

# The Reinvention of Britain 1960–2016

A Political and Economic History



SCOTT NEWTON

ROUTLEDGE  


# THE REINVENTION OF BRITAIN 1960–2016

*The Reinvention of Britain 1960–2016* explores the transformation of contemporary Britain, tracing its evolution from the welfare state of the post-1945 era to social democracy in the 1960s and 1970s and the liberal market society of 1979 onwards. Focusing primarily on political and economic change, it aims to identify which elements of State policy led to the crucial strategy changes that shaped British history over the past six decades.

This book argues that since 1960 there have been two reinventions of the political economy of the United Kingdom: a social-democratic shift initiated by the Conservative government of Harold Macmillan and developed by Labour under Harold Wilson, and a subsequent change of direction towards a free market model attempted by the Conservatives under Margaret Thatcher. Structured around these two key policy reinventions of the late twentieth century, chapters are organized chronologically, from the development of social democracy in the early 1960s to the coalition government of the early 2010s, the Conservative election win that followed and the 'Brexit' referendum of 2016.

Providing a comprehensive yet accessible introduction to the political and economic history of this period, *The Reinvention of Britain 1960–2016* is essential reading for all students of contemporary British history.

**Scott Newton** is Emeritus Professor of Modern British and International History at Cardiff University, having taught there for 33 years before retiring in 2016. He has written on British economic history and policy and the interaction between socio-economic change and international relations, and his work has appeared in journals such as *Diplomacy and Statecraft*, *The Economic History Review* and the *English Historical Review*. His best-known books are *Modernization Frustrated* (1988, with Dilwyn Porter), *Profits of Peace: The Political Economy of Anglo-German Appeasement* (1996) and *The Global Economy, 1944–2000: The Limits of Ideology* (2004).

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A Political and Economic History

*Scott Newton*

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**To the memory of my parents,  
Charles Henry Newton (1920–2015)  
and  
Margaret Joan Newton (1919–2006)**

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# INTRODUCTION

## Why a political and economic history?

Histories of contemporary British life have not been in short supply over recent decades. Many of these have tended to focus on how, in the decades since 1945, aspects of British society have altered and become more open and tolerant in attitudes to sexuality, marriage, cultural production (in broadcasting, the theatre and cinema especially) and ethnic differences. Important contributions have been made in the overviews by Grace Davie (1994), Peter Leese (2006), Jane Lewis (1992), and Andrew Rosen (2003). Andrew Marr (2009) effectively caught something of the shifting attitudes. Dominic Sandbrook (2005 and 2006) captured the rapid changes of the 'long 1960s', while Andy Beckett (2009) provided an evocative popular history of the 1970s which punctured some of the more lurid myths about that decade. Paul Addison and Harriet Jones (2005), and Addison's *No Turning Back* (2010)<sup>1</sup> both provide a broader survey, covering not only society and culture but the making of the post-war state, Britain's changing international role, and the economy.

The economic dimension has perhaps been the most controversial. For many years much of the debate has raged around the concept of 'decline', as Peter Clarke noted at the start of *Hope and Glory: Britain 1900–1990* (1997).<sup>2</sup> The thesis that post-war Britain had lurched from one economic failure to another was first popularized in the late 1950s by left-leaning writers such as Andrew Schonfield (*British Economic Policy since the War*, 1958).<sup>3</sup> It became commonplace to argue that the experience of the next quarter century did not suggest that governments knew how to break free from this process. Sidney Pollard lamented in *The Wasting of the British Economy* (1982)<sup>4</sup> that what required explanation was why post-war Britain had not enjoyed the kind of post-war 'economic miracle' enjoyed by all its west European competitors. Martin Wiener (*English Culture and the Decline of the Industrial Spirit*, 1981)<sup>5</sup> pointed to the continuing hegemony within the UK of a gentlemanly elite which had always despised 'trade'. Corelli Barnett (*The Audit of War*, 1986, and *Lost Victory*, 1995)<sup>6</sup> identified a fundamental misallocation of resources

## 2 Introduction

after 1945 in the construction of a socialist or social democratic version of the New Jerusalem rather than in industrial reconstruction, education and training and the reform of labour practices. The accounts of both Wiener and Barnett became very influential in media and political circles.<sup>7</sup>

In more recent years there has been something of a reaction against this 'declinism', for example in the work of David Edgerton (1991), Peter Clarke (1997), Kenneth Morgan (1992) and George Bernstein (2004).<sup>8</sup> Edgerton has argued that post-war Britain remained a significant industrial and military power. Morgan, Clarke and Bernstein all point to the fact the British people enjoyed unprecedented levels of rising affluence for over a generation after 1945 – even if the social and economic achievements of the countries which had been defeated in World War Two remained more striking than those of unconquered Britain. Middleton (2001) took this argument further, pointing not only to the UK's record of sustained economic growth for most of the post-war era but also to its retention of a position as one of the world's leading economic powers into the twenty-first century.<sup>9</sup> Newton and Porter (1988)<sup>10</sup> took issue with Barnett's line in *The Audit of War*, while Jim Tomlinson, in a 1997 article<sup>11</sup> questioned the methodology of *Lost Victory*. Historians now tend to accept that, like its European competitors, Britain did in fact enjoy a 'Golden Age' after 1945: but that increasing prosperity was not accompanied by increasing equality and failed to bring to a large proportion of the electorate the happiness and contentment that politicians had assured them it would.<sup>12</sup>

