

'Nobody told us we could do this'

The bluffer's guide to running Britain

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What is happening in UK politics? We are now two years into the first coalition government for over sixty years, dramatic changes are occurring (almost daily) to the fabric of peoples' lives and a range of further radical alterations are being clearly signalled. And yet.....how much analysis has there been of either the politics or the economic assumptions that propel our government of national unity?

A good account of the political side can be found in Rob Wilson's *Five Days to Power* (Biteback, 2010) which provides a thorough look at the Cameron-Clegg negotiations. Although a Conservative MP, Wilson's narrative is not noticeably partisan (perhaps because he began his career in the Social Democratic Party [SDP]) and he provides some intriguing background detail on this episode in British history.¹ But is there a comparable book on the economic arguments that underpin the Coalition? We might normally expect Her Majesty's Opposition to have something – substantial – to say. But, apart from occasional moments of denial, the Labour Party position appears to be that it accepts the general assumptions made by the new government and would pursue broadly similar policies – but would either take twice as long to implement them and/or would hope something beneficial might turn up in the meantime. Unlike the 1980s (or during its previous spells in the wilderness in the 1930s and '50s) there are no major arguments being made or proposals published by anyone in the Labour Party. The absence of real debate or consideration of possible alternatives is striking.

¹ Wilson joined the SDP while at university in 1987. He followed a minority of its members into the Conservative Party (Danny Finkelstein being one), was elected a Conservative councillor in Reading in 1992 and became MP for Reading East in 2005.

The 2010 crisis

Perhaps the root cause of the Labour Party's current difficulties is that it didn't expect to lose the 2010 general election. The possibility of a hung Parliament appears to have genuinely taken it by surprise – at all levels.² This is odd. Any reading of the 2005 result ought to have signalled problems: Labour had won a majority with a seriously diminished vote; the Conservatives had (finally) made some gains; the Liberal Democrats had advanced further; support for the SNP, Plaid Cymru, UKIP, the Green Party, the BNP and Respect had grown; and for the second successive election the largest bloc within the electorate was those who didn't vote at all. Anyone with experience of electoral politics should have looked at the figures and concluded that the UK wasn't that far off a hung Parliament in 2005. Or to put it another way: the next election would be very close indeed.

The Conservative Party clearly had advisers who told them that. More importantly David Cameron, its new leader, was prepared to take a considered view about how to deal with this eventuality. In 2006 he invited Brian Walden to address the Conservative Parliamentary Party on likely scenarios it would face during and after the next general election. Walden was an astute choice to give this advice to a partisan audience. An experienced media pundit (and therefore deemed to be unbiased) he had been a follower of Labour leader Hugh Gaitskell in the 1950s, a Labour MP from 1964 to 1977, a supporter and associate of the founder members of the SDP, and, like them, an advocate of a centrist realignment of UK politics. During his career as an MP and TV commentator he frequently made vinegary assertions about

² Personal experience – from speaking to several Labour MPs in 2008-2009.

the Labour Party, particularly during the 1980s and '90s.³ Walden advised reaching out to the Liberal Democrats and finding common ground with them, because an election in 2009-2010 would result in a hung parliament. Further: in 2006 George Osborne approached Lib-Dem MP David Laws and asked him to join the Conservatives. This indicates a degree of planning unusual in contemporary UK politics and shows that long before 2010 Cameron and Osborne realised the commonalities they had with some of the more recently elected Liberal Democrat MP's: a primary allegiance to personal liberty and a belief in free market economics.⁴

None of this mattered very much in 2006 or in 2007 when Gordon Brown finally ascended to the position of prime minister. If he thought about it at all, given his personal dealings with senior Liberal Democrats Ashdown, Kennedy, Campbell and Cable, Brown would have assumed that the Liberal Democrats would never do a deal with the Conservatives.

But in late 2007 things changed. Firstly, Brown did not call an election to legitimise his position. Secondly, Sir Menzies Campbell – a friend of his – was ousted as leader of the Liberal Democrats. Campbell's removal, following an extensive media campaign, led by the Murdoch press, which also disliked Brown,⁵ was based on nothing more than generalised

³ Walden was president of the Oxford Union in 1957. Talent-spotted by the GMWU, he was adopted as a parliamentary candidate by them, fighting a bye-election at Oswestry in 1961, before being elected for Birmingham All Saints in 1964. He resigned his seat in June 1977 to take up a job with London Weekend TV alongside Peter Jay. Given the number of Labour bye-election defeats at this time, and the fact that James Callaghan was running a minority government, his resignation was not helpful to his own party.

⁴ Laws' career has a trajectory typical of those on the Westminster right: private education, Cambridge, career in investment banking. He was elected to parliament in 2001 as MP for Yeovil.

⁵ The Leveson Enquiry will no doubt ruminates on this relationship in detail. It appears that Brown doggedly tried to keep in with News International despite their interference in his private affairs, but did not impress. He was not regarded by Murdoch as 'a winner' and Murdoch, who likes to be on the winning side, therefore switched support to Cameron.

innuendo.⁶ It led in due course to the emergence of Nick Clegg who conformed to the contemporary UK template for the leaders of political parties: boyish good looks, an automatic default to free market policies and a generally centre right, suburban outlook. Clegg defeated his closest rival Chris Huhne by a tiny margin, with a significant number of pro-Huhne votes being discounted.⁷ In his book Rob Wilson MP points out that Clegg had – apparently – been a member of the Conservative Association at Cambridge University, and that he later worked for Thatcher cabinet member Sir Leon Brittain when Brittain was an EU Commissioner. It was clear, then, that Clegg might be more inclined than his predecessors to talk to the Conservatives. With only a small amount of hindsight, and recognising the curious subplot that led to the demise of Kennedy, Campbell (and Huhne) in quick succession, can we say that by late 2007 the tectonic plates of UK domestic politics were starting to move?

