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## The Economy

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This chapter falls into two unequal parts. The first charts, broadly chronologically, the shifting understandings, historical and historiographical, of the role of the state in economic life. The final section focuses on debates about the performance of the economy, especially notions of 'decline' which have been central to those debates since the late nineteenth century. Variegated but overlapping senses of 'decline', originating in very specific historical circumstances, have overshadowed much writing on the modern British economy with, it will be argued, often detrimental effects on our understanding. Such notions need to be historicized; placed firmly in the intellectual, ideological and above all political contexts within which they arose.

### I

In trying to understand the complex relationship between British politics and the economy over these two centuries, it is as well to start with one of the central analytic challenges, summarized by Adam Tooze: 'the economy is not pre-existing reality, an object which we simply observe and theorise about. Our understanding of the "economy" as a distinct entity, a distinct social "sphere" or social "system", is the product of a dramatic process of imaginative abstraction and representational labour'.<sup>1</sup> So to understand how the political system dealt with 'the economy' it is crucial to have a sense of the shifts in the meaning and deployment of this term.

Of course, much of that representational labour has been carried out by economists, but this chapter is not concerned with developments in economics *per se*, but rather the way in which economic notions have shaped British politics over the last two centuries. Thus 'the economy' is not treated here as a brute fact to which politics has responded, but something constructed in and through arguments which are themselves partly shaped by political processes and calculations.

By 1800 that process of 'imaginative abstraction and representational labour' was on the verge for the first time of producing a recognisable field of enquiry distinct from moral philosophy.<sup>2</sup> The most important figure in developing this new field was Adam Smith, whose *Wealth of Nations*, published in 1776, had already attained canonical status by 1800. But Smith's work had still formed part of a moral philosophy, whereas the new political economy was based on the notion of 'an economy' which, at least in principle, could be separated off from moral, theological and even political argument.<sup>3</sup>

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<sup>1</sup> A. Tooze, 'Imagining national economies: national and international economic statistics, 1900-1950' in G. Cubitt ed., *Imagining the Nation* (Manchester, 1998), pp. 213-4.

<sup>2</sup> R. Backhouse and K. Tribe, 'Economic ideas and the emergence of political economy' in R. Floud, J. Humphries and P. Johnson, eds., *The Cambridge Economic History of Britain vol I. 1700-1870* (Cambridge, 2014), pp.423-4.

<sup>3</sup> G. Stedman-Jones, *An End to Poverty? A Historical Debate* (London, 2004).

Smith's own politics were radical and egalitarian.<sup>4</sup> But in the context of the repressive politics of wartime Britain, Smith was presented not as an advocate of radical change to achieve political liberty, but the supporter of a much more restricted agenda of free trade. Smith certainly was an advocate of free trade, but he saw that as just part of a broader case for expanding the wealth of the nation, which would be achieved by a combination of the division of labour in manufacturing and the expansion of the market. The second of these would require the breaking-down of impediments to trade, both internal and external. Smith's political radicalism derived from the fact that he saw most such impediments as the product of the successful pressure by private interests to use the state for their own ends; pressure twentieth century economists would label 'rent-seeking'.

Traditional histories of the 'triumph of laissez-faire' in the post-Waterloo decades could point with some force to the eventual arrival of free trade, though the transition was slow and the final act, the repeal of the Corn Laws, had to wait until the 1840s.<sup>5</sup> But recent histories of British economic development in the late eighteenth and early nineteenth centuries have not shared the view of these traditional histories that only the coming of free trade allowed the flowering of British nineteenth century prosperity. On the contrary, they have emphasized the key positive, expansionary role of external trade in the 'mercantile' period, but seen this as grounded in an imperial and militaristic state that was successful in achieving national ends.<sup>6</sup>

This view of the state's role fits with the characterisation of the Britain as possessing a 'fiscal-military' state, which in comparative international terms was highly successful in extracting revenue from its citizens in order to fight the wars which were almost continuous in the six decades before Waterloo.<sup>7</sup> While originating at the end of the seventeenth century, after 1750 this state was extracting up to 25 per cent of GDP in taxation in wartime, compared with around 10 per cent in peace.<sup>8</sup> This scale of expenditure and taxation were tolerable in wartime, but one peace was declared radical retrenchment was politically unavoidable. After the Napoleonic wars what later generations would call the 'politics of austerity' reigned, and as usual these politics were of a reactionary character. The perceived need to cut spending went along with attempts to make the tax burden even more regressive, and it is only after the re-instatement of the income tax in the 1840s that many of the regressive taxes on imports (including imports of corn) were removed.

While a Whiggish history of progress to greater prosperity through the achievement of free trade is to be (heavily) qualified rather than dismissed, the story of the creation of

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<sup>4</sup> I. McLean, *Adam Smith: Radical and Egalitarian* (Edinburgh, 2006); E. Rothschild, *Economic Sentiments: Adam Smith, Condorcet and the Enlightenment* (Cambridge, 2001); D. Winch, *Riches and Poverty. An Intellectual History of Political Economy in Britain, 1750-1834* (Cambridge, 1996).

<sup>5</sup> A. Howe, 'Restoring free trade: the British experience, 1776-1873' in D. Winch and P. O'Brien, eds., *The Political Economy of British Historical Experience, 1688-1914* (Oxford, 2002); *idem.*, *Free Trade and Liberal England 1846-1946* (Oxford, 1997).

<sup>6</sup> K. Morgan, 'Mercantilism and the British empire' in Winch and O'Brien, *Political Economy*, pp. 165-213; J. Hoppitt, 'Political power and British economic life, 1650-1870' in Floud, Humphries and Johnson, *Cambridge Economic History vol I*, pp. 344-67.

<sup>7</sup> J. Brewer, *The Sinews of Power. War, Money and the English State, 1688-1783* (London, 1989); P. O'Brien, 'Fiscal exceptionalism: Great Britain and its European rivals from Civil War to triumph at Trafalgar and Waterloo' in Winch and O'Brien, *Political Economy*, pp. 245-66.