Yet even if declinism is more of a problem than decline, there can be little argument that the British economy has *changed* quite dramatically since the middle of the century. This development has been characterized by a shift from specialization in a number of labour-intensive manufacturing and heavy industrial concerns (for example, shipbuilding, textiles, steel manufacturing, coal mining and automotive production), to a more diverse economy. Manufacturing has not disappeared (Britain remains one of the world's leading producers in the chemical and aerospace sectors), but now occupies just over 10 per cent of the GDP compared with almost 30 per cent in 1979. The financial sector has grown along with enterprise in small and medium sized concerns in the service sector and the 'knowledge economy' (centred on IT and design). The worlds of fashion, sport, leisure and culture have become big business.

Running alongside this development has been a shift in the dominant form of political economy in modern Britain. For the best part of thirty years after 1945 this was dominated by the '1944 settlement' in which the political parties, the economic core of the State – in the form of the Treasury and the Bank of England – and what Middlemas (1979)<sup>13</sup> has called the 'peak institutions', namely the Confederation of British Industry (CBI – representing corporate industry), the City and the trade unions, accepted that post-war Britain should become a society in which there was full employment, free secondary education, and a welfare state. J. M. Keynes had shown, notably in his *General Theory of Employment, Interest and Money* (1936)<sup>14</sup> that governments could sustain this new welfare state through taxation and

spending policies which ensured that the level of demand within the economy for goods and services remained high enough to absorb the available resources of capital and labour; the mass joblessness of the inter-war years seemed to have been banished for ever. After 1979 this consensus was eroded by a liberal economic philosophy, whose vigorous promotion of the free market would not have been unfamiliar to the Manchester School in the mid-nineteenth century. Its members, as Marx once wrote, viewed ‘every institution of old England ... in the light of a piece of machinery as costly as it is useless’.<sup>15</sup>

This metamorphosis of contemporary Britain is not really explained by the existing historiography. *The Reinvention of Britain* attempts to fill this gap. While acknowledging that some economic change is autonomous (the growth of the service sector and the relative decline of manufacturing is common to all advanced industrial societies) it argues that alterations in the priorities of State policy have been fundamental to Britain’s transition from the welfare state of the post-1945 era to social democracy in the 1960s and 1970s and the liberal market society of the post-1979 era. This contention does of course need to be demonstrated, and the book seeks to identify the key agents of shifting views within the State and peak institutions about what should be the most appropriate politico-economic strategy for Britain. *The Reinvention of Britain* is therefore, of necessity, a work of political and economic history which views the transformation of Britain through the prism of the reinventions of its political economy.

## Prelude: reinventions of Britain

Post-war Britain was a self-confident nation which saw itself as a prosperous welfare state and a great power with global responsibilities. This society was itself a reinvention of the British State which had greeted the start of the twentieth century with the coronation of the Queen’s great-grandfather, Edward VII. Yet the Edwardian order itself had been built upon reinvention. With the passing of Roman ‘Britannia’ in the fifth century, ‘Britain’, like ‘Germany’ and ‘Italy’ had become little more than a geographical expression (though the forceful English medieval King Edward I did attempt a recreation in the thirteenth century). The Britain of modern history did not exist until the 1707<sup>16</sup> Act of Union, and it was formed in order to promote the external commercial interests of the landowning and mercantile elite whose plantations in the Americas and trading connections with India had led to the creation of the ‘first British Empire’. Britain had from the start been an Imperial state.<sup>17</sup> In its first manifestation it was a mercantilist power. It protected the home market through the taxation of imports and used force (above all the Royal Navy) to keep its hold over overseas trading concessions and colonial possessions. The strategy led to conflict with other imperial states, notably Spain and France, in a series of wars financed by the City of London.

Britain showed great resourcefulness in defeating its rivals as well as in adapting to the most profitable forms of enterprise and developing the domestic politico-economic order required to support this activity. In a first reinvention it abandoned

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mercantilism for free trade during the decades after the final victory over Napoleon in 1815 had destroyed the French challenge to British global hegemony. The old agrarian ruling elite was replaced by an alliance, sealed with the repeal of the Corn Laws in 1846, between financiers based in the City of London and manufacturers whose wealth was founded on exploitation of the new techniques developed in the industrial revolution. The new dominant coalition of bankers and the producers of the textiles, iron, coal, steel and ships which formed the core of the nineteenth-century industrial economy, relied on overseas connections just as much as its predecessors. The external orientation of the British Imperial state was sustained in order to secure export markets for goods and capital as well as sources of imports, notably of cheap food and of raw materials. Many of these markets were outside the formal Empire: by 1913 almost two-thirds of all British trade was extra-imperial while one quarter of all British overseas investment was in Latin America. The opening of Britain to free trade encouraged the reciprocal tariff reductions which expanded the markets available to British manufactures and investment. On occasion diplomacy was not enough to promote British commerce. The British invasion of Egypt in 1882 and expansion into West Africa during the 1890s are examples of occasions when, despite much liberal and internationalist rhetoric, successive governments were not afraid to sanction the use of force.<sup>18</sup>