Certainly by 2008 there was a receptive audience at the highest levels of the Civil Service for a government that would 'take decisions'. Such opinions should be seen in the context that Blair had already admitted that he spent his entire first term (1997-2001) learning the job and Brown's priorities appeared to be endlessly gauging his immediate political advantage and calculating how to remain in control.⁸ Wilson

6 During Campbell's spell as Liberal Democrat Leader (2006-2007) the party won the Dunfermline and West Fife bye-election. Campbell rebuffed an offer from Brown in June 2007 to include two Liberal Democrat peers in his newly formed government, reasoning at that point that with a majority of 60 Brown could not reasonably claim to need to form a coalition.

7 Clegg defeated Huhne by a margin of 511 votes. However 1,300 postal votes were 'delayed in the Christmas post' and missed the election deadline. A count of these showed that the bulk were from Huhne supporters: enough for him to have won the election. Huhne had been a Labour Party member from 1975 and (like Vincent Cable and Charles Kennedy) left Labour to join the SDP in 1981. Some consider that had he been Liberal Democrat leader in 2010 he would have been more open than Clegg to a deal with Gordon Brown.

8 As with many of Blair's statements this is not strictly accurate. He had taken a prior position in 1994 (when making his deal with Brown) to hand over responsibility for the domestic agenda to Brown. He finally decided to wrest back control over some of this after his first term.

notes that the Civil Service, Treasury and Bank of England were all eager for a change and states (without indicating the source) that 'there was concern for some time that the government were putting off decisions.' In particular Bank of English governor Mervyn King was terribly worried about 'the size of the deficit' and 'government overspending'. In 2009, in accordance with the usual procedures that operated in the run-up to a general election, the Civil Service met with Cameron and Osborne and emerged enthused: Cameron and Osborne had plans and would carry them out. None of this indicates political bias *per se*. All senior civil servants want to know where they stand, want an idea about the consistency and direction of government policy, and want to be able to relay to those below them and the wider world, with confidence, when, how and by whom a decision will be made. They felt that they didn't get much of this from Labour and found Cameron and Osborne refreshing by comparison.

The supposed private views of the senior civil servants about politicians have been the subject of comedy and ribald drama for half a century.⁹ Unlike the past, though, private opinions such as these were now to be put on a firmer footing than had previously been the case in the UK. Wilson says that in 2009 (when Labour was so far behind in the polls that no historical precedent could be found for an electoral recovery from such a position) the Civil Service began 'war gaming' the possible outcomes of the 2010 general election. Sir Gus O'Donnell, its head, supervised this because he was 'concerned that the rules in the case of a hung Parliament needed to be clear.' Furthermore: 'Buckingham Palace were

⁹ Notably in the radio series *The Men from The Ministry* (1962-1977) which portrayed the UK Civil Service as silly ass, public school-educated bureaucrats meddling comically in trivia, with MPs as lofty, remote figures; and in the immensely popular TV series, *Yes, Minister* and *Yes, Prime Minister* (1980-1988), which had as their central plot device a pathetic and hapless politician who is effortlessly outmanoeuvred by self-serving senior officials. They were co-written by Sir Anthony Jay, a right-wing polemicist, whose production company also produced the 1979 BBC series *Free to Choose* in which Peter Jay (his cousin) sympathetically interviewed Milton Friedman about his monetarist views. There is a clear undertow of cynicism and contempt for parliamentary democracy evident in these programmes.

anxious to have it sorted out prior to Polling Day.’ O’Donnell’s activities were not given a great deal of publicity and culminated in a seminar, held at Ditchley Park, in November 2009, under the auspices of The Institute of Government. A selection of academics, civil servants, politicians and the chair of the Joint Intelligence Committee were invited to attend. Following this event O’Donnell drafted ‘A Compendium of the Laws, Conventions and Constitutional Underpinning of the UK System of Government’. Apparently anodyne, buried in its text were suggestions about how the Civil Service would ‘assist’ the formation of an administration if a general election failed to give any one party an overall majority in the House of Commons. It only remained that the document should – in some way – be ‘officially’ approved or accepted by Parliament. O’Donnell sent it to Dr Tony Wright MP, the chair of the House of Commons Public Administration Committee, who declined to consider it.¹⁰ It was then sent to Sir Alan Beith MP, chair of the Ministry of Justice Select Committee, where it was adopted on 23 February 2010. It was never debated or voted on in either the House of Commons or the House of Lords.

As Rob Wilson MP notes on page 59 of his book: ‘The Civil Service, rather covertly, had got what it wanted: a set of rules that it administered and therefore controlled.’¹¹

The coalition

After the 2010 general election Cabinet Secretary O’Donnell contacted the Liberal Democrats and ushered them into meetings with the Bank of England and the head of the Security Service on Friday 6 May 2010. He and his officials also briefed both the Conservative and Liberal Democrat leaderships on the latest economic figures – a briefing which the Liberal Democrats said afterwards presented a picture of

¹⁰ Because it would have split his committee along party lines, he said.

¹¹ Although O’Donnell spoke to selected politicians, civil servants, academics and bankers in 2009-2010, at no point does he appear to have consulted either the leadership of the large trade unions or any of the significant players in UK manufacturing, both of whom were, once again, ignored in a matter of national importance.

the economy being in a much worse position than had been known (or admitted) prior to the election. Following this O'Donnell organised direct talks between the Conservatives and Liberal Democrats, which started on Saturday 7 May. Both the Conservatives and Liberal Democrats had been aware of the possibility of a hung Parliament for some time (the Conservatives since 2006-2007 and the Liberal Democrats since 2009) and had already assembled and given careful thought to the composition of their negotiating teams.¹² Their discussions were staged with significant pomp and formality: elegant surroundings, Treasury officials and the Queen's personal secretary present, the governor of the Bank of England on hand to underscore the gravity of the situation.