<sup>8</sup> J. Hoppitt, 'Political power', p. 348.

a Smithian ‘system of liberty’ domestically is an even more complex and controversial tale.<sup>9</sup> Insofar as such a system required reform of the state, part of the difficulty here is the different elements of the state that have to be considered. Above all, the distinction between the local and central state is vital, especially in the period before the 1870s, after which the trend towards increasing centralization of the British state became overwhelming and seemingly irreversible.

The Napoleonic wars, which saw the apogee of the centralized fiscal-military state, also created a crisis for local government, above all for the Poor Law, because of the high prices and poverty that accompanied the war. This problem was addressed in a hugely important fashion by the Speenhamland decision of 1795, which gave assistance to the poor by subsidising their wages out of the local rates. This decision was much attacked on distributional grounds, as aiding the labouring poor at the expense of the farmer. But more broadly, Speenhamland was at odds with the emerging political economy of free labour markets; it subverted a new moral economy in the name of much older notions of rights and responsibilities.<sup>10</sup>

Speenhamland was eventually swept away by the reform of the Poor Law in the 1830s, which aimed to moralize the poor, as well as reduce the rates falling upon employers. It sought to regulate such support centrally on more restrictive principles, though it did so with only limited success. Nevertheless, we need to emphasize the importance of Speenhamland, and of its repudiation by the Act of 1834: ‘The New Poor Law was indeed a landmark in the creation of a market system’<sup>11</sup>.

But few would now accept that the triumph of the Poor Law reformers symbolised a complete ‘triumph of laissez-faire’. Alongside this reform came new interventions in the labour market, with a growing number of Factory Acts (the first in 1802), so that a ‘free market’ in labour was never fully accepted in early nineteenth-century Britain. So we should be careful not to tell the story of the years following Waterloo as one simply of a triumph of this new political economy.

Traditionally, the influence of political economy was seen as peaking in the first decades of the nineteenth century.<sup>12</sup> But more recent work has argued that political economy was not the only force shaping contemporary understandings of the economy amongst the political class. This period was also one of very powerful religious ideologies, most importantly Christian evangelicism, which also had a major, though contested, impact on understanding of appropriate economic policy.<sup>13</sup>

Smithian radicalism rested in large part on the denial of legitimacy to the contemporary state, portrayed as the creature of vested interests and corrupted politicians. For a new, more positive, view of the role of the state to emerge required the defeat of this ‘Old Corruption’. Recent work has argued that reforms of the state,

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<sup>9</sup> For an overview, P. Mandler ‘Introduction’ in Mandler, ed., *Liberty and Authority in Modern Britain* (Oxford, 2006), esp. pp.6-13.

<sup>10</sup> K. Polanyi, *Origins of Our Time. The Great Transformation*, (London, 1944).

<sup>11</sup> P.Mandler ‘The New Poor Law *redivivus*’ *Past and Present*, cxvii (1987), 157.

<sup>12</sup> F.W. Fetter, ‘The influence of economists on legislation in the British parliament from Ricardo to John Stuart Mill’ *Journal of Political Economy*, lxxxiii (1975), 1051-64.

<sup>13</sup> B.Hilton, *A Mad, Bad and Dangerous People? England 1783-1846* (Oxford, 2006), pp174-94, 331-5, 400-9.

especially from the 1830s onwards, did slowly undermine the plausibility of this characterisation, culminating in 1848-51 as a major watershed when the Old Corruption argument lost its potency, defeating Chartism but also changing the legitimacy of government action in the eyes of many. This process was largely complete with the expansion of the franchise under the Second Reform Act of 1867.<sup>14</sup> This growing legitimacy was coupled to ‘economical reform’ but also to tax reform, aimed at creating a sense of ‘fairness’ between classes in the distribution of the tax burden.<sup>15</sup>

As a result in part of this new legitimacy for the state, Cobdenite liberalism with its high level of distrust of state action was decreasingly effective. Its supersession was reinforced by extensions of the franchise and the emergence of new kinds of popular politics, eventually embracing new strands of working class and socialist elements. But a key legacy carried into this new political world was a commitment to free trade, which continued to underpin most radical politics down to the First World War.

The role of the state can never be fully satisfactorily measured simply by levels of public spending (leaving aside complications arising from the central/local divide). Many important actions by the state involve little in the way of expenditure (and, of course, may be ineffectual if the state lacks the machinery to make its edicts effective).<sup>16</sup> State intervention shapes the behaviour of non-state actors in ways which may be fundamental, for example by encouraging philanthropic activity, a hugely important feature of British society throughout these two centuries. All that said, it is undoubtedly a striking feature of British politics that over our period it has brought into being a state which has increased its spending as a share of GNP by around fourfold. Looking at the patterns of such spending does tell us something important.

The mid-nineteenth century state’s role judged by level of expenditure, was undoubtedly at historically low levels, falling from a Napoleonic Wars peak of around 25 per cent to a low point of 8.3 per cent of GNP in 1870 and 1880.<sup>17</sup> This pattern can be explained by three factors. First, after Waterloo spending on the military was radically reduced, especially on the army, and the costs of empire were cut by shifting much of the burden of policing its most populous country, India, onto the residents of the sub-continent. Second, while civil spending grew, it grew slowly until very late in the century. Much of the increased regulatory activity of the early-Victorian state involved little expenditure. Third, GNP was growing at a historically fast rate in these years, so slow-growing spending fell as a proportion of total output.<sup>18</sup>

## II

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<sup>14</sup> J. Parry, ‘The decline of institutional reform in nineteenth-century Britain’ D. Feldman and J. Lawrence, eds., *Structures and Transformations in Modern British History* (Cambridge, 2011), pp.164-186

<sup>15</sup> M. Daunton, *Trusting Leviathan. The Politics of British Taxation, 1799-1914* (Cambridge, 2001).

<sup>16</sup> G. Fry, *The Growth of Government* (London, 1979), Part II.

<sup>17</sup> Figures in G. Peden, ‘Public Expenditure, 1832-1914’ in Winch and O’Brien, *Political Economy*, p.354.

<sup>18</sup> P. Harling, ‘The powers of the Victorian state’ in Mandler, *Liberty and Authority*, pp.28-9.

