically the West Midlands would be muted. To some extent the problem would be self-correcting because the relative expansionary policies of the British government would inevitably lead to a depreciation of the currency and would therefore go some way to mitigating the present lack of competitiveness of British manufacturing.

This process could be extended by policies aimed at reducing the British rate of interest and/or reducing the rate of exploitation of British oil.

But this issue should not be addressed simply by focusing on the exchange rate. Whilst a significant depreciation of the exchange rate will have a beneficial effect on British manufacturing output, and therefore the West Midlands, it will also have other less attractive features. The price of food and raw materials will inevitably rise, with undesirable consequences for inflation and the distribution of income. This could be countered in various ways but it may be more convenient to introduce import controls on a range of strategic, manufactured goods rather than a general devaluation. This should not be seen as an attempt to isolate Britain from the international community but part of an attempt to wrest the control of trade from the dominant, multi-national corporations. The aim will be to restore the manufacturing base in the West Midlands and the UK in general in order to allow the British economy to grow at a much faster rate than it otherwise would have been able, and in the process to provide a bigger market for the rest of the world economy.

I have been briefly through the elements of macroeconomic strategy because it is clear that the West Midlands manufacturing base cannot be restored by policies operating purely within the West Midlands. The Edwardes era demonstrated that BL could not be restored to profitability, despite huge job losses, and massive reductions in real wages and increases in productivity, when the macroeconomic stance of the government was so clearly antagonistic to domestic manufacturing. Similarly it would be extremely difficult to revive economic activity by focusing exclusively on firms in the West Midlands in terms of expansionary policies.' However this does not mean that a microeconomic and/or regionally based policy should be ignored. The present depressing period for the Left



should be used to set up at least the beginnings of a new system of production and investment. It is essential to extend the degree of social control over the pace and direction of investment and the organisation of production not simply because of its direct short-term implications for those workers directly involved but also because of the longer term dynamic implications.

### Democratic control

Two interrelated themes can be distinguished. First the present policies of the government can be seen as a response to the growth of the power of organised labour which had, directly or indirectly, led to a decline in the rate of profit in the UK. To the extent that such policies have secured their objective of shifting the balance of power between capital and labour in favour of capital then the gains made by labour have been seen to be reversible. It would seem to me that many gains *have* been seen to be reversible which would indicate that advances made were less secure than they appeared at the time. New structures will need setting up within which future gains will

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be less fragile and in which democratic control over production and investment will be more durably established.

The second and related theme is the extent to which British economic development has been retarded by the activities of workers and their unions in resisting innovations, because of their anticipated impact in terms of job loss, deskilling or loss of control over the production process. Some have suggested<sup>10</sup> that this is the fundamental explanation for the relative decline of the British economy in the twentieth century, but even if simply one important factor among several it must lead any coherent alternative economic strategy towards an important role for democratic control in production and investment not simply on grounds of dynamic efficiency." Thus to make gains made by workers more durable, and to remove impediments to growth, it is vital that we develop new structures of democratic control. But does this mean working simply at the level of the enterprise? It would seem to me that there are strong grounds for arguing for a regional or sub-regional level of cooperation. The fragility of past gains, usually made at the level of the individual plant, has revealed the weakness of economic advances.

Democratic control needs broadening so that advances at the level of plant or enterprise gain broad community support. This will require the involvement of powerful groups of workers in securing broad social advances in the community at large. One of the problems faced by BL workers during the initial attack on them was the lack of public sympathy for their plight. This was undoubtedly partly due to powerful doses of media propaganda. They were generally seen as a selfish group of highly paid workers, predominantly male, who had little interest in the problems of other, severely disadvantaged groups in their immediate community. As the plight of BL workers worsened attitudes to them changed, but the initial reaction was surely one of the important factors leading to the reversal of the very real, albeit narrowly based, gains. The involvement of industrial workers in the National Health Service dispute is hopefully the beginning of a more broadly based process of advance which will make government inspired reversals anywhere in the community much more difficult to obtain.

### REGIONAL ORGANISATIONS FOR ECONOMIC ADVANCE AND DEMOCRATIC CONTROL

Two types of organisation could provide an important regional

structural dimension to the alternative economic strategy and play an important role in reversing the process of decline in regions like the West Midlands. First, Regional Enterprise Boards (REBs) would provide a platform for advance not simply in terms of production, employment and investment, but also in terms of extending democratic control over these processes by tying the funding of private enterprise to changes in worker participation and by acquiring an equity holding in such companies, with community representation on the board, and, in the case of new enterprises, encouraging the development of workers co-operatives via funding and professional advice. The involvement of unions in these activities could be secured at various levels: by representation on the Regional Enterprise Board, by involvement in working out the agreement with the particular company, by representation on the board of the company (whilst recognizing the obvious potential dangers,) and by involvement in the initiation, planning and funding of worker co-operatives.