While these events unfolded, Labour belatedly put together its negotiating team. Brown selected a curious bunch: Lord Adonis, Ed Balls, Harriet Harman, Lord Mandelson and Ed Miliband. As an ex-SDP activist, Adonis seems a reasonable enough choice and would have had been expected to have some appeal to the Liberal Democrats.¹³ It is not clear, though, what Miliband or Balls brought to the table other than a brusque, no nonsense attitude to the subsequent negotiations. Harman did not turn up to the first talks with Clegg's team, and at the second round forgot which portfolios Huhne dealt with for the Liberal Democrats. The choice of Mandelson was poor – though his reputation and media profile probably made it inevitable that he simply had to be involved in anything important. But surely by 2010 there were some people in Labour who could have seen that he was a busted flush whose mannerisms and *hauteur* had been seen through? Why did Brown not choose Peter Hain or Alan

¹² The Conservative team were William Hague, George Osborne (both approachable, clubbable, urbane and considered) and Oliver Letwin, a member of the Liberal Club at Cambridge University in the 1970s. The Liberal Democrat team were Danny Alexander, David Laws (both centre-right 'modernisers'), Chris Huhne (a possible link with Labour) and Andrew Stunnell, a very traditional 'old' Liberal, active in the Party for nearly 40 years.

¹³ Adonis joined the SDP in 1984, was an SDP councillor in Oxford from 1987, wrote for the *Financial Times* from 1991 and was adopted as a Liberal Democrat PPC in 1994. He resigned in 1996 and joined the Labour Party in 1997

Johnson to negotiate with the Liberal Democrats? Another surprise – at this critical moment for the Labour Party – was the disappearance of David Miliband. Ordained by many as Brown’s automatic successor, no role was found for him.¹⁴

When the Labour-Liberal Democrat discussions did eventually take place they were far less grand than those O’Donnell arranged between the Conservatives and the Liberal Democrats: less opulent surroundings, fewer civil servants, no one from the Palace, the head of MI5 not around to give urgent advice. It all felt a bit perfunctory and was not helped by Labour failing to put a clear deal to the Liberal Democrats. (When asked by his team what they should present to the Liberal Democrats as a starting point for talks, Brown, apparently, suggested that they hand them the Labour Party manifesto.) The one thing Labour could have conceded that would have scuppered the Clegg-Cameron conversations – immediate introduction of changes to the voting system in the shape of the Alternative Vote (AV) system, without a referendum – was never offered, possibly because too many senior figures in the Labour Party were against it at any price.¹⁵ The general tone of the discussions was amateurish with a stumbling block emerging very early on: following O’Donnell’s and King’s briefing on the economy, the Liberal Democrat negotiating team (at least two of whom were in any case free market Liberals) were now convinced that there had to be an urgent and substantial programme of

¹⁴ The psychology of how to negotiate with another political party was clearly not thought through by Brown. Hain – with a long history in the Liberal Party – and Johnson, an extremely accessible and adroit negotiator who openly favoured electoral reform, would have been better choices than Balls, Miliband or Mandelson.

¹⁵ Why was AV such a big deal in 2010? In 1998 it was adopted by Labour – without a referendum – for elections to the European Parliament, the Scottish Parliament, the Welsh Assembly and the Greater London Assembly.

cuts, something that Labour would not countenance.¹⁶

The Labour-Liberal Democrat talks finally came to an end on 11 May. A few hours later it was announced that there would be a formal Conservative-Liberal Democrat coalition government, led by Cameron and Clegg, with significant government portfolios for the Liberal Democrats, and a written agreement that it would last until 2015.

Some reflections

Why did Brown let O'Donnell produce a guide on how to 'deal' with a hung parliament? Wilson and Heath wouldn't have agreed to let the Civil Service referee the formation of a government. Nor would Thatcher.¹⁷ After all, there had been hung parliaments in 1923, 1929, 1974 and 1976; and John Major had no workable majority after 1994. The previous arrangements had actually been very simple. At the point the hung parliament came into existence, the incumbent was given some time by the Crown (usually a weekend, sometimes longer) to see if they could form an administration that could continue to conduct business by either formal (i.e. via a coalition) or informal (i.e. a minority government) means. The only crucial factor determining these arrangements in years past was ensuring that whatever government emerged could survive from vote to vote in the House of Commons – not that it had to have an absolute majority at all times, and certainly

¹⁶ Adonis's 'thesis [is] that the Lib Dems should have reached an agreement with Labour, having more in common with them than with the Tories, but never took the negotiations seriously. All they did, he suspects, is keep Labour talking to strengthen their hand in the only negotiations they took seriously, with the Conservatives.'

<www.independent.co.uk/arts-entertainment/books/news/the-battle-to-write-the-inside-story-of-new-labour-1983915.html>

¹⁷ Because in our 'unwritten' constitution the Civil Service is loyal and accountable to the Crown, not parliament. How easy it was for the establishment to get its way in 2009-2010, requiring only a little manoeuvring and the agreement of a small parliamentary committee. The lack of accountability the Civil Service has to parliament has recently been taken up as an issue by Margaret Hodge MP, who showed little interest in this previously. Perhaps Hodge, a well connected *grande dame*, is angry at being manoeuvred out of office, rather like Sidney Webb in 1931 (see below).

not that there had to be a signed contract stating it would last 5 years.¹⁸

There had never been a lengthy 'constitutional crisis' in the UK, and there had never been a prolonged period without a functioning government. Why did O'Donnell change this? Did he just wake up one morning and decide to head off in this direction? Or were there discreet conversations that enabled him to run this agenda with confidence?

Assuming the latter, it seems unlikely that the UK 'establishment' (a rarely sighted and careful beast) would admit to such a thing. But, given that the effect of the arrangements was to (a) prevent Brown being in pole position to put a deal together and (b) to ensure that, even if he did, anything he came up with would have to be agreed and codified by the Civil Service, it could be fairly claimed that O'Donnell's intervention was always much more likely to clip Labour's wings than those of any other participant.

