Are Development Studies Relevant to British Problems? [1]

M.Phil Faculty and Students (1977)

This paper is different from all others in this reader – being the result of a joint effort by the students in the second MPhil course (1975–77) at IDS and the course's director, Dudley Seers. Early in the course, the students had challenged the preoccupation in the syllabus on issues in 'developing countries', asking why there was hardly any consideration of development policy and experience in Britain itself. In response, Seers adapted the syllabus to include a major case study of what was at the time a new concern for British policy: the discovery of North Sea Oil and its implications for development policy in Scotland and the rest of the UK in general. The case study involved several months of intensive work and research by the students, including visits to London and Scotland and interviews with many of those involved in policy making at the time. The result was a substantive paper by the MPhil Faculty and Students, 'North Sea Oil: The Application of Development Theories', issued as IDS Communication Paper Number 121 in 1977. The section included below is from the opening chapter of the study, for which Dudley Seers prepared the first draft. The whole paper is available including the analysis and conclusions from IDS.

The paper led on to several years of further research by Dudley Seers and others at IDS on 'Under-developed Europe' and a number of books, paper, including an IDS Bulletin, Britain as a Developing Country, Volume 9 No 2,1978 (edited by Robin Luckham and Richard Jolly).

The implications of perceptions and theories in the development field

Conventionally the field of development has been confined to 'developing areas' – broadly Asia (except Japan), Africa and Latin America, apart from islands in the Caribbean and the Pacific. Indeed some graduate courses in 'developed' countries on development only take students from those continents, which are also the focus of nearly all development research.

1 M.Phil Faculty and Students (1977) *North Sea Oil: The Applications of Development Theories,* IDS Communications 121, Brighton: IDS

However, the classification is no longer so clear cut. Many ‘developing’ countries (notably the oil exporters) have higher per capita incomes than some of the ‘developed’ countries. Moreover, typical problems of ‘developing’ countries – a chronic foreign exchange shortage, persistent unemployment and unremitting inflation – can be found in Southern Europe too, indeed also now in some countries of Western Europe. These problems stem from similar basic causes – especially reliance on foreign companies for capital and technology. It is clear that neither Keynesian nor monetarist schools of neo-classical economics can provide for Britain, any more than for ‘developing’ countries, a cure for chronic unemployment. Naturally, therefore, some social scientists are starting to look at European countries with the frame of reference of development studies. This does not imply that there is just one theory of development. On the contrary, there is of course a great variety – neo-classical, structuralist, dependency, Marxist – all fundamentally different, even in how they interpret ‘development’. To simplify grossly, while development connotes growth to the neoclassical economist, it means diversification to the structuralist, self-reliance to the dependency theorist and changing modes of production and class relationships to the Marxist.

There are consequently fundamental differences in strategy. Neo-classical writers claim that fast growth requires freely competitive markets for both products and factors, both nationally and internationally: and the state’s main role is to ensure that markets operate efficiently. Other theorists point to the failure of growth-oriented strategies to solve social problems and to their association with political repression. Structuralists emphasise institutional ‘bottlenecks’, such as shortages of infrastructure or antiquated systems of land tenure, and urban-rural contrasts: this implies the need for planned state intervention to achieve what market forces are considered incapable of accomplishing. Dependency theorists (an offshoot of the structuralist school) pay special attention to the external context of problems, stressing the power exerted by ‘core’ countries over those in the ‘periphery’. Marxists focus on the struggle between labour and capital within the world capitalist economy which (in one version) transitively ‘*under* develops’ the neo-colonics: the only way forward is to change this system.

There are further distinguishing characteristics. Broadly speaking, those at the neo-classical end of the spectrum tend to concentrate attention on fluctuations and short-term trends; Marxists to insist on an historical approach and long-term dynamics. Consequently the work of neo-classical economists is more likely to be of use to governments in power, as it is often designed to be; whereas Marxists tend to view governments (at any rate in capitalist countries) as part of the problem, i.e. to be studied or overthrown rather than advised or served.

Most structuralists emphasise ‘cultural’ factors, such as consumption tastes, technologies, political attitudes and professional theories. Special attention is paid by the ‘dependency’ school to foreign influences on these and they are consequently sceptical about the capacity of governments to act autonomously, being constrained not only by economic and political but also by cultural dependence. So development theorists differ in the basic questions they analyse (and the different priority attached to them), in the time horizon, in the choice of factors considered variable and manipulable and in the level of analysis. This naturally means that they do not all write even the same *type* of book about a national problem – such as the impact of oil.