By 1913 the British Empire had embraced one-quarter of the world's surface<sup>19</sup> and one fifth of its population – 412 million people, 330 million of them living in Asia.<sup>20</sup> Britain was the dominant economic power, with 30 per cent of world exports. London was not only the political hub of this vast Empire, but the world's financial centre: the pound sterling was the world's main international currency, used throughout the British Empire and beyond for trading and to support national reserves. British banks in the City of London provided short-term credits for international trade, 60 per cent of which was carried in ships made in the United Kingdom and insured in London. British capital, channelled through the City, accounted for 43 per cent of the world's foreign investment.<sup>21</sup> A significant proportion of this investment financed the construction of ports, harbours and transportation systems throughout the Americas, Africa, the Near East, India and Australasia. These in turn created a global market which generated income for British finance and industry. Indeed, by the first decade of the twentieth century Britain's earnings from 'invisible trade' based on finance and the service sector were growing more rapidly than from its 'visible trade' centred on sales of manufactured goods. This nexus of wealth and power was policed by the Royal Navy, ensuring that the trade routes which sustained profits, wealth and living standards throughout the Empire (and especially in the metropole) remained open.

### The fractured state

Imperial Britain was not a united country. Industrialization had called into existence a new social class, composed of landless labourers and impoverished artisans who abandoned agriculture and small scale production for work in the new factories.

This was the working class, or proletariat, which at various times in the period from the end of the Napoleonic wars until the late 1840s showed itself capable of organizing in favour of revolutionary political change based on universal (male) suffrage. After 1850 the advent of free trade, facilitating imports of cheap food along with a period of steadily increasing prosperity which lasted for a generation, reduced the pressure for radical change. Working class willingness to work for the improvement of the existing system rather than replace it was strengthened by limited social reforms and gradual extensions of the franchise. By the early years of the twentieth century the majority of working-class voters were supporting either the Liberal or the new Labour Party, both advocating legislation which would give the State a responsibility for establishing a 'National Minimum'. This was to be characterized by improvements to working-class housing, along with social welfare and wage bargaining arrangements designed to provide a basic standard of living for all, funded by taxes on the wealthy. Key parts of the programme (such as old age pensions and the introduction of National Insurance, as well as the tax increases on high incomes in Chancellor David Lloyd George's 1909 People's Budget) were enacted by the Liberal governments of Henry Campbell-Bannerman and H. H. Asquith after 1906.

The political arguments surrounding the introduction of the Liberal reforms were intense and revealed Britain to be a profoundly divided country. The year 1910 saw two closely fought General Elections. After the first one the liberal-socialist economist and sociologist J. A. Hobson published 'The General Election: A Sociological Interpretation',<sup>22</sup> identifying the fracture which ran through the British state and society. This was between 'Producer's England' and 'Consumer's England'. The first of these was centred on manufacturing industry and to be found in northern England, parts of the Midlands, south Wales and southern Scotland. It tended to be nonconformist (or Roman Catholic) in religious observation. The predominant social classes were composed of provincial industrialists (mostly Liberals) and the organized working class. The dominant political parties in 'Producer's England' tended to be Liberal or Labour and committed to programmes of domestic social reform. Consumer's England, by contrast, based its wealth on the financial sector centred on the City of London. It was composed of 'large numbers of well-to-do and leisured families',<sup>23</sup> whose incomes derived from overseas or domestic investments managed by City firms. These were people who had a material interest in the free movement of capital, the global role of the City and the international status of sterling as the world's leading reserve currency. They tended to be Anglican, vote Conservative, send their children to the public schools and Oxbridge and generally live in the London suburbs and the Home Counties.<sup>24</sup>

The City institutions which handled their money were often more interested in foreign than home economic developments. As *The Economist* commented in 1911 'London is often more concerned with the course of events in Mexico than what happens in the Midlands and is more upset by a strike on the Canadian Pacific than by one in the Cambrian Collieries'.<sup>25</sup> In 1905–1906 only



12 per cent of all the securities quoted on the London Stock Exchange were 'home industrials'.<sup>26</sup>

The existence of this split in British society has been confirmed by research which has shown that the south-east was the fastest growing region in Britain on the eve of World War One. The 1911 census revealed that 25 per cent of the country's population lived there, earning the income which generated a thriving consumer society along with suburbs and seaside holiday resorts such as Southend and Margate. The region had become 'the focal point of an affluent society enjoying conspicuous consumption and giving employment to a wide-range of domestic services'.<sup>27</sup> Prominent among these were both the well-paid professional services provided by the legal, medical and (private) educational professions and the much less generously remunerated domestic services which were essential to the daily maintenance of middle-class homes as well as aristocratic establishments. The prosperity of the area, many of whose inhabitants were financially dependent on the income from 'rentier home and foreign stocks'<sup>28</sup> fed demand for consumer and light industry such as fashion and luxury clothing, furniture manufacturing, printing and publishing as well as for retailing, distribution and transport.

