

The two Goulds

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In 'The crisis' in issue 62 of *Lobster* I referred to the economic debate during the Labour Party's policy review, which produced the *Meet the Challenge, Make the Change* document in 1989. On page 6 of that are these sentences:

The Conservatives are the party for the City. We are the party for industry and, like the governments of our competitors, we will form a government that helps industry succeed.

This is the last time a major British political party suggested opposing the City of London. My treatment in issue 62 was a sketch. Here is some more detail.

The back story

Without seeking to confront the overseas lobby –the City–Bank of England–Treasury-Foreign Office nexus of the period – the Wilson, Callaghan and Heath Governments between 1964 and 1979 tried to create an alliance of domestic interests – unions, state and employers – to manage the domestic economy. The Labour governments' problems were that Labour was too closely identified with the trade unions; and a significant minority of its members, MPs and trade union supporters were socialists who did not approve of working with capital, domestic or otherwise. Heath's difficulties were that his party was identified with the financial and overseas apparatus in London; and a significant minority of his party, some of its financial backers and some domestic capital wanted to destroy unions, not work with them. Consequently, for both parties what became known as corporatism or the producers' alliance proved difficult.¹

Mrs Thatcher briskly resolved these difficulties by declaring trade unions 'the enemy within', abandoning the domestic economy, and giving the financial/overseas sector what it wanted in the 1980 budget: the abolition of

¹ In most other European countries what we might call the Heathite Conservatives and the centre-right of the Labour Party would have long since formed a third party, a social democratic party, and consigned the Tory free marketeers and the Labour Party's socialists to the fringes. It is a measure of the power of tribe and class in this society that this had not happened before Roy Jenkins was finally persuaded to try in 1981 with the SDP. Jenkins was the key figure in the 'gang of four' in my view; and people around him had been trying to get him to form another party for the previous decade.

exchange controls, high interest rates and no controls on lending.²

This had predictably and predicted disastrous consequences for the domestic manufacturing economy. The beginning of all our present economic troubles is here, with that budget: this is when the first group of bankers were set free from the constraints of civil society.

In very broad strokes, the Labour left then divided on economic policy. The Bennite left had adopted the so-called Alternative Economic Strategy (AES), essentially a kind economic national socialism. In the deep recession of 1981/2 the City-versus-industry thesis spread in the Labour Party and some of the non-Bennite, non-socialist left – the so-called soft left – began considering controlling the City in the interests of the domestic manufacturing economy.

Neil Kinnock, party leader after 1983, chose as his economic advisor the Cambridge economist John Eatwell. In 1982 Eatwell had written and fronted a BBC TV series, 'Whatever happened to Britain?'³ This was in the tradition of analyses, going back to the 1950s, bemoaning Britain's relative economic decline; but it was unusual in laying the blame at the door the City of London and its dominance of British economic policy making. Even more unusual from today's perspective was getting to say this on the BBC. But it was 1982 and 'Thatcherism' was not yet triumphant. Thatcher was then the most unpopular prime minister since records of such things were kept; her government's central economic policies were failing; but for the creation in 1981 of the Social Democratic Party, the Conservatives were going to be replaced by a Labour government at the next election; and the BBC's upper echelons had not then

² It is unclear to me if this is what Mrs Thatcher thought she was doing. (It certainly isn't what she has written that she thought she was doing.) Like most politicians, her grasp of political economy was slight. It is frequently said that Mrs Thatcher did not care greatly about the working class unemployment she created: she was punishing them for supporting the left. Mrs Thatcher was in most senses a strange throwback to the 1930s, someone who had been barely touched by the great currents of social change and thinking of the 20th century. The figure she reminds me of is Dorothy Crisp, founder of the British Housewives League in the 1940s. Crisp has a Wiki entry.

³ The series was followed by a book, *Whatever Happened to Britain?*, (London: Duckworth/BBC, 1982). Neither the book nor the TV programme is referred to in the bibliography on Eatwell's Wiki entry, which I presume was written if not *by* Eatwell, certainly *with* Eatwell. On his Cambridge University web page Eatwell writes:

'From 1985 to 1992 John Eatwell served as economic adviser to Neil Kinnock, leader of the British Labour Party, and was responsible for much of the work that led to a substantial re- alignment of the Labour Party's economic policies.'

<www.jbs.cam.ac.uk/research/faculty/eatwellj.html>

By 'realignment' he means moves away from his thinking in *Whatever Happened to Britain?* towards neo-liberalism. I e-mailed Eatwell about this change on his part but did not receive a reply.

swallowed the managerialist baby-talk which dominated it for the succeeding 30 years.

As others had before him, Eatwell argued that the recovery of the British economy centred on the reconstruction of manufacturing; and that this entailed the adoption of something like the German or French relationship between manufacturing and finance capital.