At the neo-classical, policy-oriented, short-term end of the theoretical spectrum, the emphasis would be aggregative and about issues like ‘optimal’ rates of taxation and depletion (related to time discount), ‘optimal’ probably being ultimately defined in terms of maximising national income. At the other end of the spectrum, the analysis would concentrate on the interests of the various social classes in mineral development, interests which would be treated as basically different and inconsistent, and on how these have been reflected in the reactions of the State, including its various agencies. The institutional roots of ownership (what companies from which countries) would be of fundamental significance because most Marxists (and dependency theorists) would see as a major determinant of policy the balance of power between foreign capitalists and national capitalists and – within the latter – between sections allied to foreign capital and those opposed to it.

In actuality the theoretical compartments are by no means scaled off from each other. There are deep divisions within each school and a multitude of hybrids. Thus many neo-classical economists are critical of existing income distributions and allow some role for state intervention, because of 'externalities' that are not reflected in prices and also market imperfections: these economists are in practice not far removed from structuralists, especially those who also attack 'distortions' in factor prices. Most structuralists and dependency theorists emphasise the importance of social classes (though not by any means necessarily confined to the conventional Marxist categories). The 'core' countries of the dependency school are not very different from the 'imperialist' countries of Marxist analysis. Many who would call themselves Marxists allow autonomous importance to perceptions, theories, etc., although these form part of the 'superstructure' in orthodox Marxist analyses, where, just as for the neo-classical school, economic factors are dominant.

Indeed it would be a mistake to look at the theoretical spectrum as simply a straight line from Right to Left. Further similarities between neo-classical and Marxist economists are that they both give very heavy emphasis to the role of capital accumulation in development (and therefore to financial influences) and little to short-term institutional change (in the ease of Marxists because the emphasis is on occasional social convulsions, whilst neo-classical economists largely ignore institutional developments). They also both make a basic assumption that factor and product markets tend to be competitive under capitalism – Marx's 'Law of Value'. These common elements reflect a common origin in the classical economics of Adam Smith and Ricardo.

Social scientists in 'developing' countries (except perhaps for a few who have spent several years at foreign education establishments) also tend to share one common assumption, that nationalism is a progressive force, indeed the only foundation on which one can build the tastes, technologies, attitudes and theories necessary for self-reliance. It is taken for granted that governments which have severe socio-economic problems to solve will play what cards they have – especially the nation's natural resources – quite ruthlessly in the attempt to solve these problems, and will not rely on the dynamism of the world economy or the benevolence of foreign governments or the social conscience of transnational corporations.

There is a range of ideologies among those writing this paper just as there is great geographical diversity. Yet none would consider a very 'economistic' approach helpful, nor would any use a highly dogmatic or deterministic ideology. 'Development' is used here to denote socio-economic solutions to the inter-related problems facing a country, which may include (according to the writer and the national context) low income levels, under-utilisation of labour, inequality in income and power, political oppression and lack of independence.

For analysing national problems most students of development, including the participants in this study, would use a framework including the following types of factor, apart from macro-economic ones:

- **historical** (exploring the origins of today's problems);
- **physical** (looking at the natural resource base);
- **international** (covering and emphasising the external context, especially the role of foreign capital and foreign governments);
- **cultural** (taking account of perceptions, attitudes, etc., and of the communications systems by which these are formed);
- **social** (analysing the class structure on some definition, and where relevant the ethnic composition, paying special attention to the determinants of poverty and wealth);
- **political** (studying the functions of the State and the forces to which it responds, bearing in mind that fundamental political changes may be pre-conditions of development, and also the roots of political oppression);
- **administrative** (examining the efficiency, including the flexibility, of state machinery in response to the challenges it faces, especially in negotiation with foreign states and corporations);
- **technological** (enquiring about technological capacity in relation to national needs);

- **geographical** (making rural-urban and regional contrasts).

This is not just another plea for an ‘interdisciplinary’ approach. That often merely means that conventional sociology and political science are taken into account in a basically economic syllabus. A more fundamental and far-reaching reappraisal is forced on development studies.

Each member of this research team would no doubt weight the factors listed above differently, and define differently the focus of interest and concern under the various headings. We would also each bring out in different ways the inter-action between them. But none of us would ignore any of them entirely.

