The Reinvention of Britain 1960-2016:
a political and economic history

Scott Newton

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One image recurred throughout my reading of this closely-argued and finely-written book. The elegant but deadly assassin, played by Edward Fox in *The Day of the Jackal* (1973), is despatching one obstacle after another as he approaches his ultimate target. Cravat carelessly knotted, cigarette dangling between his fingers, his aim is faultless. Not, perhaps, the sort of image automatically associated with a history professor. Yet as one cherished post-war economic myth after another is gunned down, it is an irresistible one.

The 1964-1970 Labour Government was fatally compromised by a foolish refusal to devalue sterling right at the start?

Bang!

Its Seventies successor buried social democracy after the 1976 sterling crisis and paved the way for Mrs Thatcher?

Pow!

Say what you like about Maggie, but she gave Britain its own economic miracle?

A melon is shredded as Fox's exploding bullet finds its mark.

Professor Newton's title is something of a misnomer, as he identifies two reinventions. The first is the embrace of a form of European social democracy by Harold Macmillan and his successors, notably Harold Wilson, from 1960 onwards. The second is the plotting of a new course from 1979 onwards, away from economic planning, intervention and – critically – support for full employment, and towards wholesale, market-based solutions for the shortcomings of the British economy.

There is a clear policy line that he draws through the Macmillan, Alec Douglas-Home and first Wilson governments, one that Edward Heath, Wilson (again) and James Callaghan sought to maintain. Those latter three did so through during the less propitious period that can probably be dated from the work-to-rule in power stations in the winter of 1970-1971 that introduced Britain to the alarming experience of widespread blackouts.

The author is good on Macmillan, a champion house-builder in the post-war years who detested unemployment:

'Macmillan was an uncomfortable Tory; between the wars he had opposed

> the party leadership on the appeasement of Germany and on economic policy. Surveying the wreckage of traditional British industries, Macmillan had urged politicians, industrialists and investors to abandon their commitment to liberal economics and pursue not self-interest but a "national economic policy", their actions guided by a State planning structure capable of taking a synoptic view.'

As 'Supermac' was to joke many years later, he was at odds with his party. This was awkward, but he solved the problem by becoming the party's leader. Installed as Prime Minister, Macmillan could, and did, put his ideas into practice: establishing the 'tripartite' National Economic Development Council ('Neddy'); setting up permanent dialogue among Ministers, trade unions and business; and embracing French-style 'indicative planning' to direct efforts to sectors and regions favoured by the government. Science and education were given a high priority, presaging the emphases of the 1964-1970 Labour years.

Macmillan's earnestness belies the image that has subsequently settled on his time in office, that of an enjoyable but faintly disreputable 'affluence' epitomised by the 'candy floss summer' of 1959, the 'never had it so good' era of easy credit and beer in the fridge.

Labour's return to office in 1964 (narrowly) and, more convincingly, after a second election in 1966, saw many continuities with the post-1960 Conservative administrations but also some important differences:

> 'Macmillan's version of social democracy notwithstanding, the Conservative Party and its allies retained both their connections to the City and their commitment to its economic internationalism. Its core voters were still linked to finance, the service sector and light industry.'

He goes on:

> 'Set against this was the Labour coalition which brought Harold Wilson to power, rooted in manufacturing industry, the unions and the growing middle-class salariat educated in the grammar schools. The long-standing identification of these groups with Producer's Britain and a political economy which privileged growth, social justice, industrial efficiency and innovation led voters to give Labour the benefit of the doubt.'

Those who like to portray the 1964-1970 Labour Government as a failure tend to use two sticks with which to beat Wilson and his colleagues: the National Plan and the initial refusal to devalue sterling.

The Plan envisaged an expansion of the economy by a total of 25 per cent between 1965 and 1970. In the event, growth was to total just over 14 per cent. 'By 1970, few of the projections set out in the National Plan had been achieved, since (it has been argued) the tough economic regime discouraged rather than stimulated private investment.'

And the key motive behind this 'tough economic regime', say critics, was the defence of the pound. Almost from the moment sterling was devalued at the end of 1967, it has been argued that Wilson and his colleagues had wasted three years in a futile attempt to prop up an indefensible pound/dollar rate. Furthermore, is is claimed they had done so to appease the Treasury and the City by demonstrating their 'soundness'.

Professor Newton is having none of it.

> 'This political distaste [for seeing Labour depicted as the party of devaluation] was reinforced by Wilson's limited faith in the price mechanism: he believed that altering the value of the currency would not lead to an efficient allocation of resources in the economy so that they shifted into the production of goods for the export market. This was a process which required planning and intervention in industry.'