Between 1914 and 1945 this fractured Imperial Britain faced its most serious challenges, now from Germany and (from the mid-1930s) Japan, since the French Revolutionary wars against Napoleon. Full use of all the country's productive resources became essential to the creation of a military machine powerful enough to resist and, in conjunction with Soviet and American allies, defeat these rival powers. In order to retain public support and build the national solidarity central to the success of this mobilization, both in 1914–18 and in 1939–45 wartime governments embraced the political agenda of 'Producer's England'. David Lloyd George's 'land fit for heroes to live in' may not have been constructed after 1918, but World War One and its aftermath did see significant social reforms, a process which was of course carried much further during and after World War Two.

It cannot be argued that Hobson's 'two Englands' had ceased to exist by 1950. 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. They continued to live mainly in Home Counties England and sent their children to the public schools. Labour still represented 'Producer's England'. Yet whereas in Hobson's time it seemed as if the financial and service sectors of the economy were more dynamic than industry, in post-1945 Britain the position was more balanced. Britain's share of world trade in manufactured goods rose from 17.5 per cent in 1938 to 20.5 per cent in 1950. The share of national income taken by wage earners grew from 37.8 per cent in 1938 to 41.9 per cent in 1950, a greater increase than apparent at first blush since over the same period wage-earners fell as a proportion of the labour force from 71.4 per cent to 66.2 per cent.<sup>29</sup> There was full employment, the National Health Service (NHS), full-time state education for all to the age of 15, and the extremes of poverty and wealth characteristic of Edwardian Britain no longer existed. The Imperial state was now a welfare state.

## Post-war Britain: change and continuity

Not surprisingly, by the mid-1950s Britain was a confident society. It had emerged on the winning side from the two world wars. During the second of these it had (in 1940) come close to defeat. Its people had, however, shown great courage and determination in the face of military reverses and sustained bombing while its government had shown more skill, inventiveness and ability in mobilizing the nation's resources for war than any other belligerent nation. These formidable qualities alone prevented defeat: in conjunction with the special relationship with the USA and the extraordinary sacrifices of the USSR in the 'Great Patriotic War' they guaranteed victory. The mood of solidarity had lasted into the post-war era. It had sustained the population through the years of rationing and deferred personal consumption which allowed the Labour government run by Prime Minister Clement Attlee to devote scarce resources to the export drive and the construction of the welfare state. However, middle-class disaffection with high taxation and austerity began to grow at the start of the 1950s, and delivered a narrow General Election victory to the Conservative Party late in 1951. The new Churchill administration did not attempt to return the nation to 1939. It embraced the essentials of the 1944 settlement in its domestic policy.<sup>30</sup> Rationing was gradually dismantled, though the process was not completed until 1954.<sup>31</sup>

By 1955 British citizens were starting to enjoy the fruits of austerity. The economy had been growing at an annual average rate of 2.9 per cent since 1951. Unemployment was less than 2 per cent of the workforce. Rationing had ended. There is no doubt that pockets of deprivation existed yet the advent of job security, the NHS and social security from the cradle to the grave for all meant that the country was becoming one where 'freedom from want' was gradually being abolished. The government had embarked on an ambitious housing programme, presided over by Harold Macmillan, which aimed (successfully) at the construction of 300,000 new units each year. Government expenditure on education, health and social security rose from £1537 million in 1951 to £3171 million in 1959.<sup>32</sup> The combination of full employment with high government spending generated expanding consumer demand, which was now being met as high street showrooms filled with goods designed to provide greater ease of life for individuals and families. Working-class families were increasingly able to purchase their own car, television set, washing machine and refrigerator. Shops were selling a far greater range of foodstuffs, clothes and household goods than had been available prior to the early 1950s.

The Conservative accommodation with the post-war order proved popular with the electorate: in the May 1955 General Election, the party, now led by Anthony Eden, was returned to power with a comfortable majority. The mood of satisfaction with Britain's internal configuration was paralleled with pride in its position on the world stage. Its international prestige had received a major boost with the first known successful ascent of Everest, in an expedition led by a British subject, John Hunt (though the last stages of the climb were conducted by the Nepalese Tenzing Norgay and the New Zealander, Edmund Hillary) in 1953. Britain had been the