Why would the 'establishment' have wanted to do any of this? Some ideas:

- * Labour had reformed the House of Lords removing most of the hereditary peers.
- * Labour had banned hunting with dogs. (In a rare example of an overt Royal intervention, the Queen personally raised her concerns about this with a flustered and embarrassed Blair, who on this issue, found his party united against him).
- * Labour was starting to challenge the charitable status of public schools.
- * Labour withdrew the Royal Yacht Britannia from service. (The Queen wept when it was decommissioned.)
- * Blair behaved publicly like a president appearing to usurp the role reserved to the Crown.
- * The military were upset. Like most people who knew something about Saddam Hussein, they didn't really want the second Iraq war, they wanted to leave Afghanistan much earlier, were fed up with Chancellor Brown's cuts and

¹⁸ This reality was voiced by Lord Ashdown during the Cameron-Clegg talks, to no great effect. Ashdown was not an important party to the negotiations.

disinterest and – possibly – were aggrieved at being so obviously subordinate to the US.

* In 1998 Blair scrapped the last remaining nuclear weapons (some guided bombs dating from the 1960s and '70s) that could be used independently by the UK. Only Trident, borrowed from the US and under 'joint' (from the point of view of the US, sole US) control, was retained. An important conjuring trick of British foreign policy and an essential element of the stage management of UK domestic politics was laid bare. Alone of all the nuclear powers, the UK did not have an independent deterrent and a touch of the pathetic henceforth attended the grandiosity of British political leaders. It may have been thought in some quarters that things were getting to the point where the UK's automatic slot on the UN Security Council would come to an end. This would be embarrassing.

* As well as being very pro-US, Blair had been mildly pro-European.

Even if only part of the above is true, it is deeply ironic that the Blair/Brown government – surely the apogee of centrist moderation – should have been seen as a threat by the UK establishment. In the days that followed Labour's election loss in May 2010, Brown and his colleagues were put through the humiliating experience of having to remain at their ministerial desks while O'Donnell organised their replacements, signing the documents they were told to sign while powerless to change events.¹⁹

¹⁹ It was announced that O'Donnell would retire in August 2010, after the coalition had been formed and bedded down. He did so on 31 December 2011. Nine days earlier, in a kind of exit interview for a top person, he was quoted in the press as saying that the major challenge facing the government in the immediate future was 'to keep our kingdom united'; i.e. to head off Alex Salmond and the SNP. O'Donnell moved to House of Lords and is politically active. In the spring of 2012 he promoted a former work colleague of his, Siobhain Benita, as an Independent candidate in the London Mayor elections. She gained 3.8% of the vote, more than the amount separating Johnson and Livingstone. I wonder if O'Donnell and Benita might launch a new centrist grouping to contest the 2014 Euro and 2015 Parliamentary elections; and, if they do, what their calculations might be.

The 1976 crisis

But, of course, we have been here before.

Surely some of the participants, and others still on the political stage in 2010, remembered 1976, the IMF loan and the Lib-Lab pact? Liberal-Democrats Cable, Steel and Campbell certainly would; but, as noted, none were central figures in 2010. Peter Hain would – but again, Hain did not figure in the 2010 discussions. Gordon Brown? A parliamentary hopeful in 1976, and a keen student of Labour history, Brown might have been expected to know. Perhaps they should all have read their history books, or failing that, Andy Beckett's excellent account of what happened in 1976 in his *When The Lights Went Out* (Faber and Faber, 2009).

The 1976 events began when the Treasury mandarins advised Prime Minister James Callaghan and Chancellor of the Exchequer Dennis Healey that the Public Sector Borrowing Requirements for 1977-78 and 1978-79 would be exceptionally high, £22bn in total. On this basis the Labour government decided to request a loan from the International Monetary Fund (IMF), and did so on 29 September 1976. Responding to this, US President Gerald Ford sent his Treasury Secretary, William Simon, to London, on what was supposedly a private visit on 26 October.²⁰ Here he met UK Treasury officials – without the knowledge of Prime Minister Callaghan and Chancellor of the Exchequer Healey – and agreed with them 'the parameters' for what the IMF (in which the US was the largest player) would offer the UK, and how the Callaghan government would have to comply with this. It turned out that these 'parameters' were very similar to the utterances that littered the 1970s from various US and IMF figures about whether or not (and it was usually not) the UK could 'afford' its

²⁰ William E Simon was a staunch advocate of laissez-faire capitalism. The *Washington Post* commented on 26 October 2007: 'Mr. Simon is commonly acknowledged as a legendary architect of the modern conservative movement. But he was also legendarily mean. "A mean, nasty, tough bond trader who took no BS from anyone," in the words of his old friend Edwin Feulner, President of the Heritage Foundation. Simon was known to awaken his children on weekend mornings by dousing their heads with buckets of cold water.'

'very high' levels of social and welfare expenditure (a commentary that the US did not necessarily offer other countries). Simon returned to Washington and reported to Ford the outcome of his secret talks; Ford contacted the head of the IMF, Johannes Witteveen, and suggested that the IMF send a team of advisers to London. This ensured maximum publicity for their negotiations with the Labour government.²¹

The IMF visit took place against a backdrop of press coverage that said that Labour were economically incompetent and that requesting a loan from the IMF was shameful and unprecedented. During the visit there were parliamentary bye-elections at Walsall North (4 November 1976) and Workington (14 November 1976) both of which Labour failed to hold. These defeats cost Callaghan his majority in the House of Commons. Speculation abounded about whether his government could survive and whether the 'crisis' was worse than he or Chancellor of the Exchequer Healey were admitting.

IMF head Witteveen came to London and told Callaghan on 1 December 1976 that his government would have to make cuts to get a loan. After a bit of bluster Callaghan agreed. To implement the IMF deal three weeks of cabinet meetings followed – all conducted in a gravely serious atmosphere – before the cuts were agreed and announced on 21 December 1976.