The same could by no means be said of all social scientists. Few European economists, for example, are trained to think in these dimensions (and even fewer in the United States): in fact, the types of factor listed above are probably hardly in the syllabus, especially in economics courses. Even structuralism and Marxism may be ignored. Social and political institutions are taken as given in the varieties of neo-classical economics which are taught, and at the macro level the main difference is between Keynesians stressing the influences affecting global demand and the Chicago school emphasising monetary factors. Students must find economic developments in the real world, even of ‘developed’ countries, rather puzzling. In academic circles the countries of Europe are not seen as suffering from development problems. The application of development theory is even further from the minds of most officials of European governments and the public at large: development policy means to them primarily the amount of aid supplied to ‘developing’ countries in the other continents.

There were once good reasons for this. European social problems appeared to be at least in sight of solution, and the main political institutions seemed as solid as rock. Administrations were more or less efficient at the tasks they were expected to fulfil. Access to minerals and other inputs was taken for granted. Most European countries have historically been mainly dominant rather than dependent, not only in capital flows, but also in technology transfers, political pressures and cultural influences.

It would still be a mistake to lump all countries together for purposes of even broad analysis. Problems of development, however defined, obviously take different forms according to each nation's characteristics. In particular it does make a difference whether or not a country has an advanced industrial base with the corresponding power structure and institutions, and also whether it is basically capitalist or socialist. The nature and scale of poverty are also important. But nonetheless, there are clearly common forces at work. The 'insoluble' nature of the unemployment problem in very many countries of different types may be crucial (as it was in the 1930s) in changing perceptions and theories. Development is constrained in different degrees in each country by the power of transnational corporations and other agents of modern technology, by external political pressures, and by foreign cultural influences. But in every part of the world, it is constrained to *some* extent by each of these forces. This suggests that 'development studies' are worldwide in their coverage, not just about poor countries in the tropics but about European countries too.

Britain and development studies

So much is starting to be recognised, opening up the possibility of obtaining fresh insights into European problems. Is it realistic to take a step further and describe Britain as developing into a 'developing' country? Using per capita income as the yardstick, Britain was clearly still 'developed' in the middle of the 1960s – with a figure of about $1600 for 1963, which was high by the standards of Asia, Africa and Latin America. In terms of economic and social conditions, Britain could still be classed with countries such as West Germany and Japan.

But if a country's development is measured not so much by the level of income but rather by its capacity to satisfy its consumption needs with its own technological capacity and savings, and by its political autonomy and cultural independence, Britain had already, by the 1960s, become part of a different class of country from West Germany or Japan – anticipating the income gap that emerged subsequently. In the 1970s it has become increasingly dependent on foreign technology and foreign capital, especially from the United States, most notably – in extracting North Sea oil. To rely on foreign firms would have been unthinkable when British coal or iron ore supplies were developed. It is also more dependent politically and culturally, again mainly on the United States, than it was even in the inter-war period.

As in a ‘developing’ country, partial analysis – e.g. attention merely to the economic factors affecting growth – seems to be misleadingly (perhaps dangerously) superficial. It has led to attempts to deal with what are only the symptoms (such as price inflation and foreign exchange deficits) of Britain’s deep-seated problems by purely economic, even purely financial, measures. This type of medicine makes unemployment worse and anyway has to be repeated frequently because it fails to reach the root causes. Yet very few British social scientists have worked on the total context of the national malaise, taking account of the aspects listed in the previous section, and of the complex links between them. This has hampered us. Without a total framework of analysis, it has been difficult to place our particular work in a larger picture. Of course, the construction of such a frame was beyond our time and resources.

All we can give here are some notes, which can be looked at as either an outline agenda for a major research programme on Britain from a development point of view, or as a sketchy listing of some of the main points which need to be borne in mind when analysing any sectoral problem, such as the impact of North Sea oil.

As was pointed out above, most development theorists would agree that development analysis must be basically *historical.* Many of them would moreover concur on a useful starting point when applying such analysis to Britain: a couple of centuries ago, when British manufacturers started to lead the world and to establish a worldwide economic system. Subsequently a key phase would probably be the end of the nineteenth century when British industry was starting to be overtaken technologically by its counterparts in the United States and later in Germany and Japan (more recently by several others).

Thenceforward there would probably be general agreement that the colonies formed a cover for competitive weaknesses, by providing protected markets and access to primary products. Profits accumulated into overseas assets and also buttressed the class structure (partly by enabling social reforms to be afforded). Britain had become a 'mature' – some would say 'over-developed' – economy. But the persistent restrictions on vertical mobility deprived the country of the full range of its talent and made impossible the social and political unity which was needed to face the gigantic twentieth-century problems of adjustment. In this sense, Britain too has paid a price, as did the colonies, for the colonial period.