first country to build a commercial jet airliner, the De Havilland Comet, which entered service in 1952. It had successfully exploded its own atomic warhead in October of the same year, joining the USA and the USSR as members of the exclusive nuclear club. The days of the British Empire were clearly numbered, as had been demonstrated in 1947 when the Attlee government had presided over the transfer of power in the Indian subcontinent. But the change did not seem to involve a diminution of global influence. The new nation-states of India, Pakistan and Ceylon now joined Australia, New Zealand, Canada and South Africa in the British Commonwealth, an association of independent countries which were not only staunch allies but large markets for British overseas investment and exports of goods (indeed, at the start of the decade exports to and imports from the Commonwealth accounted for almost one half of all British trade). Britain's military forces were deployed in bases scattered through Europe, the Middle East and South East Asia. The country's obvious wealth and power gave it significant diplomatic authority, exercised most recently in 1954 when Eden, then Foreign Secretary, had played a central role in organizing the Geneva Accords which had brought an end to the war in Indochina between the French and the Viet Minh nationalists. Post-war Britain seemed to have successfully embraced the mid twentieth century in its economy and society while retaining a global presence which harked back to the days of the Pax Britannia – a blend of the modern and the traditional embodied in the televised 1953 Coronation of the young Queen Elizabeth II. This British 'era of good feelings'<sup>33</sup> was, however, to prove very short-lived. It was brought to a peremptory conclusion by a combination of national crisis, economic difficulties and internal divisions which drove successive governments to seek the reinvention of the post-war British nation-state.

## Notes

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- 8 David Edgerton, *England and the Aeroplane: An Essay on a Militant and Technological Nation* (Basingstoke, Palgrave Macmillan, 1991); Clarke, *Hope and Glory: Britain 1900–1990*; Kenneth O. Morgan, *The People's Peace: British History 1945–1990* (Oxford: Oxford University Press, 1992); George Bernstein, *The Myth of Decline* (London: Pimlico, 2004).
- 9 Roger Middleton, *The British Economy since 1945* (Basingstoke: Macmillan, 2001), pp. xv, 137.
- 10 Scott Newton and Dilwyn Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain since 1900* (London, Unwin Hyman 1988), pp. 107–108.
- 11 Jim Tomlinson, 'Correlli Barnett's History: The Case of Marshall Aid', *Twentieth Century British History*, vol. 8, no. 2 (1997), pp. 222–238.
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- 13 Keith Middlemas, *Politics in Industrial Society* (London: Andre Deutsch, 1979).
- 14 J. M. Keynes, *General Theory of Employment, Interest and Money* (London: Macmillan, 1936).
- 15 Karl Marx, *Surveys from Exile*, edited by David Fernbach (London: Penguin, 1973), p. 262. The quote is from an essay on the Chartists written on 10 August, 1852.
- 16 An argument developed in two pioneering studies: Hugh Kearney's *The British Isles: The Four Nations* (Cambridge: Cambridge University Press 1989 and 2006) and in Norman Davies's *The Isles* (Basingstoke: Macmillan, 1999).
- 17 This argument is central to another seminal work, Tom Nairn's *The Break-up of Britain* (London: Verso, 1977 and 1981).
- 18 See the discussion in P. J. Cain and A. G. Hopkins, *British Imperialism 1688–2000* (London: Pearson Education, 2002), chs. 11–13.
- 19 Niall Fergusson, *Empire: How Britain made the Modern World* (London: Penguin, 2004), p. 15.
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- 23 *Ibid.*, p. 115.
- 24 These questions have been intensively explored by W. D. Rubinstein. See for example 'The Victorian Middle Classes: Wealth, Occupation, Geography', *Economic History Review*, 2<sup>nd</sup> ser., XXX (1977), pp. 602–623.
- 25 Newton and Porter, *Modernization Frustrated*, p. 8.
- 26 Scott Newton, 'Joseph Chamberlain and Tariff Reform: British Radicalism, Modernization and Nationalism', in Robert Stradling, Scott Newton and David Bates (eds), *Conflict and Coexistence: Democracy and Nationalism in Modern Europe* (Cardiff: University of Wales Press, 1997), p. 88.
- 27 See C. H. Lee, 'Regional Growth and Structural Change in Victorian Britain', *Economic History Review*, 2<sup>nd</sup> ser., XXXIV (1981), pp. 438–452.
- 28 P. J. Cain, 'J. A. Hobson, Financial Capitalism and Imperialism in Late Victorian and Edwardian Britain', in A. N. Porter and R. F. Holland (eds), *Money, Finance and Empire 1790–1969* (London: Frank Cass, 1985), p. 15.
- 29 Sidney Pollard, *The Development of the British Economy 1914–1990* (London: Edward Arnold, 1992), p. 220.
- 30 See for example, Morgan, *The People's Peace*, ch. 4; Paul Addison *Churchill on the Home Front* (London: Cape, 1992), ch. 12.
- 31 See Peter Hennessy's study of this period, *Having it So Good: Britain in the Fifties* (London: Allen Lane, 2007), chs. 1 and 2.
- 32 Kevin Jeffreys, *Retreat from New Jerusalem* (Basingstoke: Macmillan, 1997), p. 131.
- 33 'The era of good feelings' was an expression used to describe the period in US history following the conclusion of the Napoleonic wars. It was marked by bipartisanship, an extension of the powers of the Federal Government and by political optimism.