Three months later the Treasury announced that fresh calculations now showed the PSBR for 1977-1978 would be 50% of the amount they had told Callaghan and Healey six months earlier. The cuts were not needed and nor was the IMF loan.

The Lib-Lab pact

The arguments used to create the IMF loan crisis were so

²¹ Johannes Witteveen came to prominence in the VVD/Peoples Party for Freedom and Democracy, a relatively centre-right, pro-free market Dutch political party. He served as head of the IMF 1973-1978. Negotiations between the IMF and borrowing nations are usually conducted in anonymous office buildings in unspectacular provincial locations, not in a capital city in the full glare of press and media publicity.

artificial that one can only wonder if they were fabricated to produce a split in the Callaghan cabinet. Was it assumed that the cabinet would be unable to agree and that Callaghan would have to request a dissolution? Had this happened in, say, November/December 1976, with the opinion polls saying Conservatives 55%, Labour 30%, Margaret Thatcher would have been elected Prime Minister. Are we seeing here a repeat, in 1976, of the tactics used against Labour in 1931? If so, it is striking that they failed to produce the desired outcome. The Callaghan cabinet did not fall to pieces. Perhaps because the memory of 1931 as a 'great betrayal' was still so vivid to many in the labour movement, the cabinet showed a degree of resilience and cohesion that those working against it may not have expected.²² Jack Jones, general secretary of the TGWU and chief economic spokesman for the TUC at the time, spoke for the majority when he made the taciturn statement, 'unity will be maintained' when questioned by the press. But Tony Benn and Anthony Crosland, leaders of the those who wanted to defy the IMF, failed to get the cabinet to take a different course.

Another interesting feature of the 1976 'crisis' was how quickly it happened once Harold Wilson was no longer prime minister. Unlike Callaghan and Healey, Wilson knew a great deal about economics, and may have seen through the arguments made by the Treasury. He also had his own opinions about the loyalties, particularly toward a Labour government, of Her Majesty's Civil Service, and had demonstrated, from time to time, an ability to outmanoeuvre

²² The historical parallels with 1931 were made clear by Tony Benn who requested the Cabinet minutes of 1931 and gave copies to some colleagues and Labour-supporting media. See his *Against the Tide: Diaries 1973-76* (London: Hutchinson, 1989) pp. 649, 654, 680.

them.²³

Bernard Donoughue, senior policy adviser to both Wilson and Callaghan, recollected being told – rather jocularly – by a Treasury official in the summer of 1976 that ‘what you need is a crisis that frightens Ministers into accepting (the Treasury view)...The bigger the crisis the more you can frighten Ministers. It’s what we call the Treasury bounce....’²⁴ Researching his book, Andy Beckett tracked down and interviewed Sir William Eyrle (UK Treasury up until 1975, IMF thereafter) and asked how he and his colleagues felt at the time about the 1976 events. Eyrle gave a classic, dry, understated, English reply: ‘The window had opened’. Beckett asks what he meant by this. Eyrle said carefully: ‘An opportunity to pursue better policies.’

Ah.....better policies; an admirable objective, against which no one could, surely, argue.

Some reflections

Was the UK economy in a crisis in 1976? Neither UK government spending, nor the UK national debt, nor taxation as an overall proportion of average earnings were as high in the UK in 1976 as they were in some other, comparable, countries. Inflation and unemployment, though difficult, were no longer rising and it could be claimed that the government had them under control.²⁵ Much was made of ‘the country

²³ Wilson was under constant pressure from the Treasury and Bank of England to cut public spending. He was also the subject of gossip about his loyalties, and, possibly, serious attempts at removal and replacement by a national government. The political difficulties faced by Callaghan started in July 1976 with the formation of the breakaway Scottish Labour Party, which two Labour MPs joined. This and the loss of the two bye-elections in November 1976 lost Labour its overall majority – though it could count, usually, on the support of the SDLP and, on a vote by vote basis, of the Welsh and Scots Nationalist MPs. A formal ‘pact’ with the Liberal Party was announced in March 1977 to ensure a workable parliamentary majority at all times.

²⁴ A senior lecturer in politics at the LSE in the 1960s, Bernard Donoughue was appointed senior policy adviser to Harold Wilson in 1974 and maintained this position under James Callaghan.

²⁵ For instance unemployment peaked in August 1976 and then fell slowly.

running out of money' and the shame of the UK asking for a loan. But asking for an IMF loan was not unusual. Many countries did so. Nor was it true that Labour had mismanaged the economy. The economic difficulties that Callaghan and Wilson faced, particularly with regard to inflation, were due to (1) the Heath/Barber credit boom of 1972/3 getting out of hand and (2) the tripling of oil prices after the Yom Kippur war in 1973.

Andy Beckett interviewed Dennis Healey about 1976. Healey said of the Treasury:

'...any excuse they can find for getting spending cut they will take. It wasn't so much a conspiracy against the government as an attempt to get the policies they believed in....The whole thing was unnecessary. If I'd had the right figures I needn't have gone to the IMF. Very irritating, but there you are.'

Very irritating? It must be, being first set up and then lied to by unaccountable civil servants. Beckett noted that Healey's comments about it not being a conspiracy seemed to be a matter of semantics.²⁶

The 1931 crisis

But, of course, in 1976 we had been there before.