From the time of Dicey historians have identified a late nineteenth century turning-point in role of state, partly linked to weakening of Classical political economy, and the rise of new doctrines. Dicey denounced the influence of ‘collectivism’, but insofar as this existed it owed little to economics. A changing attitude to the state can be found in the doctrines of John Stuart Mill, and much more explicitly in the welfare economics of Alfred Marshall. Mill’s *Principles of Political Economy*, first published in 1848, was undoubtedly the most influential economics book of the second half of the nineteenth century, and went much further than its predecessors in developing notions of market failure.<sup>19</sup> Marshall’s *Principles of Economics* of 1890 went much further in formalising approaches to this issue. But towards the end of the century economic doctrine probably mattered less, partly because it became less of a discourse interwoven with the direct shaping of public understanding, and more of a subject taught to students.<sup>20</sup> Of greater significance than doctrinal changes were the political responses to increased economic competition and the ‘first great globalization’, with the increased insecurities this process brought about. Savage helpfully identifies three working-class responses to economic insecurity; mutualist (co-operatives and friendly societies); economistic (trade unions); and statist (government intervention). It is important to stress that the ‘statist’ response was only one, and many in the emerging working-class and socialist movement sceptical of this course.<sup>21</sup> While recognising the shift that had taken place in popular views of state legitimacy, the limits of this legitimacy in working-class eyes should also be noted. Anti-trade union decisions such as *Taff Vale* in 1901 suggest why these limits existed.<sup>22</sup>

Two political economies came into contention in response to this globalization; the established ‘liberal cosmopolitanism’ was challenged by a Chamberlainite ‘imperial national economy’, though both can be seen as alternative responses to pressure for more attention to relief of poverty and increased spending on social services. The liberal version claimed higher taxes would accrue readily from an expanding free trade economy plus some increase in tax progressivity; tariff reformers saw import duties as a major new source of revenue.<sup>23</sup>

The late nineteenth century version of liberal political economy rested on the ‘three pillars of the anti-collectivist temple’: alongside free trade, were the gold standard and low and balanced budgets.<sup>24</sup> Politically these three shared a similar basis in maximising the role of ‘automatic’ market forces over discretionary state action. In that sense they continued an adherence to Classical economic doctrines. But it would be wrong to see these precepts as imposed from on high on a populace restless for change. While adherence to the gold standard was undoubtedly regarded as a ‘technical’ issue by its guardian, the Bank of England, it is notable that in some

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<sup>19</sup> P. Johnson, ‘Market disciplines’ in Mandler, *Liberty and Authority*, pp.211-215.

<sup>20</sup> K. Tribe and R. Backhouse, ‘Economic thought and ideology in Britain, 1870-2010’ in Floud, Humphries and Johnson, *Cambridge Economic History vol II.*, pp.506-528.

<sup>21</sup> M. Savage, *The Dynamics of working-Class Politics. The Labour Movement in Preston 1880-1940* (Cambridge, 1987).

<sup>22</sup> P. Thane, ‘The working class and state “welfare” in Britain, 1880-1914’ *Historical Journal*, xxvii (1984), 877-900.

<sup>23</sup> E. Green, *The Crisis of Conservatism. The Politics, Economics and Ideology of the Conservative Party, 1880-1914* (London, 1995).

<sup>24</sup> R. Middleton, *Government versus the Market. The Growth of the Public Sector, Economic Management and British Economic Performance, c.1890-1979* (Cheltenham, 1996), p.54.

countries at this time, such as the USA, the monetary standard was a major political issue. But in Britain the long deflation of prices of the last quarter of the century consequent on adherence to gold was experienced by most Britons, who were predominantly urban wage earners, as a benefit, with lower food prices bringing substantial rises in real incomes.

Support for free trade was much more positive and entrenched; it was far more than a rarefied economic doctrine. There was widespread popular support for its economic benefits, not least, of course, cheap food. But it was also supported as an anti-militarist and pacific doctrine, celebrating international linkages and regarding them as desirable obstructions to nationalistic politics.<sup>25</sup>

The third pillar was more problematic. Here, undoubtedly, there was tension between the precepts of fiscal economy and popular politics in the context of an expanding electorate. The Liberal reforms after 1906 were notable for establishing new principles of spending in the fields of social policy, especially pensions, labour exchanges and social insurance. The budget continued to be balanced by extending taxation, especially into landed wealth, but spending was on an upward trajectory. A crucial component of this expansion was the increased role of *central* government, with the Treasury distrusting local government to be economical if spending revenues from central taxation rather than local resources, resources which were constrained by a fiscal crisis in local government. In this way, social policy became a matter of high politics.<sup>26</sup>

The challenge to this political economy failed because of the popularity of free trade with the connotations suggested above. It also failed because the liberal economy proved both expansive (though subject to sharp cycles of activity) and capable of generating increased public revenues without fatally undermining the legitimacy of the tax system, though the Budget crisis of 1909/10 did show the capacity of Conservative politics to mobilise a much wider constituency than those directly affected by increased taxation. This was an important foretaste of twentieth century fiscal politics.

The debate around the failed Chamberlainite political project had a lasting legacy in shaping the terms of economic debate. This was not so much because of the way economists were mobilised both for and against the old free trade verities, but the way in which a new notion of a national economy came into being. In many ways the free trade versus protection debate became a contest over economic statistics, used to measure the performance of the national economy. Building on the early Victorian revolution in statistics, many types of economic data, from international capital flows to unemployment, were either invented or radically improved. Chamberlainite claims of economic failure and decline led to complex debates about how to assess the economy, and this assessment was grounded in the production of many more statistics, official and otherwise.<sup>27</sup>

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<sup>25</sup> F. Trentmann, *Free Trade Nation* (Oxford, 2008).

<sup>26</sup> Peden, 'Public expenditure', 361.

<sup>27</sup> B. Supple, 'Official economic inquiry and Britain's industrial decline: the first fifty years' in M. Furner and B. Supple eds., *The State and Economic Knowledge* (Cambridge, 1990), 330-7.