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## **PART I**

# The rise and fall of social-democratic Britain

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# 1

## CONSERVATIVE SOCIAL DEMOCRACY, 1961–64

### The fall

The first major event to shatter the self-satisfaction of the mid 1950s was the 1956 Suez crisis. The story of this affair is well known and there is no need to go into detail here. Suffice it to say that the Anglo-French bid to use force to occupy the Suez Canal and overthrow Egypt's President Nasser, in response to his decision to nationalize the waterway, was a fiasco. The expedition was halted short of its objectives not by military defeat but by diplomatic outcry. From the British perspective the most alarming aspect of this was the attitude of the USA and of Commonwealth nations.

British external strategy had been rooted in the 'three circles' doctrine, set out by Churchill in a speech to the Conservative Party conference in 1948. He had argued that Britain could best promote its welfare in the world by remaining at the point where three circles of influence intersected. The first of these was the British Commonwealth and Empire. The second was 'the English-speaking world', which included Canada, the British Dominions and (most important of all thanks to its wealth and military power) the United States of America. The third was 'United Europe'. It was not accidental that Churchill had mentioned Europe last: European upheaval could certainly threaten Britain but the experience of the two world wars had shown that the nation's security and prosperity depended in the last resort upon its military, political, trading and financial connections with the first two circles. At the time of the Suez crisis, however, the only members of the British Commonwealth to support Britain were Australia and New Zealand. India and Canada meanwhile condemned the operation. In Washington, where the incumbent President Eisenhower was fighting a campaign for his re-election, there was outrage. Neither Eisenhower nor John Foster Dulles, the Secretary of State, had been forewarned of the expedition. Dulles spoke out against the British. The pound



came under pressure on the foreign exchanges, a development Harold Macmillan (now Chancellor of the Exchequer) attributed to US influence. Both Dulles and the President considered the action a betrayal of the Anglo-American relationship and a diplomatic blunder of the first order, a throwback to the crudest form of imperialist aggression which could only strengthen the determination of newly independent countries in the developing world to follow a neutral rather than pro-Western path in the Cold War. But the damage did not stop there: at the very moment the British and French forces were fighting their way towards Suez the Soviet Union had invaded Hungary in order to suppress an anti-Communist revolution. The USA led attempts to generate international condemnation of the Soviet move but given the actions of its closest ally these reeked of hypocrisy.

The episode distanced Britain from the two most important of the three circles. As John Young has commented, it revealed that Commonwealth countries could no longer be relied on to follow a British lead. It also showed that now, even in conjunction with France and despite the great network of bases and the appearance of military power, the country no longer possessed the resources to undertake large-scale military operations overseas in the absence of support from the USA.<sup>1</sup> Domestic opinion was split down the middle and there were powerful demonstrations against the expedition. At the same time many who had supported it were shocked by the experience of failure and by the country's apparent weakness in the face of international pressure. Macmillan, who replaced Eden as Prime Minister in the wake of the crisis, liked to say that Britain was and would remain 'a great power', but he knew that the rebuilding of global influence required a repairing of the special relationship with the USA and accommodation with nationalist movements as a prelude to decolonization in Britain's African and West Indian colonies.

The next blow to British pride came in defence policy. Like the Suez expedition, this was predicated for much of the 1950s on the assumption that Britain was a great power and had the weapons systems, in the form of nuclear weapons, to back up its pretensions. The delivery system for the British bomb was the 'V' force of Vulcan, Victor and Valiant long-range strategic bombers. However, the development of the ballistic missile by the USSR and the USA damaged the credibility of the British deterrent. In order to retrieve this position the government determined that the country should now have its own, and embarked on the construction of a British medium-range ballistic missile, known as Blue Streak, capable of carrying a nuclear warhead. Unfortunately the project ran into difficulties, the most serious of which was steadily escalating costs, going from estimates of £65 million in 1955 to £600 million in 1960. It became clear that the country lacked the financial resources needed to complete Blue Streak – unless the government was prepared to raise taxes or sacrifice budgets elsewhere. This was not deemed good politics, and cancellation followed in 1960. The government opted to buy the ready-made American Skybolt instead, designed for aerial launching. In the end even this deal collapsed, when the US government decided that Skybolt was unreliable. A somewhat desperate Prime Minister was, however, able to salvage Britain's deterrent at Nassau in the Bahamas at the end of 1962, when President Kennedy agreed to

provide the UK with the American submarine-launched Polaris ballistic missile programme (with the warheads to the British version being made in the UK, which amounted to a gesture in the direction of independence). This off-the-shelf choice was certainly cheaper than Blue Streak, but it was another blow to national perceptions of enduring British strength in the post-war world.

A further blow to British perceptions of the country's ability to exert significant influence in its own right on the world stage came with the disastrous Paris summit of May 1960. Macmillan was eager to mediate between the USA and the USSR, just as Churchill and Eden had done, with some success, in the 1951–55 period. The Prime Minister had played a central role in the organizing of a Four Power meeting between the heads of the US, Soviet, British and French governments. He hoped the result would be a reduction in the international tensions resulting from disagreement between the USSR and the West about Berlin, from an escalation in the arms race (seen in the development of ballistic missiles and the testing of nuclear weapons on both sides in the Cold War), and from US anxieties about the implications of the recent revolution in Cuba. Progress towards a resolution of these issues would have the beneficial result of making the world a safer place. Beyond this, however, in demonstrating that Britain retained the power to achieve such a change in the climate it would reassure a domestic electorate anxious about the country's declining capacity for unilateral action on the world stage and show the growing numbers supporting the Campaign for Nuclear Disarmament that the government cared about peace as much as they did.