A leading theme for a development specialist would be how certain *physical* characteristics emerged – a densely populated, highly industrial and urban economy, heavily dependent on imported materials, fuel and food – and how these constrain the room to manoeuvre of any government, especially in view of commitments to levels of employment and consumption.

An assessment of the post-colonial *international* context would start with the loss of sheltered colonial markets, the sale of overseas assets and the accumulation of debts in and after two wars, but continue with an appreciation of the uneven development of the capitalist powers, specifically the growing weakness of British industry vis-a-vis new forms of business organisation in the United States, and the invasion of US capital. Such an analysis would include a study of a balance of payments structure which has become increasingly dependent on invisible earnings, e.g. from banking and commodity markets, to finance a deficit in visible trade and the consequently precarious nature of the foreign exchange balance. It would also explore the rather desperate responses of British foreign policy, such as entry into the EEC.

Cultural factors would not be ignored. The problems of countries in Africa, Asia and Latin America arise in part from the attempt to satisfy expectations which are largely imported. These are now an influence in Britain, but here such expectations are superimposed on attempts by the property-owning and professional classes to maintain standards formed in the colonial period and the hopes of the working classes generated by the welfare state. The sum total of these expectations has become increasingly impractical.

A particular interest in development analysis lies in the influences which prevent current problems being understood or even seen, and therefore lead to policies which are mistaken even from the viewpoint of the interests concerned. One would ask how much and in what ways politicians and officials have continued to operate as if the country still enjoyed imperial dominance. There are clues to suggest that these lags have been important and damaging: heavy military expenditures, a big royal establishment and numerous prestige projects. Perhaps especially significant has **been** the reliance on market forces to cure social problems and also to rectify external imbalance. Trade liberalisation is a policy specially suited to an industrial leader, but in other countries it opens home markets to foreign competition which cannot be withstood (e.g. in the British case, steel, cars, motor cycles, television receivers, etc.) In a country which follows an 'open door' policy, and yet is not a technological leader (either because it never has been, or is no longer), to limit the foreign exchange deficit requires almost continuous deflation, involving chronically high unemployment.

Another cultural legacy is the attitude to education as an act of personal consumption, not of social investment. In development studies an important question concerns the adequacy of the educational system to create an understanding of the nation's problems and to form the types of man power needed to tackle them. This leads into a discussion of the relevance of what is taught, not merely skills but also attitudes.

Yet attitudes are not themselves primal forces nor are they only learned by schooling. They reflect – in varying degree according to one's ideological position – the interests of social classes. It would be necessary to investigate the British *social* structure today, especially the relative power and relationships of capital, the bureaucracy and the working classes. Also, how Britain swung from being a source of emigration in the nineteenth century to an absorber of immigrants from the former colonies in the twentieth, and of the social consequences, especially now that unemployment has become chronic and ceilings set on social services. Another subject would be the persistence of poverty (housing problems in particular).

Such an enquiry would also pose *political* questions. Social reformers too seem to have based policies on the assumption that Britain is still rich and powerful enough to raise substantially. What are, by international and historical standards, already comfortable levels of consumption, even for those on social security, and that this could be done without a radical transformation of society (which would, however, raise further issues about its cost and feasibility for an exporter in highly competitive markets).

While highly developed in certain respects, British *administration* was slow in adapting itself to the needs of structural change. This is partly a matter of the power and politics of civil servants, partly of an outmoded style and structure (in relation to British problems). It is true that, after the 1964 electoral victory of Labour, the Department of Economic Affairs was charged with preparing a National Plan, showing a partly conscious realisation of the severity of structural weaknesses (though the use of the word economic is significant). This plan was rushed into print in 1965 with further promises of big rises in consumption, but it was soon abandoned. The planners had paid little heed to the lessons of government planning in many other countries – that quantitative targets have little meaning in countries which rely heavily on external markets and are experiencing structural crisis; that the key targets, anyway, are not so much overall economic goals but social and regional balance; and that the real issue is not the targets but how they are going to be achieved. Not surprisingly, economic storms soon blew the ‘economy oil’ course and the ‘plan’ was formally buried. Planning itself became discredited and even the Labour Party has become accustomed, especially since 1974, to making *ad hoc* reactions to various crises, a party of social priorities rather than – as it once saw itself– of social planning.