The Edwardian protectionist debate was an important precursor to the decline debates of the second half of the twentieth century.<sup>28</sup> It shared the breadth of political forces that could be mobilised by the claims made about the alleged severity of the country's economic shortcomings. In many ways, despite its immediate failure to overthrow Liberal (and liberal) policies it set the tone for much of the twentieth century debate (see section V below)

### III

The three pillars of Edwardian political economy were undermined by the First World War. The gold standard was suspended for the duration. Free trade was likewise set aside, and with a less clear presumption that it would be fully restored post-war. Public spending shot up, and was never to return to pre-war levels.

The politics of the 'twenties saw a clash between an attempt to reconstruct the three pillars and the claims of a much expanded labour movement in a context of a weakened economy and heavily indebted state. The gold standard was restored in 1925 but this produced deflationary pressures and industrial conflict. Free trade was mainly restored, though it was clear that opinion amongst the business class and many conservative electors had shifted against liberal cosmopolitan attitudes to the international economy. With the failure to implement a capital levy after the Armistice, the next decade saw a large part of public spending committed to debt service, in competition with the pressure for more social service spending. After the initial post-war boom, the twenties was a decade of deflation, and we may see this as a victory for creditors over debtors, as a victory for conservative politics. But this was accompanied by a clear upward trend in social service spending, especially by expansion in housing and social insurance.

The British economy suffered from chronic unemployment in the 1920s, and the attempts to address this problem within a still largely liberal political economy failed. It took the exacerbation of this unemployment problem by the world slump after 1929 to stimulate both a major shift in economic policy and, largely separately, a major re-think of economic doctrine.

1931 was the pivotal year in twentieth century economic policy. The simultaneous departure from gold and imposition of tariffs inaugurated a new era of economic management. The core of policy was to try and raise prices and profits in order to generate a recovery led by private investment.<sup>29</sup> While retreating from the classical liberal norms about free trade and the gold standard, the National Government made no ideological concessions to advocates of using budgetary action to directly stimulate economic activity; this was a conservative version of 'national political economy'. If, in principle, budgetary orthodoxy was to be maintained, as always fiscal outcomes proved to be hard to control by ideological formula, and substantial deficits were incurred as the automatic stabilizers came into play.<sup>30</sup>

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<sup>28</sup> D. Cannadine, 'Apocalypse when? British politicians and British "decline" in the twentieth century' in Clarke and Trebilcock, *Understanding Decline*, pp.261-84.

<sup>29</sup> A. Booth, 'Britain in the 1930s. A managed economy?' *Economic History Review*, xl (1987), 499-522.

<sup>30</sup> R.Middleton, 'British monetary and fiscal policies in the 1930s' *Oxford Review of Economic Policy*, xxvi (2010), 414-441.



Economic policy in the 1930s owed little if anything to the new departures in economic theory associated with Keynes and his *General Theory* of 1936. Like Smith's *Wealth of Nations*, the *General Theory* was a tract for the times which also embodied a new approach to the relation between government and the economy. Keynes was a liberal who saw unemployment and economic insecurity as existential threats to liberal societies. His remedy was for governments to accept that, left to its own devices, a capitalist economy would generate chronic unemployment, and that state action to restore full working was both possible and desirable. On the precise nature of this action Keynes was pragmatic. Monetary policy in some circumstances would do the trick, but fiscal policy might be needed if the economy was stuck in a depression where low interest rates were either unachievable or ineffective. Within the domain of fiscal policy Keynes was again pragmatic about how precisely this should be conducted, but while he was not an advocate of permanent deficit financing, he did believe that such deficits were an appropriate, temporary, weapon in times of slump.

Keynes' doctrine was ideologically ambiguous. On the one hand, it was an attempt to defend a capitalist, free market economy to which a growing number of people on the Left in inter-war Britain were opposed in principle. On the other hand, the acceptance of the necessity in the given circumstances of inter-war Britain for government 'pump-priming' put him at odds with conservative forces, who regarded budgetary balance as not only *morally* right but also a crucial defence against a loss of financial confidence which would be fatal to the strategy of a private-sector led recovery.

Most accounts of modern Britain suggest a 'Keynesian era' running from the 1940s to the 1970s. The beginnings of this era are relatively straightforward, if paradoxical. Keynesian approaches to the economy, centrally involving notions of a circular flow of expenditure and assessment of aggregate demand and supply, were taken up by the wartime government in 1940/41 as a means of attempting to reduce inflationary pressure by budgetary action—hence the 'first Keynesian budget' of 1941. But in the longer run even more important was the 1944 White Paper on *Employment Policy*. Committing the government to pursuing 'high and stable' employment, the shift from the politics of the 1930s was clear. In the White Paper the perceived means to achieve this goal were ambiguous; Keynesian style 'maintenance of total expenditure' was to be conditional on labour mobility, wage restraint and worker support for productivity enhancement. But the commitment to regard unemployment as a key economic problem that could and should be addressed by government was clear.<sup>31</sup>

The 'Keynesian era' of the 1950s and 1960s saw governments hyper-active in using the instruments of macro-management. The 'stop-go' cycle symbolised governments attempts to balance the claims of full employment against the desire to limit inflation and maintain the value of the pound. Both monetary and fiscal instruments were commonly used in policy 'packages', though the latter had priority most of the time.

In many ways this policy regime was successful. Unemployment was kept extraordinarily low at around 2 per cent, inflation fluctuated but with an average level of 4 per cent, and with no upward trend. The current balance of payments (helped by

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<sup>31</sup> J. Tomlinson, *Employment Policy. The Crucial Years, 1939-55* (Oxford, 1987).

devaluations in 1949 and 1967) showed a small positive balance, though the overall payments position was much affected by overseas military spending and foreign investment. Growth was high by historic standards. And especially striking, the budget was usually close to balance, so maintaining full employment in this period did not require large fiscal injections.<sup>32</sup> This last point has led some to doubt how important policy was to the full employment of this era, suggesting the perhaps more important role of high levels of private investment stimulated by rapid technical change, though perhaps also encouraged by the political commitment to avoiding a slump. However, efficacious or not, what seems clear in retrospect is that Keynesianism relied for its plausibility on big government, yet the process of government growth was a quite independent process, owing little to Keynesianism or indeed any other economics doctrine.