The experience of France, Germany and Japan since the war teaches us that a successful reconstruction policy requires some system of central direction and co-ordination, and in market economies this means some form of direction of flows of finance . . . The crucial point is that the interests of the financial community should be subjugated to the interests of the manufacturing economy.⁴

In 1986 Eatwell's views hadn't changed: Neil Kinnock's book that year, *Making Our Way*, which said the same sorts of things, was at least partly written by Eatwell.⁵

Bryan Gould

Bryan Gould MP also shared these views. A New Zealander, Gould had been a Rhodes Scholar, an Oxford don, a TV journalist and a diplomat.⁶ This was an exotic combination in the Labour Party of the time. Equally exotic, he understood British political economy.

Gould had been one of the successes of Labour's 1987 election campaign and topped the poll of MPs for election to the Shadow Cabinet that year. After the 1987 defeat, the party began a full-scale policy review. Neil Kinnock appointed Gould chair of the committee dealing with the economy, industrial strategy and public ownership. This group included Gould's researcher Nigel Stanley, John Edmonds of the GMB union, Gordon Brown and newly elected MP, Ken Livingstone. John Eatwell, Neil Kinnock's advisor on economics, attended 'as an observer and as a link between the committee and Neil's office.'⁷ Gould welcomed John Eatwell's presence at the group because he assumed that Eatwell – and Kinnock – thought as he did. Gould's team commissioned 75

⁴ Eatwell (see note 2) p. 159 and 160

⁵ One of the entries in the index to Neil Kinnock's papers reads: "'Making Our Way": draft. *Draft text by John Eatwell* [Economic Adviser to NK] of the first two chapters, with notes, synopsis and some correspondence with the publisher.' (emphasis added) See item 9 at <<http://janus.lib.cam.ac.uk/db/node.xsp?id=EAD%2FGBR%2F0014%2FKNNK%206%2F1>>.

⁶ He was in the Brussels embassy in 1966-68. He was not impressed. See his *Goodbye to all that* (London: Macmillan, 1995) pp. 72-75.

⁷ Gould (see note 6) p. 205.

papers on the British economy, and produced a radical critique, emphasising the damage done to it by the dominance of the City.⁸

But this was not what the party leadership then wanted to hear. The election defeat of 1987 – the third in a row – had changed the minds of Kinnock and his close advisors and radical economic thinking was out. But what the Soviet Union’s strategists used to refer to as ‘the balance of forces’ within the party meant that this could not be stated openly at the time. Instead Neil Kinnock tried to get the paper changed on the q.t.. He sent a delegation of Eatwell, Gordon Brown and Tony Blair – an early sighting of the Brown-Blair tandem – to see Gould the day before his committee’s document was going to the printer.⁹ Gould was:

extremely irritated at this last-minute *démarche*. I was not clear what Tony was doing there, since he was not a member of the relevant committee. Gordon and John had had every chance to make their views known at meetings yet had chosen to say nothing.¹⁰

The economics prof and the two young ‘modernisers’ were rebuffed by Gould; but the party leadership did get the paper watered down prior to publication as a section of *Meet the Challenge, Make the Change*; and that was pretty quickly dumped into the recycling bin as actual – as opposed to theoretical – policy-making returned to the leadership group, guided by opinion polling and focus groups.¹¹

At the time the pressing political economic issue was UK membership (or not) of the EU’s Exchange Rate Mechanism (ERM). Gould notes that by the middle of 1988 – before the publication of *Meet the Challenge, Make the Change* –

it was clear that powerful figures in the Shadow Cabinet and in Neil’s office were keen to change the party’s policy on the Exchange Rate Mechanism. John Eatwell, in particular, but with strong support from John Smith and Gordon Brown, was convinced that the party lacked credibility on counter-inflationary policy. What he wanted to do, in effect, was to reassure the City and other critics that they need have no fears about inflation under a Labour government since monetary policy

⁸ The 75 figure is from Colin Hughes and Patrick Wintour, *Labour Rebuilt* (London: Fourth Estate, 1990) p. 131.

⁹ Hughes and Wintour (see note 8) p. 132

¹⁰ Gould (see note 6) p. 209

¹¹ Peter Mandelson and focus-group guru Philip Gould were among those then advising Kinnock.

would no longer be under the control of government but would be contracted out to an independent mechanism.

Gould attended a meeting of the parliamentary party's economic subcommittee and warned that if the party supported ERM membership:

we were in danger of repeating the mistakes made by so many of our predecessors. If we were to commit ourselves to the ERM, we would not be waiting for the City to shackle us. We would in effect be offering up our wrists in advance for the application of the handcuffs.¹²

Gould won the economic argument that day but ERM membership was embraced. The issue had ceased to be about economic policy and Gould, anti-the City and anti-the European Union, was paddling against tides with which the leadership had decided to swim.