Any real development strategy, in the sense used here, would include an analysis of the causes of *technological* backwardness and this would provide a basis for planning (with one eye perhaps on

Japanese experience) to develop the capacity for as high a degree as possible of self-reliance and of competitive power in selected industries. It would also feature *geographical* analysis. A common characteristic of a developing country is the existence of areas which are chronically backward in economic terms and therefore often politically disaffected as well. In the case of Britain, one would look particularly at parts of Scotland, Wales, Northern Ireland and North-East England, all of which once enjoyed prosperity because of dynamic heavy industries such as steel and shipbuilding, and at remote rural parts of the same regions which did not gain even a temporary prosperity.

This in very brief summary is the background to a developmental analysis of British problems in the third quarter of this century. In certain respects the country does indeed seem to have joined the ranks of those that arc 'developing'. It is difficult, in view of the historical trends that have been briefly mentioned, to meet the total expectations that have been aroused. The economic consequences are worse than in almost any other 'developed' country and now not dissimilar from those in developing countries. One is inflation, as each social class tries to improve, or at least maintain, its standard of consumption. Another is widespread and persistent unemployment. These are linked with periodic devaluations of the currency – the pound has fallen in the last half-century from S4.80 to under $2.00, the downward trend accelerating in the last few years. Further consequences are heavy recourse to short-term borrowing from foreign banks and the IMF and spells of deflation in attempts to contain the rise in imports. (Indeed dependence on the goodwill of foreign banks and the IMF makes deflationary policies almost inevitable, although these inhibit the necessary industrial and social investments.) Such investment as does take place, especially in new sectors, is increasingly capital-intensive (and has to be so in many export industries) so that there is little relief to unemployment, even in a boom. In a country with an organised working-class movement there is a further outcome: acute industrial tensions. If the social struggle remains unresolved as it has been – in Argentina, say, a lengthy period of political tension and repression can follow. Yet we must not exaggerate this comparison. As has been already hinted, Britain is not like the countries of the Third World in all respects. Even the very brief outline of aspects of development problems given above indicates some major differences. While there is, for example, geographical 'dualism', unemployment being higher and housing conditions worse in some areas than in Britain as a whole, by comparison with other countries the contrasts are not so glaring, and even the worst social conditions would seem luxurious to millions of people overseas. After all, even the most backward areas are parts of an advanced capitalist industrial society. This has a powerful fiscal mechanism which transfers income towards the backward areas – partly automatically (because of the existence of social security benefits which are not found in 'developing' countries) but also in part deliberately through government spending and regional incentives. A strong trade union movement has established nationwide wage levels.

There are other contrasts to the countries which are normally labelled 'developing'; Britain possesses a great deal of infrastructure and industrial capacity, and there is a very large group of technical cadres. The majority of the productive structure is still British-owned, whether in public or private hands. A constitutional approach to problems is deeply rooted in national history.

North Sea oil in British development

Still, despite these qualifications, there is similarity enough to make it worthwhile exploring the extent to which overseas experience and the theories based on it are relevant for Britain, both for the social sciences and for State policy. It was not feasible for us to deal with the central questions of British political economy, so we decided to focus on the set of issues raised by the discovery of oil in the North Sea, approaching it as a technical assistance mission might. This is more manageable, while broad enough to throw some light on the appropriateness of developmental approaches. A number of familiar issues are raised in the following chapters: the implications of the regional concentration of oil, (most of which has been discovered off the shores of one of the 'development areas'), the trends in energy use and policy, the effectiveness of government bargaining with the transnational corporations to obtain the full advantage from the exploitation of oil – not merely revenues, but also employment and income in oil-related industries.

Reference has been made above to Scotland as one of the areas which are economically and socially lagging. If we use conventional indicators such as income, Scotland would not seem far behind

England – its per capita income is less than 10% lower – but on the planes of capital and technology, Scotland is more dependent than England – and indeed partly dependent *on* England. Only a minority of manufacturing employment in Scotland is in Scottish-owned firms and these tend to be in the least dynamic industries.

Scotland has suffered more than England from the failures of British policy, and awareness has been growing there of the implications of being an unsuccessful member of a not very successful team. Parts of Scotland (notably Strathclyde and the Highlands) are particularly affected by decay, depopulation and demoralisation. The Whitehall machine seems remote, and neither very concerned nor very well informed about their problems. (For example no special provisions were made to exempt areas affected by oil-related development, such as Aberdeen, from limits to pay increases or from ceilings on local authority spending).

We have observed in many countries the persistence or aggravation of regional inequalities. Patterns of growth have often involved the localisation of high technology, and generated only weak ‘spread effects’. In several countries, particularly mineral producers, such inequalities have led to secessionist tendencies (sometimes exploited by transnational companies) – for example in Nigeria, where the Ibos, in whose land much of the oil lies, fought for independence. This at once suggests that it is worth asking what connections there are between regional backwardness, oil and the growth of Scottish nationalism.