As is well known, the summit collapsed without reaching agreement on any of the issues it had been convened to discuss, following the revelation that an American spy plane had just been shot down over Soviet territory. Instead of progress towards a more harmonious world there had been a major international incident – and Britain had been powerless to do anything about it. The setback was a big shock and upset to Macmillan, who now became preoccupied with how to develop a national strategy which would enable Britain to continue playing a major role in world affairs. According to his Private Secretary, Philip de Zuleta, the Prime Minister's thoughts turned increasingly to the question of Britain's relationship with the newly formed European Economic Community (EEC, also known as 'the Common Market') in Western Europe and the feasibility of joining the organization.<sup>2</sup>

Suez, Blue Streak and the Paris Summit all gave a strategic dimension to a growing conviction of economic vulnerability, shared by the major political parties, both sides of industry and sections of the press. There was increasing evidence that Britain's economy was underperforming. In 1950 Britain's real GDP was 158 per cent of its closest continental rival, France.<sup>3</sup> Yet by the late 1950s it was clear that the advanced industrial states of Western Europe, apparently in ruins not much more than a decade earlier, were experiencing rapid annual growth. Britain however was not sharing in this progress, averaging annual GDP growth of 2.5 per cent between 1955 and 1960 against 5.3 per cent on the part of the nations making up the European Economic Community (Belgium, France, West Germany, Italy, Luxembourg and the Netherlands) over the same period.<sup>4</sup> Although the record was

certainly respectable by comparison with the country's past, the statistics show a relative decline from economic leadership in Western Europe to a position of apparent mediocrity by the end of the decade.

In recent years historians have expressed doubts about whether Britain was ever in a position to match the achievements of the continental economies in the 1950s and 1960s. These were able to take advantage of the movement of workers from the countryside to the cities. They were exchanging work on what were often small and uneconomic farms, generally characterized by low productivity (low output per head), for labour in industry.<sup>5</sup> Although this tended to pay better than agriculture, rates initially were low compared with wages in the USA and the UK. In consequence costs were held down, allowing for an expansion of investment in plant, equipment and machinery. Productivity in industry therefore rose sharply, without which the growth 'miracles' would not have occurred. This was not a development that the British economy could easily reproduce (although as we shall see the Labour government of 1964–70 made an ingenious attempt to do just this), given that here the migration of labour from agriculture to industry had peaked in the decades prior to 1914. It is arguable, therefore, that the continental states were merely 'catching up' with Britain and once they had reached comparable levels of income their growth would drop back towards the British level.<sup>6</sup>

These subtleties were not employed by economists any more than they were by politicians in the late 1950s. The figures were taken as evidence of Britain's slide downhill from its position in the first half of the decade. Prime Minister Macmillan's comment in the summer of 1957 that 'most of our people have never had it so good' was not a complacent comment but intended as the prelude to a warning that the new status quo was threatened by inflation – in other words, persistently rising prices. Were full employment and price stability compatible? The Chancellor, Peter Thorneycroft, agreed with Macmillan and expressed anxiety about the nation's tendency to 'live beyond its means', with increases in incomes outstripping those in output by a factor of three over the previous eight years.<sup>7</sup> Thorneycroft's anxieties about the economy were reinforced in the autumn of 1957, when fears of a sterling devaluation from the current rate of £1 = \$2.80 (fixed in 1949) flared after holders began a wave of panic selling, many of them deserting the currency for the German *deutschmark*.

This run on sterling was especially disturbing to opinion within the City and the Bank of England. During and after the war the convertibility of the pound for current and capital transactions had been suspended. This meant that official permission had been necessary before pounds could be exchanged for other currencies and that balances of sterling could not freely be transferred outside the 'sterling area', namely the association of states (most within the Commonwealth and Empire) which continued to use sterling as a trading and reserve currency. This had been inescapable given the heavy import requirements of the war and reconstruction eras. The need to divert production to the military effort meant that offsetting earnings from exports became exiguous. In 1944 export values were 33 per cent of their 1938 level. It followed that there was real danger of Britain's reserves suffering rapid depletion in the absence of restrictions on the use of sterling. This would

have left the nation unable to buy the volume of food, raw materials, capital goods and machine tools needed to fight the war and rebuild afterwards without falls in living standards which were already austere.