The end of the Keynesian era is normally associated with the 1970s and 1980s, when it was challenged by new economic doctrines and replaced by an emphasis on pursuing low inflation as the key to economic stability. Certainly the stagflation of the 1970s posed profound questions about the existing policy regime. This was clear in Healey's landmark budget speech of 1975 when he said:

‘I fully understand why I am being urged by so many friends both inside and outside the House to treat unemployment as the central problem and to stimulate a further growth in home consumption, public or private, so as to start getting the rate of unemployment down as fast as possible. I do not believe it would be wise to follow this advice today....I cannot afford to increase demand further today when 5p in every pound we spend at home has been provided by our creditors abroad and inflation is running at its current rate’<sup>33</sup>

Within a year after this restrictive stance was given the IMF's seal of approval in 1976, the Labour government moved back in a Keynesian direction; they were only ever ‘monetarists by necessity’. A much clearer, consistent ideological attack on Keynesianism came with the Thatcher government after 1979. The key moment here was the 1981 budget, where for the only time in post-war Britain, the government sought vigorously to offset the automatic stabilizers during a recession, thus explicitly repudiating the efficacy of fiscal policy. This occasioned a set-piece ideological debate about Keynesianism, and policy was explicitly anti Keynesian. But was this the ‘end of the Keynesian era?’ Conservatives claimed that the recovery after the 1981 budget vindicated their anti-Keynesianism. Yet, despite claims that ‘the lady's not for turning’, we know that monetary policy, which had been the main cause of the recession, was eased before the 1981 budget, and despite this being in conflict with the government's ‘Medium Term Financial Strategy’. So monetary policy had been used to try and limit unemployment, as any Keynesian would have suggested.<sup>34</sup>

More broadly we may note that the 1981 repudiation of the automatic stabilizers was not repeated under the Conservative government in the early 1990s. The recession of those years saw the largest peacetime budget deficits to date at 7.2 per cent of GDP in

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<sup>32</sup> R. Middleton, *The British Economy since 1945* (Basingstoke, 2000), pp. 86, 80.

<sup>33</sup> House of Commons (*Hansard*), 15 April 1975, col.282.

<sup>34</sup> D. Needham and A. Hotson, eds., *Expansionary Fiscal Contraction: the Thatcher Government's 1981 Budget in Perspective* (Cambridge, 2014).

1993/4 (larger than the mid-1970s peak of 6.7 per cent), as the government sought to contain the rise in unemployment. In this light, the repudiation of Keynesianism in the 1970s and 1980s look much more contingent on particular economic and political circumstances, and rather less an epochal change in the policy regime.

Even more that the ‘rise and decline of Keynesianism’, the story of the rise of the welfare state from its New Liberal origins is perhaps the most popular narrative in the whole of twentieth century British history. But this story has crowded out recognition that, from the days of naval rearmament that accompanied the New Liberal reforms, Britain also became a *warfare* state, with, by international standards, a large proportion of GDP devoted to armaments and the military, backed up by a commitment of huge resources to scientific research in weaponry and warfare. While some of these aspects of Britain’s warfare state eroded after the end of the Cold War, important legacies remained, with Britain at the end of the century still a major armaments exporter, and possessor of nuclear weapons.<sup>35</sup>

As David Edgerton stresses, this notion of Britain as a *warfare state* is at odds with many different interpretations of British history, but is well-grounded in the comparative data of military spending, armaments production and resources devoted to military R and D stretching back to the 1920s.<sup>36</sup> It also has an important cultural dimension, with, for example, the British obsession with aircraft and the mythologies which attach to the aeroplane as a symbol of modernity through much of the last century.<sup>37</sup> Refusal to recognise the importance of this aspect of Britain’s modern political history is closely connected with ‘declinist’ interpretations of that history, a point returned to in the final section of this chapter.

#### IV

Most accounts of Britain in the last quarter of the twentieth century couple a ‘decline of Keynesianism’ narrative to one which proclaims (with favour or disfavour) a triumph of neo-liberalism. Clearly such a claim can be supported by reference to the self-proclaimed ideological attachments of governments since the 1970s, most obviously the Conservatives after 1979, but also New Labour which was careful in its ideological positioning not to reject much of the broad ‘pro-market’ stance of the Conservatives.

At the level of policy, neo-liberalism achieved some unambiguous victories after 1979. The Thatcher government’s desire to ‘roll-back the state’ led to a very large scale privatization programme, selling-off both public corporations, and council housing.<sup>38</sup>

The sale of the old nationalised industries helped raise revenue and thereby reduce the PSBR significantly, especially in the mid-and late 1980s, though revenues only

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<sup>35</sup> M. Phythian, *The Politics of British Arms Sales since 1964* (Manchester, 2000).

<sup>36</sup> D. Edgerton, *Warfare State: Britain, 1920-1970* (Cambridge, 2006).

<sup>37</sup> Edgerton, *England and the Aeroplane. An Essay on a Militant and Technological Nation* (Basingstoke, 1991).

<sup>38</sup> D. Parker, *The Official History of Privatization, Vol I the Formative Years, 1970-87* (Abingdon, 2009) and *Vol II Popular Capitalism, 1987-1997* (Abingdon, 2012).

amounted to more than 3 per cent of public spending in one year, 1988/9.<sup>39</sup> More important in the long-run was the attempt to use these sales to create a ‘popular capitalism’ by greatly extending personal share ownership, to both the general public and employees of specific privatised enterprises. To this end discounts were given and major publicity campaigns mounted. The initial effects were substantial, with enterprises like British Gas and British Telecom finding large markets for their discounted shares. By 1997 approximately 22 per cent of the adult population held shares directly compared with around 7 per cent in 1979.<sup>40</sup> But the average holding was tiny; for example, British Telecom had 1.4 million shareholders in 2006, but two-thirds of these held less than 800 shares.<sup>41</sup> The idea of a major transformation in the number of Britons holding substantial equity largely failed; for the great bulk of the population escaping the ‘tyranny of earned income’ remained implausible.<sup>42</sup> The trend towards a rising proportion of shares held by institutions, evident since the 1960s, had continued through the period of privatization; the proportion in the hands of private owners fell from 28 per cent in 1983 to 10 per cent by 2010.<sup>43</sup>