A few months later, a year after topping the poll in the Shadow Cabinet election, Bryan Gould was removed from Labour's economics team, the first shadow cabinet casualty of the leadership's new embrace of 'modernisation' – economic orthodoxy in the pursuit of electability.

On Gould's account, the deputation of Brown, Blair and Eatwell had objected:

in particular to what remained of any commitment to return privatised industries to "some form of public ownership" and to the formula agreed for purchasing the 2% shareholding in British Telecom which would give a Labour Government a majority shareholding.

In his version of this period from the 'moderniser' side of things, the pollster/ PR adviser Philip Gould saw the Bryan Gould committee-inspired economic policy of this period this way:

We were *stuck with* "functional interventionism", "social ownership" (a euphemism for back-door nationalisation), and a commitment to retake majority ownership of British Telecom and totally renationalise the water industry. A highly interventionist supply-side strategy was still regarded as the only key to industrial recovery.' (emphasis added)¹³

Philip Gould felt 'stuck with' all this 'old Labour' stuff because in 1988 his focus groups still perceived Labour as it had been portrayed in the 1970s, the source

¹² Gould (see note 6) pp. 216/7

¹³ Philip Gould, *The Unfinished Revolution* (London: Little, Brown, 1998) p. 90.

of strikes, chaos and economic incompetence.¹⁴

The big lie

This story of Labour incompetence and union dominance has been at the heart of the British political narrative since 1975.¹⁵ The great inflation of the 1970s and the conflict it produced with the unions was the first really big bump in the economic road since 1945, and the Labour Party allowed the Conservative Party and its supporting media to produce a false narrative about the decade, which blamed the unions and the party they funded.

The true story was that there was a world-wide rise in inflation which caused problems for all the social democracies in Europe (all the sitting governments were toppled by the inflation of the 1970s); a situation which the Heath government made worse by making a 'dash for growth' prior to joining the EU in 1973, allowing the banks unlimited lending, and thus creating a credit bubble. By the time of the Labour government of February 1974 inflation was approaching 20%.

Unions exist to defend their members' incomes and, as inflation rose, they began submitting inflation-equaling or – busting – pay claims (how could they not?) and the inflationary spiral began. Heath's dreams of a German-style social compact with the unions (to accompany EU membership) were destroyed by the inflation he helped to create.

Why did the Labour Party accept the false narrative of the 1970s? There's an interesting bit of research to be done here, because I don't know and can think of no discussion of this. If I had to guess, to give an impression, I would say it was a bit of several things. Some – maybe most – of Labour's leadership in the post 1979 period simply didn't know enough about political economy to sustain a coherent position under the kind of pressure they would have received from the media, had they challenged the dominant narrative. Few of Labour's leaders had ever been willing to challenge any dominant narrative – e.g. on defence – not least because such challenges were perceived by them to be left-wing and they did not want to be contaminated by such an association.

¹⁴ That is if you believe in the legitimacy of focus groups in general – I don't: the groups are too small and open to manipulation – and these in particular. I know a man who was in a focus group. To make up the required demographic of the group, a childless Labour Party member, he was asked to be (if I remember the details correctly) a Lib-Dem-voting single parent.

¹⁵ Kitty Ussher, briefly Economic Secretary to the Treasury in the Brown government, wrote in a recent essay that Labour had to get 'permission' from the City because of 'the perceived failure of Labour's economic record of the past'. (See <<https://tinyurl.com/5t34554j>> or <<http://laboursbusiness.org.uk/h/2012/03/23/shaping-the-city-reforming-financial-services-to-encourage-enterprise-kitty-ussher/>>) That 'past' is Wilson and Callaghan, over 40 years ago. I discuss Ms Ussher's paper in more detail in 'The View from the Bridge' in this issue.

And underlying all this was the belief that society's dominant narratives – patriotism, Queen, country, armed forces, nuclear weapons, NATO; and all that those entailed – were fixed; to challenge them was electoral suicide; the 'Tory press' and the Tory Party would have a field day. Gerald Kaufman's famous description of the 1983 election manifesto as 'the longest suicide note in history' comes to mind.¹⁶ Maybe this is true; but since no Labour leader has ever had the courage and/or intellectual competence to make such a challenge, there are no examples to consider. The nearest we have is Neil Kinnock's brief, fumbling attempt at presenting a unilateral disarmament nuclear policy, which he quickly abandoned under pressure.

Finally, it is my impression that many of the people who came to be identified as New Labour basically believed the dominant narrative which said that the unions did the damage in the 1970s and Mrs Thatcher was right to attack them. Tony Blair certainly did.