By the early 1950s opinion in the Treasury, the Bank of England and the City was turning against the regulations. Within all these organizations there was a desire to see sterling resume its pre-1939 role as an international currency whose attractiveness derived from its reliability as an asset and the lack of restrictions governing its use. Fearful that the decontrol of sterling would expose the domestic economy to serious risk, Labour had not been in a hurry to promote this agenda, which reflected the priorities of 'Consumer's England'. The Conservatives, given their historic links to the City, unsurprisingly took the opposite view. At the same time, however, they were aware that the political balance of forces in post-war Britain did not favour rapid liberalization and followed a cautious approach, which led them to abandon the 'Robot' plan for a dash to sterling convertibility in 1951–52.<sup>8</sup> Thereafter they had encouraged a slow and at times erratic dismantling of controls on sterling. The panic selling of September 1957 was therefore especially unwelcome since it threatened sterling's return to its pre-war glory. The Bank and the City viewed the shift of market sentiment in favour of the deutschmark both as another national embarrassment, following hard on the heels of Suez, and as a clear indication that Britain needed to control inflationary pressures as effectively as West Germany.

Thorneycroft's response to the crisis was to raise the Bank Rate by two percentage points to 7 per cent and introduce a credit squeeze along with reductions to public spending programmes. The rationale for these measures was a view, shared between Thorneycroft and his junior Ministers Nigel Birch and Enoch Powell, that inflation was the economy's most serious problem and that the only way to eliminate it was by curtailing demand, even if this meant a rise in unemployment and a temporary check to the expansion of output. The package did seem to reassure the markets, and speculation against the pound had ceased to be a problem by early October. Thorneycroft, however, now took the view that in order for Britain's competitive position to be restored and all danger to sterling removed, it would be necessary to go a good deal further than he had in September. He proposed that public spending projections for 1958–59 be held at 1957–58 levels. Since Ministers were proposing an overall increase of £153 million this would represent a dramatic cut in expenditure. By December the Chancellor was calling for 'an agonising reappraisal' of public spending commitments, including even those needed to improve the welfare state.<sup>9</sup> There was a revolt in the Cabinet. Macmillan refused to back his Chancellor. Thorneycroft, Birch and Powell all resigned together in January 1958.

Macmillan famously dismissed this event as 'a little local difficulty', but the resignation of a government's Treasury team is a dramatic event at any time. The Prime Minister was prepared to face down his own Chancellor (whom he regarded as 'stupid, rigid')<sup>10</sup> because he did not share the same set of politico-economic priorities. For Macmillan, as for senior Conservatives such as R. A. Butler, the continuing

accommodation of their Party with the post-war order was essential. This was not simply out of tactical concern about Conservative prospects at the General Election which was expected at some point in 1959. Although the Prime Minister recognised that all was not well with the British economy the Chancellor's remedy offended his social conscience. As a young man in the 1920s Macmillan had been appalled by the suffering inflicted by unemployment on his constituents in Stockton.<sup>11</sup> This had led him to embrace Keynesian economics and on occasion advocate the adoption by governments of 'socialistic methods and principles'.<sup>12</sup> Attlee had called him 'a real left-wing radical in his social, human and economic thinking'.<sup>13</sup> Macmillan was therefore completely committed to the 1944 settlement and sought solutions to Britain's relative decline compatible with its continuation. Thorneycroft's agenda was not, and this was the reason for its rejection.

In the aftermath of Thorneycroft's departure Macmillan and his new Chancellor, Derick Heathcote Amory, gradually switched to an expansionary macroeconomic policy. Unlike Thorneycroft, Birch and Powell, Macmillan saw nothing wrong with a small touch of inflation if it meant higher growth. He therefore continually pressed for new public investment and in early 1959 gained Treasury agreement to both increases in capital spending and a giveaway budget characterized by cuts in direct and indirect taxation.<sup>14</sup> Economic activity accelerated and a boom developed which was to last until the following year. Unsurprisingly the Conservatives won the 1959 General Election, being returned to power with a very comfortable 100-seat majority, but the clear skies darkened during the first half of 1961. Heathcote Amory's replacement at the Treasury, Selwyn Lloyd, became as concerned about the country paying itself more than it was earning as Thorneycroft had been five years before. He noted that average income had risen over the past year by 8 per cent but output per head had increased by just 3 per cent.<sup>15</sup> The high level of demand was attracting an excessive level of imports: a current account balance of £234 million in 1960 swung to a deficit of £171 million the following year.<sup>16</sup> As in 1957 there was a wave of speculation against sterling and in favour of the deutschmark. To protect the pound the Conservatives once again pushed up the Bank Rate (all the way back to 7 per cent in 1961) and introduced a credit squeeze. They committed themselves to public spending cuts and, without consulting trade union leaders, announced a 'Pay Pause' to check wage and salary rises.

These sudden lurches in macroeconomic policy became known as 'Stop-Go' and appeared to contrast very sharply with the continuing high and smooth levels of growth evident in the economies of EEC members. They were frustrating for the Prime Minister, unpopular on both sides of industry, and delivered further shocks to public confidence in the state of post-war Britain. Macmillan did not abandon his pro-expansionist views but came to the conviction that reflation alone was not going to restore British economic leadership to Western Europe and restore the economic foundations essential to lasting global influence. Along with many in the major political parties as well as management, unions and the press he concluded that Britain should adopt the strategies which had underpinned success on the continent. The most successful of these appeared to be economic planning