One response to regional inadequacies is regional planning through technical and financial agencies. This can be found even in countries where central planning is as weak as in Britain (e.g. in Brazil, SUDENE, the agency for promoting the North-East, or in Italy, the Cassa per il Mezzogiorno for the South.) We shall look critically at the regional planning instruments operating in Scotland and consider whether their functions have – and should have – been changed by the coming of oil.

Oil is a familiar topic in the development field. It is not just another commodity. Its essential role in sustaining modern industrial structures and patterns of living, together with its supplier-controlled price and its relatively easy extraction, means that it is an unexcelled earner of foreign exchange, especially since its price jumped in 1973.

In addition to the basic differences between Britain and the other dependent countries, discussed above, there are significant differences between Britain and other oil exporters. Although oil will be important for Britain it will not dominate the economy as it does in (say) Algeria or Trinidad. Since, as pointed out above, there is already a diversified economic base, most of this sector's needs for equipment and materials can in principle be met from domestic sources, and a new export industry, producing oil-related equipment, such as rigs and modules can – again in principle – be created.

But any development specialist would at once ask *how* such industries would be developed as a by-product of oil expansion. He or she would enquire how efficiently British policy-makers handle the challenge of North Sea oil.

The discussion of the state's response to oil goes beyond the government's policies alone. The agencies of the state apparatus are each subject to conflicting forces – the oil transnational, (both foreign and British-based), British private and state capital, trade unions, etc., – all of which try to influence government policy and to promote their own particular interests into a general political interest guarded by the state. The explanation for state action must be sought primarily in the compromise between these forces and only to a lesser extent in the bureaucracy's own interests and its 'rationalising will'. Indeed each agency (even each part of each agency) has its own particular interests and way of identifying them with those of the nation as a whole.

The presently growing and increasingly significant state role in oil developments – especially the creation of BNOC (the British National Oil Corporation) – has hardly a precedent in the institutional history of Britain. It contrasts with traditional belief that the State should not 'break into industry, a belief strongly held by most of the business community. But this is one of the fossils of the era of British supremacy. Such incursions, although accepted by this section of this community very reluctantly, may actually serve what can be called their own class interests – at least those of the weaker firms without links to the US and other foreign corporations. They too are harmed by the marginalisation of the British economy within the capitalist world, which could be at least temporarily arrested by the revenues, equipment orders and bargaining power provided by oil.

Oil provides the means for solving the economic elements in a nation's problems, but experience in many oil exporters is that, in the early years of oil development, governments let much of the income pass to transnational corporations and seep away overseas. This continues until they create stale oil corporations with sufficient authority and technological capacity to bargain efficiently with the corporations, as Norway and Venezuela have done, and to take over the task of oil extraction.

But how effective will British state power be, compared with that of (say) Norway or Venezuela, operating through STATOIL and PETROVEN respectively, in affecting patterns and rates of extraction? And in whose interests will it be exercised?

In the conclusions which follow, we look again at the question of whether development theory can be applied in Britain, in the light of the preceding chapters. It then takes up the strategic price and production issues of oil policy. The challenge of the *use* of the revenues in particular is dealt with in this chapter. The resources retained in an oil-producing country are rarely used to reduce social and regional inequalities or even to create a more diversified and flexible economy. Typically, oil output is expanded as rapidly as suits the transnational corporations, and the income generated is dissipated in maintaining large armed forces and sustaining high standards of consumption among bureaucrats. Munitions and luxury goods pre-empt the foreign exchange earnings. The development of agricultural and industrial sectors is much discussed but (apart from a few heavy industries using oil or gas inputs) rarely achieved. One of the fascinating aspects of an oil bonanza is that it induces a state of euphoria which protects the decision-maker from facing the fact that basic problems, especially technological dependence and social inequality, not merely continue unsolved, but are being aggravated. This euphoria seems particularly bizarre in view of a crucial feature of oil, that its production cannot be maintained for long at very high levels (in relation to reserves).

It is worth asking whether in Britain to the opportunities provided by oil will be used mindlessly to raise consumption and postpone structural reforms – as happened with the profits of the colonial period. Or will this historical second chance be taken to create a viable socio-economic structure? The real test of government strategy in the next decade on rates of depletion and the uses of revenues will come a decade or so later when the inevitable decline of oil production commences.