The events in 1931 started when a vote of censure was proposed against Ramsay MacDonald's minority Labour administration by the Conservative opposition on the grounds that a considerable amount of government expenditure was 'wasteful'. The Conservatives justified this because of a series of poor monthly trade figures – this information then being regularly published for the first time. To head this off MacDonald and his chancellor, Philip Snowden, accepted a counter proposal from the Liberal Party to set up a Committee of National Expenditure, under Sir George May, to enquire into what measures were needed to strengthen the economy and

²⁶ Some of the conspiratorial aspects of this incident, including the IMF secretly rewriting the conditions of the loan after the negotiations had concluded, are discussed by Robin Ramsay in 'Back to the future' in *Lobster* 34.

maintain confidence in Sterling.²⁷ The May Committee produced alarming, but not unanimous, conclusions. It recommended 'savings' of £96.5m, mainly by cutting pay and benefits, without which it declared a crisis as being imminent. It confirmed that the fault lay in government spending being too high; and, because Sterling was pegged to the Gold Standard, if deposits of gold held by the Bank of England were withdrawn from the UK either due to a 'lack of confidence in Sterling' or due to the owners of the gold requiring access to the metal elsewhere, the country would quickly 'run out of money'. MacDonald and his Chancellor, Philip Snowden, made some tentative enquiries about how to remedy this situation. They were told by the Treasury that:

- (1) they could not reduce the annual payments to the Sinking Fund (i.e. the financial tool used to pay the interest on the National Debt);
- (2) that the pound must, at all costs, remain pegged to the Gold Standard; and
- (3) that the savings the Labour government proposed of £56m were not sufficient.

The National Government

At this point MacDonald told the King that he could not continue in office. But his offer to resign on 23 August 1931 was rejected. Instead the King asked him to remain as prime minister of a national government. The following day, without consulting his colleagues, he agreed to do so, so that sufficient cuts could be made to balance the budget.

The bulk of MacDonald's Labour Party colleagues went into opposition and refused to support the national government. Curiously, now that MacDonald and Snowden were no longer in a Labour government, the advice they received from the Treasury changed. Snowden was told he *could* reduce the annual payments to the Sinking Fund. He did so in an Emergency Budget announced on 10 September 1931 and promptly increased the projected savings by £14m to

²⁷ Sir George May was Secretary of the Prudential Assurance Company from 1915 to 1931.

£70m, which the Treasury now deemed sufficient to 'maintain confidence' in Sterling. Some of these new savings involved pay cuts for the armed forces. The threat of this produced a very brief refusal to obey orders in the Home Fleet prior to the summer manoeuvres. To foreign observers – with memories of the end result of naval mutinies in Russia and Germany in 1917-1918 – this looked ominous and some panicky withdrawals of gold from the Bank of England followed. The pay cuts in the armed forces were immediately reinstated and the Treasury changed its advice again. On 21 September they agreed that the Gold Standard would be suspended. There was no crisis. Allowing the UK banking sector to operate on the basis of carefully issuing credit – rather than a literal reliance on the amount of gold held in bank vaults – confidence in the economy and Sterling quickly recovered.

The final act was political. Once Labour had been ousted from office and the cuts made, parliament was dissolved and a general election held on 27 October 1931. The Conservatives, the Liberals and a small ex-Labour remnant that had collected around Ramsay MacDonald, campaigned on the basis that they had come together in the national interest to reduce the deficit and sort the economy out after the mess left by the preceding Labour government. The three parties participating in the national government put up only one candidate from a pro-national government party in each constituency against Labour. This ensured that the anti-Labour vote would be collected behind a single individual in each constituency, and maximised the chance of gaining the seat and removing Labour from the political landscape. These tactics were brilliantly effective: 470 Conservatives and 67 Liberals were elected, against 52 Labour. Given the nature of the UK electoral system it was possible to think, at this point, that Labour would not be in a position to form another government for at least 20 years, if at all.

Some reflections

Hindsight is not required when making a critique of these events. In 1931 many saw through the arguments being used

to remove Labour from office and enact a significant reduction in public spending. John Maynard Keynes described the May Committee report as 'the most foolish document I have ever had the misfortune to read'. It was striking that the May Committee did not address or offer any solutions to the immediate cause of the UK's economic difficulties in 1931, namely that UK banks had significant deposits in their Austrian and German counterparts and could not access these once US banks started to insist on the repayment of reparations due (to the US) in full after the 1929 Wall Street Crash.²⁸

Another interesting feature of the 'crisis' stemmed from the apparently innocuous request in late 1930 for the Treasury to start publishing monthly balance of payments estimates. Prior to this date this had not been the case, as indeed was the procedure in most countries. The figures themselves were extremely broad brush and their accuracy was frequently not known for many months after their appearance – the precise reason pre-1930 for not producing them on a monthly basis. Once published, though, they attracted immense publicity and remained a critical feature of domestic UK political life, breathlessly anticipated each month by the media until the UK's entry into the EEC in 1973 when regular bulletins about how the Sterling Area was performing became somewhat less important.²⁹

The mixture of assertions and assumptions that the Treasury deployed when dealing (with a Labour administration) looked unconvincing even in 1931. Was it

²⁸ Ramsay MacDonald did enquire if the major US banks would modify their demands – they declined. The issue of the 'crisis' revolving primarily around US banks, the implosion of a speculative bubble and the problems in obtaining reparations payments from Germany and Austria was not tackled – or mentioned – by Sir George May, who focussed narrowly on issues to do with UK government spending. This could have been because May had been manager of the American Dollars Securities Committee from 1915 to 1918. This was set up by the UK government to oversee the collection of securities held by British firms in the US to help advance the UK war effort.

²⁹ See AJP Taylor's *English History 1914-1945* (London, 1965) p. 362. The reverence with which these estimates were treated was derided as early as 1948, by *The Banker*, a magazine specialising in City affairs.

really necessary to go through the contortions of forming a national government merely to reduce public spending by an additional £14m per annum, an amount equivalent to 0.35% of GDP at the time? Was it really the case that public spending in the UK was 'too high' in 1931? Even then the UK did not spend as much on social insurance, education and health as some other European countries.³⁰ Why did the Treasury not volunteer a range of advice? They could have mentioned, for instance, that, contrary to their view that it would be fatal to suspend the Gold Standard, when this had been done in 1847 and 1866 following damaging 'runs' on UK banks after extended periods of speculative expansion, the tactic had been very successful.