Labour's difficulties, not least on the industrial-relations front, helped create the conditions for a surprise win by Edward Heath and his Conservative Party in the summer of 1970. 'Despite appearances, Labour's defeat did not herald a fundamental shift away from social democracy. Nor did it mean any weakening in the commitment to modernise Britain embraced by Macmillan eight years earlier.' It did, however, usher in a ragbag of confused and mutually contradictory policies that propelled the country into perhaps its most chaotic period since WW2.

Heath was a great admirer of West German 'partnership' embracing government, business and the unions; his 1971 Industrial Relations Act was hated by the unions, who vowed to oppose it by all means. Similarly, Heath hoped to see British banks adopt the same 'patient', long-term approach to lending to industry as did their German and Japanese opposite numbers; he introduced a package of credit-market reforms that instead fuelled a deranged spiral of real-estate deals and share-price speculation.

Heath proclaimed a 'quiet revolution', deliberately based on the disciplines of a free-market economy; he ended up imposing pay and price controls and bailing-out insolvent businesses. His time in Downing Street ended with a state of emergency that ran from November 1973 to March 1974.

> 'Heath's experiment had been a failure. The combination of financial liberalisation with industrial *dirigisme* had been contradictory . . . .[these contradictions] stemmed from the historic fracture between Consumer's and Producer's Britain.'

Labour's 1974-1979 term in office has been caricatured as having prepared the intellectual ground for Thatcherism, especially after the autumn 1976 sterling crisis. Not so, according to the author: 'During the [1979 election] campaign, Labour made clear its continuing commitment to the values of 1945, modified by the social-democratic reforms pursued since the early 1960s.'

Indeed, as the new Tory government took office, there was every reason to believe that a re-run of the Heath years was in prospect. Initial abrasive talk about getting tough with the unions and with failing businesses would give way, in the face of politically unacceptable levels of unemployment, to a U-turn. History would note that, twice since 1965, the Tories had turned to leaders from lower-middle class grammar schools who staged confrontations with the social-democratic order – and lost.

That this did not happen is not to be taken as meaning that the Conservatives' economic blueprint survived its first contact with reality. In fact, the medium-term financial strategy (for control of the money supply) and the commitment to curb the public-sector borrowing requirement were every bit as much failures as had been Labour's National Plan and defence of sterling. In what amounted to a (largely) unheralded U-turn, they were dropped and the Tories concentrated on the red meat of defeating the unions, tax cuts, 'enterprise' and, of course, financial deregulation.

> '[T]he Thatcher governments' many supporters in the mainstream media. . . . have maintained that the era from 1979-1990 saw Britain's long-term economic prospects transformed for the better. Yet the evidence does not support them. Notwithstanding the rapid expansion of output between 1985 and 1989 the annual average level of growth during the Thatcher years was just 1.8 per cent, less than the 2.6 per cent reached by Labour and Conservative social democracy between 1969 and 1979.'

But if the 'monetarist' experiment was rapidly abandoned, the anti-union, pro-business, pro-privatisation ethos certainly was not. Indeed, the sell-off of State industries was perhaps Britain's most successful export at this time, with privatisation programmes established in, among other places, France, Malaysia, South Africa and the former Soviet bloc.

Thatcher suffered only one public economic policy defeat in her last years, when she had to acquiesce in tying Sterling to the European Exchange Rate Mechanism (ERM), a currency system anchored to the German mark. What followed could be described as like something out of a Greek tragedy – were that hackneyed expression not attached to every imaginable setback from a lost test match to rather dull machinations in an obscure company boardroom.

The Prime Minister lost her long-serving Chancellor Nigel Lawson on this point, only to replace him with John Major, who was also committed to ERM membership. Sterling joined in October 1990, and a month later Thatcher was out of office, to be replaced by. . . . John Major.

ERM membership was congenial to that new Prime Minister for two reasons. One, it helped fulfil Major's ambition to put Britain at the 'heart of Europe'. Two, it exerted a powerful downward influence on inflation, which Major, according to Professor Newton, 'viewed as a threat to the aspirations of the very people the Conservatives should be defending: responsible, hard-working members of the electorate. . . . '.

Unfortunately, the ERM's success in this second task came at the price of crushing the life out of the economy and triggering the second 'Tory' recession in ten years. With German interest rates rising, for reasons unconnected with the UK economy, the pressure became intolerable and speculators propelled sterling out of the ERM in September 1992.