In addition the pension funds of workers in the region could be channelled into these regional ventures.<sup>12</sup> This is doubly important because as well as providing a huge, potential source of funds for the expansion of the industrial base of the region it would have the added advantage that it would provide a further line of advance for domestic control within the regional community. It would provide a strong element of independent action to the local community within the overall national plan of the AES. This does not imply that state funds from some National Enterprise Board should not be used by the Regional Board, but rather that such funds would provide only an element, albeit a very significant element. Second, other organisations which could play a much more powerful role in co-ordinating advance in the community are the Regional TUCs<sup>13</sup> at one level, and the trades councils at the local level. They could provide — more than now — the means whereby the strength of one group could be channelled into supporting the advance of various weaker groups in the local community, and in turn would provide a rallying point when the relatively strong are subjected to attack. They could also provide a forum for discussion of the activity of the Regional Enterprise Board, especially where the plans of one enterprise have

<sup>7</sup> See *Financial Times*, Thursday 16 September 1982.

<sup>8</sup> Edwardes way of presenting the picture is strangely reminiscent of Mrs Thatcher's claims concerning the reduction in the rate of inflation.

<sup>9</sup> A policy of subsidising price cuts by BL in order to extend output and employment, which I have previously advocated (*Marxism Today*, August 1981), may be an exception to this general proposition. However it would have to be seen as part of a national economic policy and its efficacy would depend on the response of rivals in the car market to price-cutting by BL.

<sup>10</sup> A Kilpatrick and T Lawson (1980) 'On the Nature of Industrial Decline in the UK', *Cambridge Journal of Economics*, March.

<sup>11</sup> See Bernard Stafford (1982) *The Super-Multiplier, the Class Struggle and the Alternative Economic Strategy* Socialist Economic Review Conference, September.

<sup>12</sup> The theoretical arguments for rejecting the usual rate of return criterion have been made by Richard Minns, who has also written the definitive book on the role and significance of pension funds, *Pension Funds and British Capitalism* (1980). The arguments are basically Keynesian. The success of the pension funds depends not only on the rate of return on its assets but also on the entry of participants into the scheme. Insofar as such growth is conditional on the growth of the local economy, pension fund investment in the local economy will have a built-in self-financing element. The fund can therefore justify investing in local enterprises even if the rate of return is lower than for investing in, say, Japan.

<sup>13</sup> For example, the West Midlands Regional TUC has become 'increasingly concerned at the local progress in opening Unemployed Workers' Centres in the Midlands and has indicated an interest in discussions with the County Council concerning a wider, more dramatic initiative with the unemployed ...' *West Midlands County Council Economic Development Policy Progress Report*, July 1982. The same TUC has also produced *Our Future: A Planned Programme of Economic and Social Advance* (1981).

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important side-effects on workers in other enterprises in the region.<sup>14</sup> Again mutually supportive activities would be encouraged.

### THE WEST MIDLANDS ENTERPRISE BOARD (WMEB)

One reason for focusing on the West Midlands is that the plans and activities of the West Midlands Council in setting up an Enterprise Board are more advanced than elsewhere and it is interesting to see what has been achieved so far, what is likely to happen in the near future and to comment on its significance in terms of building up a system of intervention which will eventually play a substantial role in reversing the decline of the West Midlands.

According to the Progress Report on Economic Development Policy<sup>15</sup> 'the purpose of the (West Midlands) County Council's economic strategy is to defend and promote employment and investment levels in the West Midlands County'. To this end the County has created an Economic Development Unit, an Enterprise Board and three Cooperative Development Agencies. The Enterprise Board was formed in February of this year and currently has a budget of £3.5 million provided by the rates. Efforts are now being made to secure funds from various pension funds but nothing has yet been finalised. A first investment has been made in a medium-sized firm producing aluminium die casting for such customers as the Ford Motor Company and it has been suggested that the equity investment of £0.45 million by the Enterprise Board has secured the future of 140 jobs. A further 30 proposals are currently being investigated and it is rumoured that Triumph (Meriden), the workers' cooperative motor cycle manufacturer, could be the next major recipient of funds. The County has also been involved with the Industrial and Commercial Finance Corporation in an investment subsidy scheme and during 1982/83 £0.25m. was used with an



estimated 151 jobs being created. Ten small cooperatives have also received funding from the County.