Lord Passfield (Sidney Webb) a close observer of and participant in the 1931 manoeuvres, served as Colonial Secretary in MacDonald's Labour government. A massively influential figure of the time, Passfield had been an early member of the Fabians in the 1880s, a founder of the London School of Economics in the 1890s and co-host with Beatrice Webb for over 30 years of the premier 'left' UK political and literary salon. In 1931, despite all his credentials and qualifications, he was clearly left bewildered by the approach toward him and his colleagues by the real establishment. His comment about the variation in the advice given by the Treasury to the coalition that replaced the minority Labour administration – 'Nobody told us we could do this' – was seen for many years thereafter as showing how out of its depth the Labour Party was at this stage in its development with major policy issues or trying to effectively pull the levers of power.

Conclusions

The politics

Who acted as midwife at the birth of the 2010 coalition? Rob Wilson MP highlights the role played by Sir Gus O'Donnell, but something ought to be said, too, about the Institute of Government. Founded in 2009 by Lord Sainsbury – and

³⁰ Czechoslovakia and Austria for instance.

therefore a new organisation when running O'Donnell's conference on how a hung parliament should be managed – the Institute of Government is funded by Sainsbury and includes on its Board of Governors Lord Simon and Lord Heseltine.³¹ It either employs directly or uses the services from time to time of an array of academics and ex-civil servants (as one would perhaps expect in an organisation of this type). Of greater interest are the names that can be found in the 'Our People' section of their website. Ten, including Jonathan Powell and Sir Michael Barber, had been Blairite staffers at 10 Downing Street. Another name that crops up is professor Vernon Bogdanor, also a member of the American free market think tank the Henry Jackson Society.

What do we make of this? Is this merely a group of well-intentioned, technocratic centrists, engaged in their eternal pursuit of a more rational, less party-centred politics? Or does the presence of all those former Blair staffers – and Blair's chief financial backer, Lord Sainsbury – suggest that it is a kind of Blairite revenge on Gordon Brown, the final method used to drag him down after all the attempted coups in 2008-2010 came to nought, foundering against the traditional mainstream loyalties of the Labour Party (loyalties ingrained, ironically, after the 1931 debacle)? Or was the brokering by the Institute of Government of O'Donnell's arrangements in 2009 an attempt by Sainsbury and his friends to ensure that Labour stayed in office after 2010? Did they mistakenly think (not unreasonably) that Labour would still remain the biggest party

³¹ Lord Sainsbury joined the SDP on its formation in 1981, and throughout its existence was its largest single funder. He rejoined the Labour Party in 1996 and served for many years as a minor government minister, finally stepping down in late 2006. Sainsbury also funds Progress, which, like The Institute for Government, has a significant following among Blairite supporters and activists. The existence of Progress as a (comparatively) well resourced pro-free market, pro-US, pro-Israel body within the Labour Party had led some to describe it as a 'party within a party' à la Militant and to demand, somewhat theatrically, its expulsion from the Labour Party.

On the subject of Blair and his followers continuing to be of influence, *The Times* published a piece on 30 May 2012 claiming that Cameron and Blair were in fairly regular contact and that Matthew Taylor and Geoff Mulgan were being consulted by the Downing Street policy unit.

in a hung parliament and that Brown would therefore call the shots, until, with their benediction, he made a dignified exit and was replaced by a better, younger, leader (Miliband D.)? In other words, were they trying to be clever? Or is it just a group of well connected and opinionated people finding something with which they can meddle?

Whatever the explanation, given the failure of the coalition's absurd growth-through-austerity economic policies, it would have been a lot better for the country (and the Labour Party) if they had done nothing.³²

Some mention should also be made of the Ditchley Foundation, the owners of the venue where O'Donnell held his conference. O'Donnell is a governor of the Ditchley Foundation, serving alongside a galaxy of Atlanticist contemporaries, including Lord Robertson, Baroness Williams, Lord Brittain, David Cameron, Lord Carrington, Lord Howe, Lord Hurd, Sir John Major, David Miliband, Lord Patten, Jack Straw, Lord Adonis, Gisela Stuart, Tessa Jowell, Geoff Mulgan, Will Hutton, Rory Stewart and Peter Jay.³³ With the exception of Hutton most of the above could be considered centre-right in economic and foreign policy terms. Certainly, most of the Conservative and Liberal Democrat *alumni* connected with the

³² The possibility should also be entertained that the starting point for all O'Donnell's activities might have been banal – the Queen was 84 years old in 2010 and might not have wanted the responsibility of being involved on a day-to-day basis with overseeing the formation of a workable government in the event of a hung parliament. The counter to this, however, would be that the Crown is not terribly involved even in these circumstances – the responsibility would always be left with the politicians, as was the case in 1974. Presumably even if the Queen were tired, ill or otherwise indisposed, her duties could always be delegated to her successor. All things considered there simply does not seem to have been a convincing case in favour of changing the arrangements for forming a government in the event of a hung parliament – other than that some in the establishment favoured having a say in the matter.

³³ Peter Jay was UK ambassador to the US 1977-1979 and James Callaghan's son-in-law. Beckett interviews him in his book on the 1970s where Jay calls Harold Wilson and Harold MacMillan 'disgusting, horrible, contemptible people'.(p. 358) Both, of course, are dead and cannot sue. Both also believed in heavily expansionist roles for the state and usually found ways around, or simply ignored, the arguments of the Treasury.

Ditchley Foundation (where they form an overwhelming majority) represent parties that have benefited from the O'Donnell arrangements.

The economics

The official narrative behind the formation of the Coalition is that – like 1931 – it was formed by the Conservatives and Liberals when they nobly set aside their differences and came together to sort out the dreadful mess in the national finances caused by the previous (Labour) government. An obvious problem with this version of events is that it is not supported, except in a highly generalised way (yes – there has been an implosion of a speculative banking bubble; and, yes – the Greek economy, 2% of the Euro area, has got problems) by any facts. On 19 January 2012, for instance, *The Times* published an article comparing the UK economy with its main international rivals. Its main observations were:

- * The UK has a low level of government debt (81%) compared to others (e.g. France 87%).
- * The UK has a low national debt (76% of GDP) compared to a world average of 79% with noticeably higher levels in France, Germany, Italy, Belgium, Canada, the USA and Japan.
- * The UK has high levels of personal debt (though not the highest in the world) and very high levels of corporate debt after extensive reliance on US financial models. (Essentially the problem with this level of debt is that individuals are either too worried to spend or do not long have the funds to do so. The orthodox Keynesian remedy for this is that the state should step in and replace the lost demand: this is what the Coalition will not recognise.)