Probably even more important, certainly politically, was the sale of public (council) housing at discounts to sitting tenants. Under this policy eventually 1.5 million units were sold off, reducing public housing to a largely residual role. This privatization progressed successfully because it combined at least three aims in one policy. Housing sales contributed substantially to the reduction in public borrowing, a key target of the 1980s. Such sales gave financial windfalls to purchasers, consolidating electoral support for the Conservatives. Third, ideologically, they fitted with notions of extending ‘property-owning democracy’, an important part of Conservative thinking, especially in regard to housing, since the late nineteenth century and Salisbury’s ‘villa conservatism’.<sup>44</sup> These sales were concentrated amongst unskilled and semi-skilled workers, whose voting behaviour does seem to have been influenced by the policy.<sup>45</sup> But beyond housing, there has been little spreading of wealth. Overall, wealth (as well as income) inequalities have increased more rapidly in the ‘neoliberal period’ than previously.<sup>46</sup>

Perhaps the most unambiguous success for neo-liberalism was the weakening of trade unions. With the successful construction of an anti-union account of the Winter of Discontent, a combination of cumulative legislative restrictions, defeats for key groups of workers (especially the National Union of Mineworkers in 1984/5), de-

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<sup>39</sup> Parker, *Popular Capitalism*, p.505.

<sup>40</sup> *Ibid.*, p.520.

<sup>41</sup> *Ibid.*, p.517.

<sup>42</sup> J. Froud, S. Johal, J. Montgomerie and K. Williams, ‘Escaping the tyranny of earned income? The failure of finance as social innovation’ *New Political Economy*, xv (2010), 147-64.

<sup>43</sup> Parker, *Popular Capitalism*, 520.

<sup>44</sup> M. Daunton, *A Property-owning Democracy? Housing in Britain* (London, 1987); property-owning democracy is not an inherently Conservative notion: see B. Jackson, ‘Property-owning democracy: a short history’ in M. O’Neill and T. Williamson, eds., *Property-owning Democracy: Rawls and Beyond* (Oxford, 2012), pp.33-52; B. Jackson, ‘Revisionism reconsidered: “Property-owning democracy” in post-war Britain’ *Twentieth Century British History*, xvi (2005), 416-40.

<sup>45</sup> D. Butler and D. Kavanagh, *The British General Election of 1983* (London, 1984).

<sup>46</sup> J. Hills, *Good Times, Bad Times* (Bristol, 2014), pp.24-8.

industrialization, and ideological ‘de-legitimisation’ of union activity saw membership shrink radically.<sup>47</sup>

Also carried through were a wide range of deregulatory measures. In the buying and selling of labour ‘market forces’ were given much greater rein, with, for example, the abolition of most Wage Councils which set industry-level minimum wages in a number of low-paid sectors.<sup>48</sup> Very important also was the de-regulation of the financial system, which underpinned a huge expansion of personal credit in the mid- and late 1980s, greatly aiding the consumption-led recovery from the recession at the beginning of the decade.<sup>49</sup>

On the other side of the account most obviously is the story of public borrowing and spending. As already noted in the discussion of Keynesianism, the story of the fiscal balance after 1981 does not suggest a repudiation of the fiscal activism neo-liberalism proclaims. On spending, the Thatcher government famously proclaimed that ‘Public expenditure is at the heart of Britain’s economic problems’. Yet the trend has been for the state to expand in absolute terms since the 1970s. In 2008/9 prices, expenditure rose from £195 billion in 1970/71 to £449 billion in 2000/1. Relative to GDP state spending (‘Total Managed Expenditure’) has, as always, had a pronounced cyclical element. The peaks of 49.7 per cent in 1975/6, 48.1 per cent in 1982/3, and 43.7 per cent in 1992/3 were all in recession years. In the boom years of 1972/3 and 2000/1 the figures were 41.9 and 36.8 respectively.<sup>50</sup> These figures suggest a reversal of the previous expansionary trend after the crisis of the 1970s, but falling far short of the kinds of reductions neo-liberals would have aspired to. Colin Clark, for example, argued in pamphlet published by the neo-liberal Institute of Economic Affairs in 1964, that taxes above 25 per cent of GDP would cause runaway inflation.<sup>51</sup>

Most of the increase in public spending has come in health, education and social security. The pattern since the early 1980s has been one of increased expenditure on the NHS, coupled with various attempts to introduce ‘market forces’ into the system without threatening the principle of a free service at the point of consumption. In education the trend has also been towards increased expenditure, coupled to progressively removing the role of local government in the running of schools, and with an emphasis on ‘competition’ without affecting the principle of free access.<sup>52</sup>

These two areas are both ones where the shape of policy has in large part been shaped by a combination of demography, which has determined levels of demand, and political calculation, where governments have had to recognise the high degree of popular support for free provision. In the case of social security the pattern has had some parallel with that in health and school education. Expenditure overall has

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<sup>47</sup> J. Pencavel, ‘The surprising retreat of union Britain’ in D. Card, R. Blundell and R. Freeman eds., *Seeking a Premier Economy. The Effects of British Economic Reforms, 1980-2000* (Chicago, 2004), pp.181-232.

<sup>48</sup> For an example of the effects of this abolition, C. Craig, R. Tarling, J. Rubery and F. Wilkinson, *Abolition and After: the Jute Wages Council* (Cambridge, 1980).

<sup>49</sup> R. Backhouse, ‘The Macroeconomics of Margaret Thatcher’ *Journal of the History of Economic Thought*, xxiv (2002), 328-9.

<sup>50</sup> ONS data in *Budget 2010* House of Commons Papers, HC 61, (2010).

<sup>51</sup> C. Clark, *Taxmanship: Principles and Proposals for the Reform of Taxation* (London, 1964).

<sup>52</sup> R. Lowe, *The Welfare State in Britain since 1945* (3<sup>rd</sup> ed. Basingstoke, 2005), pp.353-364, 415-427. P. Wilding, ‘The welfare state and the Conservatives’ *Political Studies*, xlv (1997), 716-26.

increased, in part because of the demographics of an aging population driving-up spending on pensions, partly through higher demand for unemployment benefits, though the value of such benefits, unlike pensions, has been consistently eroded.