Although clearly an important beginning the programme as yet looks very limited, obviously in relation to the magnitude of the problem, but also in relation to the manifesto plans of the West Midlands County Labour Party. That document suggested an initial fund of £38 million, with £30 million coming from the County Pension Fund (corresponding to the maximum permitted level of 10%) and £8 million coming from the product of a 2p rate. Access to pension fund money is clearly the key to the significant development of the activities of the Enterprise Board and the delay in finalising arrangements could indicate the presence of a substantial road block. This is not surprising given the conservative traditions of these institutions, but it is possible that Mr Geoff Edge's (Chairman of the Economic Development Committee) declared pragmatism will eventually succeed in extracting substantial funding from this direction.

Despite being limited in magnitude the activities of the Board will provide much useful experience for the time when some form of alternative economic strategy is inaugurated and in the meantime will offer at least some hope of industrial regeneration even in the current alien climate of Thatcherite policy. Elements of social control are being injected into the investment process and those firms receiving funding, or subsidised interest rates, are completing some limited form of planning and investment agreement with the County. The contents of such agreements can develop into more complete documents as experience is gained. At the moment, however, industrial democracy seems to be taking a back seat in these deliberations and it will be important to get unions involved in the process as early as possible. Nevertheless the County is already funding Trade Union Resource Centres (eg Coventry Workshop), consulting trades councils 'wherever possible' and pushing for Unemployed Workers' Centres. What is required is a more direct involvement of the unions in the actual processes of the Enterprise Board and in the drawing up of the broad industrial strategy.

Assuming that extra funding is forthcoming to make the Enterprise Board a significant force, and assuming that the objective of

industrial democracy gradually comes more to the fore, and of course neither is automatic, then are there any remaining important issues? Three, at least, come to mind — the criterion for investment, the problem of competitive subsidies and the question of an overall socialist strategy for the region.

### Three issues

In a paper to the Economic Development Committee in November 1981 the chairman, Mr Geoff Edge, identified the strategy of the Enterprise Board. In that paper he argued that in computing the rate of return on investments account was to be taken of lost rate income and social services expenditure which would have resulted if the investment had not taken place. 'This social accounting approach should be used when looking at the Enterprise Board on all its investments; the result will be a higher rate of return to the community as a whole than to any single investor.' (Economic Development Committee, November 1981) More recently in interviews with the *Financial Times* (August 18 1982) and the *Coventry Evening Telegraph* (September 20 1982), commercial viability has been stressed. No doubt this reflects his anxiety to assuage the fears of the pension funds rather than any radical departure from the original aims, but it is now critical that the Enterprise Board develops policies which are consistent with both the financial objectives of the pension funds and the broader social objectives of the County."

The second issue relates to the potentially competitive activities of the various Regional Enterprise Boards which are evolving or which might evolve within the context of the alternative economic strategy. This is perhaps most obvious in the case of subsidised interest rates but has quite general implications. Regions could end up competing for a relatively fixed number of jobs by the competitive subsidisation of the costs of capital. This would clearly not have the redistribution outcome which was being sought. To avoid this sort of process developing would require careful coordination of the policies of the regional boards via some National Enterprise Board on which the regional boards were represented.

The third issue relates to the problems created by the lack of a plan or strategy for the region as a whole. Indeed it could be argued that such enterprise boards only make sense as components of a system of industrial planning." But this would be taking things too far. Worthwhile regional plans are clearly difficult to draw-up and it is probably better to proceed, as they have done in the West Midlands, to get experience of intervention and to restrict the development of an industrial strategy to a, necessarily crude, attempt to identify areas of possible intervention. Nevertheless a framework of socialist strategy within which to assess initiatives and intervention will be increasingly required.

Finally it needs to be reiterated that enterprise boards by themselves cannot regenerate the industrial economy. Whilst important steps forward can be taken now the full impact of a system of Regional Enterprise Boards cannot be realised until they are able to operate within an economy under an expansionary macroeconomic regime. Any full solution to the crisis of the West Midlands, and of other regions, must wait a radical change in macro-policy, but this does not mean that the beginnings of significant social and economic advance cannot now be laid within the regions. •

<sup>14</sup> Coventry Trades Council is now involving itself in preparing a Plan for Coventry, a development which could have great significance if properly followed through.

<sup>15</sup> West Midlands County Council, July 1982.

<sup>16</sup> See S Burchell 'Local Authority Enterprise Boards; The West Midlands Enterprise Board' *Socialist Economic Review Conference*, September 1982.

<sup>17</sup> See A Sharples 'Alternative Economic Strategies: Labour Movement Responses to the Crisis' in D Currie and R Smith (eds) *Socialist Economic Review 1981* for an analysis of the issues at national level.