In the build-up to Osborne's 2012 budget a further article appeared in *The Times* on 22 March comparing the UK economy with other, mainly, European countries. This concluded:

- * The standard rate of income tax is 59% in France, 50% in Italy, 36% in Germany, 36% in Ireland (after restructuring – it was lower before) and 33% in Sweden. It is 23% in the UK.

* Taxes in the UK are 39% of GDP and the UK runs – due to its lowish taxes – a budget deficit proportionally the same as France. However Israel, Japan, Greece, Ireland and the US are all greater.

* Government spending in the UK is 47% of GDP (France, Belgium, Denmark, Sweden and Finland are all higher).

The point about the low level of personal income tax in the UK being an inbuilt fault line in the economy was made in an opinion piece in *The Times* by Chris Mullin on 19 March. The figures as given seem to suggest that if the UK wants a good quality, advanced, European-style economy then it needs to have a standard rate of income tax that is at or higher than 33%. However, the UK has not had this level of taxation since 1978. When Churchill started his second term (1951) the standard rate of income tax was 45%; when Macmillan became PM (1959) it was 42.5%; when Wilson started (1964) it was 38.75%. Heath reduced it to 33%, arguably the lowest level required to maintain public services at a good standard. In 1978 Callaghan cut it to 30% (in anticipation of a forthcoming election; but he didn't call the election and the rate was never reinstated). Thatcher then reduced it to 25% on ideological grounds, with Brown cutting it to 23% in his final budget in 2007 (in anticipation of a forthcoming election; but he didn't call the election and the rate has not been reinstated).

In a nutshell: virtually all the infrastructure of the welfare state, and the beneficial expansion of education, health and other public services that took place in the UK between 1945 and 1979 were paid for because taxes were set at a normal – European normal – level.

An even more curious absence is the official silence on why the UK does not have – like Norway and many other oil producing nations – a sovereign wealth fund. The possibility of this was raised, in Cabinet, by Tony Benn in 1978 who proposed that £5 billion initially, rising to 50% of the revenues generated by North Sea oil licences and exports, should be

taken by the government and invested.³⁴ He suggested that the monies should be used to strengthen UK manufacturing and fund infrastructure improvements. This was the path Norway went down after 1990 with the result that Norway, today, is one of the wealthiest countries in the world. In 1978 Benn was heard in silence, there was a perfunctory debate (lasting approximately 30 minutes), followed by a majority decision to use the revenues for tax cuts instead. Perhaps we should cut Callaghan, Healey and their colleagues a bit of slack here. After all, 1978 was very early days in the North Sea oil boom and Benn was not popular. But even with the Norwegian example to hand after 1990, the possibility of the UK doing this was never raised by Major, Blair or Brown. Wasn't what to do with the oil revenues worth talking about? Didn't anyone think the public might be interested in this? What advice did the Treasury give? The lack of awareness of this amongst the political class is striking – but the crucial point is that even if aware, they appear to have no appetite for such matters, preferring instead a US-style low taxation economy.

The 30 minute, 1978 debate about a sovereign wealth fund contrasts markedly with the 3 weeks of earnest meetings that Callaghan and Healey were prepared to spend arranging budget cuts in 1976 on what turned out to spurious grounds.

The future?

Are we witnessing the birth of a new Britain? Or, to put it another way, is it now becoming clear the type of country that is emerging from the 30 plus years of free market economics that we have lived with, and which may remain a political fixture for the foreseeable future?

It could be summarised thus: the wide ranging responsibilities assumed by the state after 1945 have now largely vanished. The only thing that the UK state will definitely guarantee its subjects in the near future will be a minimal old age pension and an elementary education. The

³⁴ His account of the Cabinet rejecting this is on pp. 280/281 of his *Conflicts of Interest, Diaries 1977-80* (London: Random Century, 1990).

schools themselves will be mainly privately run and further education will be dependent on access to personal funding; and in any case will be mainly targeted at attracting incoming foreign students. There will be few employment rights and the UK state will certainly not guarantee any of its own citizens employment. Instead costs will be kept down by welcoming migrant labour from anywhere in the world. There will be no publicly owned and affordable public transport. Likewise, public housing at affordable prices – with security of tenure – will not be available. The armed forces will be tiny with an increasing reliance on private, mercenary organisations. The police will be operated and managed by private security companies and jails will be privately run. There will be an increasing reliance on paying for health care.

Considering this wide-ranging and consistent approach to ordering life in the UK, the only comparison that comes to mind is with 18th century style mercantilism. Are we returning to this? A society in which wealth is based on trade, commerce and property ownership rather than manufacturing? In which public spending is kept at the lowest level commensurate with public order? A country in which the political elites are essentially parliamentary factions (the Brownites, the Blairites, the Eurosceptics etc. rather like the Peelites, Lord Rockingham's XI etc. in previous times) rather than distinct ideological groupings? A country in which the Civil Service has a primary loyalty, as do the judiciary and the armed forces, to the Crown, rather than parliament?

A common critique of UK economic and political life since 1945 has been that one of the problems has been the failure to take long term decisions or have a long term strategy. In 2012 and the country in which we now live a riposte to this argument might be that the UK establishment has indeed been pursuing, very successfully, a long term strategy of its own since at least the mid 1970s (and possibly since the mid 1950s), that this strategy has been carefully disguised, is now more overt, and is returning them to the type of society they last enjoyed fully in the 1930s.