But the most striking change in social security since the 1970s has been the rise of what a historian might call a ‘new Speenhamland’ system of wage subsidies. In the name of improving the incentives to work amongst the unemployed, successive governments have used the tax and benefit system to offset the impact of low wages on household incomes. This began with Family Income Supplement in 1971, but greatly expanded with the working Families Tax Credit and Working Families Tax Credit in the 1980s and 1990s.<sup>53</sup> Expenditure per claimant on such benefits increased from approximately £500 in 1970 to £4,300 in 2000.<sup>54</sup> It is not only that these in-work benefits have come to greatly exceed payments made to the unemployed, but the whole principle of post-war welfare has shifted. The classic mid-twentieth century Beveridge analysis of the sources of poverty suggested the problem fundamentally lay in ‘interruption to earnings’ (by unemployment, sickness or old age) along with large numbers of children, the latter to be addressed by ‘Family Allowances’ (later, Child Benefit).<sup>55</sup> While this analysis always misrepresented the actualities of the labour market, not least in its barely-qualified notion of the ‘male-breadwinner household’, its fundamental idea that normally paid work would provide a route out of poverty has underpinned modern liberal understandings of how society works down to the present day. ‘New Speenhamland’ undermines such understandings, and gives a role for the state which is difficult to see as ‘neo-liberal’ in character.

The ‘neo-liberal era’ also saw a growth in tax-funded public employment (leaving aside employment in the privatized, previously publically-owned, industries, which were largely funded by commercial receipts). This growth has been obscured by the problematic way in which public sector employment is defined by the Office for National Statistics: ‘the difference between the public and private sector is determined by where control lies, rather than by ownership or whether or not the entity is publicly financed’.<sup>56</sup> This definition means that not only are all employees in further and higher education treated as part of the private sector, along with all GPs, but so are the much more numerous workers in out-sourced activities supplied to the NHS, local authorities and other public bodies. But fortunately we have the analysis of researchers at the Centre for Research on Socio-Cultural Change (CRESC) in Manchester, who use a much more satisfactory definition whereby, if more than half of an entity’s activities are publicly-funded, it is deemed part of the public sector.<sup>57</sup> They estimate what they christen para-state employment, by adjusting the ONS category published in the Quarterly Public Sector Employee Survey. The adjustment

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<sup>53</sup> R. Blundell and H. Hoynes, ‘Has “In-work” benefit reform helped the labour market?’ in Card, Blundell and Freeman, *Seeking a Premier Economy*, pp.411-45.

<sup>54</sup> *Ibid.*, 426.

<sup>55</sup> A. Cutler, K. Williams and J. Williams, *Keynes, Beveridge and Beyond* (London, 1986).

<sup>56</sup> ONS definition quoted in J. Cribb, R. Disney and L. Sibieta, ‘The public sector workforce: past, present and future’ London, Institute for Fiscal Studies, Briefing Note 145 February 2014; J. Tomlinson ‘From “distribution of industry” to “local Keynesianism”: an unacknowledged policy revolution?’ *British Politics*, vii (2012), 204-223.

<sup>57</sup> J. Buchanan, J. Froud, S. Johal, A. Leaver and K. Williams, ‘Undisclosed and unsustainable: problems of the UK National Business Model’, (Manchester, CRESC, 2009). These calculations are similar to those in Centre for Cities, *Cities Outlook 2014* (London, 2014), which include employment in universities as ‘public sector’.

is done by taking the industries in the Standard Industrial Classification and judging about how far each of these is reliant on public funding. On this basis they calculate that total state and para-state employment together grew from 5.6 million in 1978 to 6.7 million by 1997, over a million more than the official estimate.<sup>58</sup>

Table 1. State and ‘para-state’ employment in the UK, 1978-2008

1978	5.6 million
1987	6.2 million
1997	6.7 million

Source: Froud *et al*, ‘Rebalancing the economy’, p.18.

The majority of these jobs have been in education, health and social care. The mechanisms of this expansion are complex, but a large part of the explanation is the high income elasticity of demand for health and education observed by Baumol.<sup>59</sup> Fiscal pressures, in combination with market fundamentalist ideology, have meant that this expansion of public sector services has increasingly been done by cheapening labour in this sector by contracting out. So while there have been lots of well-paid and relatively secure public sector jobs, these have been accompanied by burgeoning numbers of low-paid and insecure posts in the ‘parastate’ sector.

This polarization was part of a broader economic change, deindustrialization. From its peak in 1955 at 47.9 per cent of the British labour force, by 1998 industry employed only 26 per cent. The jobs lost were concentrated in coal-mining, steel-making and manufacturing, and hit particularly hard at men.<sup>60</sup> As well as its economic consequences of high unemployment and the partial absorption of ex-industrial workers into a polarized service labour market, de-industrialization hit at the core of the organised working-class of mid twentieth-century Britain. This in turn undermined a key element of the two-party system. De-industrialization is perhaps the least well-examined of the major, politically-significant, economic forces operative in Britain in the second half of the twentieth century.

## V

Martin Wiener argues that ‘the leading problem of modern British history is the explanation of economic decline’.<sup>61</sup> This ‘leading’ status is a problem because it is a case where historians’ framing of a problem has been in large part a reflection of current political debates, perhaps registering a failure of historians to always establish a critical distance from their subject matter. The notion of ‘economic decline’ is, of course, politically highly-charged and it is especially important therefore for the term to be understood historically.

<sup>58</sup> J. Froud, S. Johal, J. Law, A. Leaver and K. Williams ‘Rebalancing the economy (or buyer’s remorse)’ (Manchester, CRESC, 2011), 18; compare the official data: A. Newell, ‘Structural change’ in N. Crafts, I. Gazeley and A. Newell, eds., *Work and Pay in Twentieth-century Britain* (Oxford, 2007), pp.45-6.

<sup>59</sup> W. Baumol, ‘Macroeconomics of unbalanced growth: the anatomy of urban crisis’ *American Economic Review*, lvii (1967), 415-426.

<sup>60</sup> C. Feinstein, ‘Structural change in the developed countries in the twentieth century’ *Oxford Review of Economic Policy*, xv (1999), 39.