A central part of New Labour's 'project' was to reduce the contamination caused Labour by its financial links to the trade unions and replace their funding. Hence the existence in Labour Party headquarters during the Blair years of the High Value Donor unit which collected the money from the rich.

Not being Neil

Leading a political party through major ideological changes is difficult. Labour's abandoning of Keynesian social democracy fell to Neil Kinnock. In his account of the years before and after the 1987 election, Philip Gould – the 'moderniser', pollster Gould – portrays Neil Kinnock, under fire from the media, as stressed, anxious, self-doubting. Some of this was caused by him trying to be something he could not then be.

During the 1987 general election campaign I was in a room in ITN's building in London one day, while in another room in the building Neil Kinnock was filming a live Q and A session with a studio audience. This was being shown on a TV in the room I was in. Kinnock had his prime ministerial face on. He was stiff and formal: trying not make a mistake, trying to remember the lines, trying not to be Neil Kinnock. In the wings, off-camera, was Patricia Hewitt, one of his media advisors.

Kinnock was dull; the audience was bored; the half-watching ITN journalists were bored. (Patricia Hewitt looked pleased: no blobs.) Then a voice

¹⁶ And so, immediately, does the thought, as has been discussed in these columns before, that the 'suicide note' itself is part of the false narrative of the times. For the manifesto was the left's plans unchallenged by the right and centre in the normal process of manifesto drafting. For the right had decided that since Labour was going to lose the 1983 election (the Falklands effect and the existence of the SDP) they would let the left have its fantasy manifesto and be defeated once and for all by the electorate. Tactical defeatism.

announced that they had ceased recording and everyone relaxed. Kinnock undid his jacket and carried on the Q and A with the audience. Off-air Kinnock was relaxed, confident and witty. The Neil Kinnock, for whom I had voted as leader of the party in 1983, reappeared. And in the wings Patricia Hewitt was agitated, trying to get him off-stage, because 'old Neil Kinnock' was on the loose and God knows what he might say.

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The story of the two Goulds – the ascent of the 'moderniser', PR man Philip and the decline of the economic nationalist Bryan – symbolises and summarises the conflict at the time within the Labour Party. After the report of the Bryan Gould committee, in a series of little steps Labour's leadership inched towards 'respectability' – the neo-conservative, 'Washington consensus' – while loudly proclaiming to its members that nothing was going on.

Philip Gould's PR perspective prevailed and once again Labour policy came to be determined by small groups in back-rooms; but not by the trade union leaders of old but by the members of focus groups, feeding back impressions of politicians conveyed to them by the mass media.

Bryan Gould stood for leader of the party after the 1992 election loss, was defeated by John Smith and departed soon after for New Zealand.

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Postscript

In his memoir Bryan Gould suggests without actually quite saying so, that he was the only one of the senior members of the Shadow Cabinet at the time who understood the economic story. Having returned to New Zealand in 1994, he wrote this in the *Guardian*:

I remember [Gordon] Brown addressing the Parliamentary Labour Party on the great advantages of joining the ERM [Exchange Rate Mechanism], using arguments I knew to be erroneous. He suggested that by fixing the parity within the ERM, we would be applying socialist planning to the economy, rather than leaving an important issue to market forces. The party responded warmly to the notion that speculators would be disarmed. They all seemed unaware that the only thing which gave speculators their chance was a government foolish enough to defend a parity seen to be out of line with a currency's real value John Smith and Gordon Brown truly believed that the ERM was a new, magical device which would insulate their decisions about the currency against reality.¹⁷

¹⁷ *The Guardian*, 19 August 1995

I e-mailed Mr Gould: was he suggesting that his colleagues didn't understand economics? He replied thus:

I found that most of my colleagues had no knowledge of economics and either steered well clear of economic policy – preferring to concentrate on more general topics such as foreign or social policy – or else they swallowed whole the current orthodoxy since they had no capacity to take an independent view. Gordon Brown fell into this latter category – Tony Blair the former. John Smith had only a rudimentary knowledge of economics, but was a little more confident on the nuts and bolts of tax and accounting. I don't think these failings are unique to the Labour Party. I think one of the reasons for all of this is that economists have made economics such an arcane science that most people are frightened off it.

This is very striking. If you've been a literate, intelligent human and you have been interested in politics for years (if not decades) how do you avoid acquiring some economic understanding? And if you want to be a member of a government – the ambition of most MPs – how can you consider doing so without understanding British political economy? Even if you aspire no higher than representing the interests of a constituency (to put an MP's role at its simplest) if you don't understand the economy, how can you do this? I'm sure Bryan Gould is right in part: all the bullshit, pseudo-scientific economics of the last 30 years has turned people off. But there must be more going on here. I wonder if there is some subliminal understanding that mainstream political careers have rarely benefitted from economic understanding.