Not only was Britain not at the heart of Europe, but the image of the Major government was irreparably damaged. The central plank of its economic policy had been shattered, yet Ministers seemed to want to be thanked for the gently rising prosperity that followed leaving the ERM when they had consistently claimed such an event would prove disastrous. 'Many voters who had been attracted by Major's brand of Conservatism became disenchanted and drifted away from supporting the Conservatives.'

This drift was actively encouraged after 1994 by Labour's new leader Tony Blair and his business-friendly, pro-'aspiration' policy stance. Blair's May 1997 victory was widely expected, although its scale was probably not. Labour's *majority* in the House of Commons was larger than the entire Parliamentary Conservative Party.

Defenders of Blair and his Chancellor Gordon Brown like to cite the introduction of the National Minimum Wage and to point to steady increases in public spending along with more generous welfare arrangements. The long lasting upswing in UK growth, which had originated back in the fourth quarter of 1991, was produced in evidence that Labour's 'third way' between full-blooded Thatcherism (however defined) and traditional social democracy was working. Professor Newton has a different take:

> 'New Labour's embrace of the economic liberalism of the third way . . . [created] a version of social democracy incapable of challenging the power of domestic or global capital since its objectives could not be achieved without the co-operation of either.'

The credit crunch of August 2007 heralded a financial crisis and Great Recession that ended the myth of 'Britain resurgent' that had been sedulously fostered by political leaders since about the time of the 1983 General Election. Politically, the crisis despatched Gordon Brown's apparent view that, on replacing Tony Blair in 2007, huge electoral rewards would be reaped by presenting the world with a more serious and stolid version of his predecessor. It also destroyed David Cameron's equally illusory notion that imitating Blair - e.g. by staging one or more of his own versions of Blair's 'Clause 4 moment[1] – – would deliver the sort of victory which Blair achieved in 1997.

Economically, the Conservative-led Coalition that took office in 2010 bears more than a little resemblance to the Heath administration in terms of internal contradictions. It talked about austerity but kept putting off its deficit-reduction targets; it was keen to rebalance the economy away from financial services and debt but ended up presiding over an easy-credit spree. George Osborne, the Chancellor, had pledged to end the Treasury's 'imperial' behaviour in Whitehall, but ended up taking it into policy areas even arch-fiddler Brown never contemplated, such as whether school pupils should have to study maths to 18 and a huge re-organisation of local government in built-up areas.

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[1] Tony Blair persuaded the Labour Party in 1995 to drop the clause in its constitution committing the party to common ownership of industry.

As with the Heath government, the Coalition took flak from the left for being hard-faced and uncaring and from the right for its fiscal incontinence.

Wisely, the author leaves any verdict on the post-Cameron management of the economy to future historians. Unwisely, he delivers a verdict on the outcome of the 2016 EU referendum that is almost a caricature of the outraged university professor, stating that the post-1979 'neo-liberal' (never a very useful expression, in my view) order 'left large areas of the nation not only relatively poor and deprived but open to a xenophobic and chauvinistic form of popular politics manipulated by ambitious and unscrupulous politicians in alliance with . . . . media barons and editors.'

Yes, only the poor and thick supported Brexit, apparently, dumbly following assorted pied pipers like so many dim-witted children.

There are rather smaller beefs as well. I'd have liked more on how 1970-1979 differed from the previous decade. The '70s was a time of transition rather than simply a continuation of social democracy under less promising conditions.

I'd have liked more also on the question of what came before 1960. After all, Macmillan and his successors did not turn to social democracy from the position of a full-blooded capitalist economy. The 1945-1951 Labour governments described themselves as socialist and, in domestic policy, acted the part, whether in terms of nationalisation or the welfare state. The Tories, pre-1960, left the post-war settlement largely untouched, grafting on to it manifestations of the 'affluent society' such as commercial television and legalised betting.

Professor Newton suggests that Britain had been, to pinch the old slogan of the Victoria and Albert Museum, an ace welfare state with a world power attached. Superpower status was rendered hollow by the Suez crisis in 1956, and economic underperformance spurred a search for more modern tools than public ownership and strong trade unions.

That is fair enough, but it should be borne in mind that social democracy, as practised from Macmillan onwards, was to the right of the 1945 settlement. Hence the impatience of Labour romantics such as Michael Foot with social democracy's accommodative approach to private industry.

All that aside, this is an excellent book, intensively researched and with a strong narrative line that gives powerful support to the central argument. An ideal festive gift for anyone interested in the recent economic history of Britain.

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