<sup>61</sup> M. Wiener, *English Culture and the Decline of the Industrial Spirit, 1850-1980* (Cambridge, 1981), p.3.

While the contemporary notion of ‘economic growth’, and the idea that governments should explicitly pursue ‘growth’, is an invention of the 1950s, the belief that in some broad sense governments should seek to increase the prosperity of the nation can be traced back to at least the eighteenth century.<sup>62</sup> This responsibility, implicit or explicit, opened government to accusations of failure if expansion was deemed unsatisfactory. The notion that the nation was declining relative to its rivals, and that this was manifest in economic failure, has been of great political importance in British political history, particularly on two occasions. First, with Joseph Chamberlain’s attack on free trade in the name of imperial protectionism at the beginning of the twentieth century; second, with Margaret Thatcher’s Conservatives attacks on the ‘post-war consensus’ in the 1970s and 1980s.<sup>63</sup>

Chamberlain’s declinism, and his call for an ‘Imperial Zollverein’ largely associated him with the political Right, though the proposed use of protective duties to support a big expansion of social provision harked back to his earlier, Radical politics. As a political project this failed, with a sweeping Liberal victory in the 1906 general election. But despite this failure Chamberlain’s assault on ‘liberal cosmopolitanism’ had important long-run consequences for thinking about the economy. As noted above, it encouraged a great expansion of economic statistics and this was far from just a technical matter; as Badiou notes, ‘the ideology of modern parliamentary societies, if they have one, is not humanism, law or the subject. It is number, the countable, countability’.<sup>64</sup> And ‘countability’ has become central to understandings of the economy. As Tooze remarks, ‘Today, statistics define our knowledge of the economy.’<sup>65</sup>

So the notion of a national economy, quantified in diverse ways, and in competition with other (quantifiable) economies owes a great deal of its popularity in political argument to Chamberlain’s declinism and the debates it stimulated. A further huge expansion of economic statistics is also an important underpinning feature of the re-invention of declinism in the 1950s and 1960s, when there was an especially striking expansion of internationally comparative data by new bodies such as the IMF, UN and OECD. This data production owed a great deal to the Cold War, and the concern to measure economic development in the contest between two political systems.

The declinism which drew heavily on this comparative data began mainly on the Centre-Left in the late 1950s, with criticism of the performance of the Conservative economic policy in the ‘thirteen wasted years’. But from its beginning declinism appealed to very diverse political currents, from Marxists to neo-liberals, and it was the latter who were to take it up and deploy with enormous political effect in the 1970s.<sup>66</sup>

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<sup>62</sup> D. Winch, ‘A great deal of ruin in a nation’ in P. Clarke and C. Trebilcock, eds., *Understanding Decline: Perceptions and Realities of British Economic Performance* (Cambridge, 1997), pp.32-48.

<sup>63</sup> Cannadine, ‘Apocalypse when?’.

<sup>64</sup> A. Badiou, *Number and Numbers* (Cambridge, 2008), p.3.

<sup>65</sup> A. Tooze, *Statistics and the German State, 1900-1945. The Making of Modern Economic Knowledge*, (Cambridge, 2001), p.1.

<sup>66</sup> J. Tomlinson, *The Politics of Decline* (London, 2001).



The core claim of the Thatcherite radicals of the 1970s was that the economic problems of that decade were the culminatory result of errors stretching back to at least the 1940s, which had put Britain on a path of decline which only a radical change of direction could correct. A feature of this version of declinism was its emphasis on the cultural causes of economic failure—the perceived weakening of entrepreneurship and the spirit of enterprise, and the disappearance of ‘Victorian values’.<sup>67</sup>

Such notions of ‘cultural failure’ are central to Wiener’s work, but have had a much wider resonance in the writing of modern British history. The idea that the modern British state has been dominated by an effete, liberal, pacific, scientifically-illiterate, anti-entrepreneurial elite was a product of the very specific context of the Centre-Left declinist literature of the ‘fifties and early ’sixties, but its influence, when taken-up by other political forces, has been pervasive.<sup>68</sup> It fits, of course, with the narrative of twentieth century Britain as overwhelmingly a ‘welfare state’, rather than a ‘militant and technological nation’ (to use David Edgerton’s term).

This history of British culture, it should be said, is deeply problematic.<sup>69</sup> But it is an important feature of the historiography of modern Britain, above all because it ties together alluring narratives about the (decline of the) economy and the nature of politics and the state. Yet it itself is surely best seen as very much the product of a particular historical moment, and whose claims to provide a general understanding of modern Britain are, at best, very weak. An important task of the political history of the British economy is to locate all narratives of economic life very firmly in the ideological and political contexts in which they arose.

#### Suggested reading:

P. Clarke and C. Trebilcock, eds., *Understanding Decline: Perceptions and Realities of British Economic Performance* (Cambridge, 1997).

M. Daunton, *State and Market in Victorian Britain*, (Woodbridge, 2008).

D. Edgerton, *Warfare State: Britain, 1920-1970* (Cambridge, 2006).

R. Middleton, *Government versus the Market. The Growth of the Public Sector, Economic Management and British Economic Performance, c.1890-1979* (Cheltenham, 1996),

D. Winch and P. O’ Brien, eds., *The Political Economy of British Historical Experience, 1688-1914* (Oxford, 2002).

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<sup>67</sup> Supple, *Apocalypse when?*, p.278.

<sup>68</sup> The titles as well as contents of two key works summarise a whole genre: H. Thomas (ed.), *The Establishment* (London, 1959); A. Koestler, *Suicide of a Nation ?* (London, 1963). Later, more conservative versions, include C. Barnett, *The Audit of War* (London, 1986), idem., *The Lost Victory* (London, 1995).

<sup>69</sup> As well as Edgerton’s work see F.M.L. Thompson, *Gentrification and Enterprise Culture* (Oxford, 2001); B. Collins and K. Robbins, eds., *British Culture and Economic Decline* (1991); J. Harris, ‘Enterprise and welfare states: a comparative perspective’ *Transactions of the Royal Historical Society*, xl (1990), 175-95; M. Daunton, *State and Market in Victorian Britain*, (Woodbridge, 2008), pp.12-29, 148-78.

