

Keith Barlow

The Labour Movement in Britain from Thatcher to Blair

With a Foreword by Jim Mortimer

Extended and Updated Edition



PETER LANG

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The arguments and conclusions reached in this book are entirely mine and I, and I alone, am responsible for any errors and mistakes which may have got through unnoticed.

Foreword

The special merit of this book is that it provides a searching analysis of the relationship in Britain in recent years between economic and social policy, the course of industrial relations and the strength and weaknesses of the labour movement. This is no mean achievement.

The author demonstrates also that a commitment sympathetic to labour is compatible with objectivity in dealing with evidence. Indeed, one of the strengths of this book is that it draws heavily on official statistics and reports. It is all the more persuasive for it. The author's sympathy for the interests of working people is clear but he is not uncritical of aspects of the labour movement and its official policies.

Britain's economic record during the period covered in this book is uneven. This is also true of the entire period since the Second World War. Even so living standards for the majority of the population are still higher than in some other economically developed countries. There are, however, serious problems remaining with the economy.

One of the main features of the economic record – which the author brings out – is the decline of manufacturing industry. Britain, once the 'workshop of the world' now runs a heavy adverse balance of trade in manufactured goods. Less than 3 million workers are now employed in manufacturing industry. This is less than one in every eight of the total workforce. Instead of manufacturing industry Britain now depends heavily for employment on financial and business services. No doubt some of this is essential but some of it is also parasitic. It is heavily influenced by speculation.

The problems arising from the adverse trade balance, including exchange rates, have troubled every British government for many years. They are described in this book. The difficulties have been made worse by Britain's commitment to heavy military expenditure and – in more recent years – by the cost of the war in Iraq.

All these problems have, as the author so rightly describes, been reflected in the controversies and policies of the trade union and labour movement. The 1945 Labour government carried out, with the support of the unions, an ambitious programme of social reform. It ran into problems and eventual defeat largely as the result of the adverse economic effects of a massive rearmament programme launched partly because of pressure from the USA.

Labour governments elected in the 1960s and 1970s also introduced some progressive reforms but were eventually defeated because of economic problems and controversy with the unions about incomes policy and industrial relations.

This was followed by a long period of Conservative rule, associated mainly with the name of Mrs Thatcher. Severe legal restrictions were imposed upon the unions. In 1997 Labour were again elected to office but this time as 'New' Labour. As Keith Barlow rightly recognises 'New' Labour broke with some traditional Labour commitments and, in particular, has perpetuated some of the worst features of the restrictions imposed upon the unions by Mrs Thatcher. 'New' Labour has also continued with a policy sympathetic to the privatisation of sections of public service.

Today, with the decline of manufacturing industry and coal-mining, trade union membership is much lower than it was in 1980. On the other hand, many of the union leaders who have been elected in recent years are critical of the policies of the current Labour leadership. They reflect the mood of the membership.

Anyone seeking to understand the problems of the British economy, the effect of these problems on political developments and, in particular, the possible responses of the trade union and labour movement, will find this book an invaluable guide.

Jim Mortimer

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Introduction

The aim of this book is to explain how the Conservative Party in Government from 1979 to 1997, judged on its own criteria, succeeded in bringing about a major restructuring of power in the British economy in the 1980s and 1990s and how this influenced the policies of the *New Labour* Government which was elected to office in the aftermath of the severe Conservative election defeat in 1997. The extent to which these criteria really served anyone's objective needs is a different matter.

This book concentrates on selected areas of Government policy and strategy since 1979 and on specific events. By placing these in an economic, political and legal context, a picture can be formed which will lead to three important conclusions.

Firstly, any claim that there was something specifically "new" about the British Government's policies in the 1980s and beyond is questionable. Secondly, the policies and strategy, initially of the Thatcher Government (1979-1990) can in no way be regarded as spontaneous to pressures of the day. They were an application of a long and carefully prepared strategy which continued to influence Government policy long after Margaret Thatcher ceased to be Prime Minister. Thirdly, the policies of the Thatcher Government had apparently had a sufficient enough impact that the Labour Party, as part of its endeavours of getting back into office, felt the need to fundamentally review its policies and, as it were, adapt to the political agenda which the Thatcher Government had put into effect.

On the first conclusion, the coining of the term "Thatcherism" before the 1979 general election led to some on the Left to argue that Britain was entering a new political phase. But was this term, the "New" Right (the political label associated with the forces which took over the Conservative Party following Edward Heath's downfall as Party leader in 1975), really "new"?

To help answer this question, the starting point must be the collapse of what is often referred to as "consensus"-era politics. Indeed, there is also the question of whether there was really "consensus" at all in British domestic policy following World War Two. If there was, then one must be clear to what extent "consensus" politics actually existed in Britain, how deep or shallow its roots were and when it ceased to exist. This is the aim of the first chapter.

In so far as any era of "consensus" actually existed in Britain, then the outcome of the May 1979 election would have formalised an end to this era. However, this did not mean that a Conservative Government replacing a Labour Government in 1979 automatically resulted in the introduction of completely new policies. Certainly, in some aspects, the Thatcher Government's policies meant a

complete change; in other aspects, it was more a continuation of the policies of the previous Labour Government.

Chapter 2 helps to clarify those areas of policy where a change can be attributed to the outcome of the 1979 election and those areas where it was merely a continuation. This then links up with the second issue, the influence of historical events upon which the Thatcher Government could introduce a well thought-out and comprehensive strategy for its economic and social policies in as far as they could be described as being "social" at all.

Emphasising the interaction between "macro-" and "micro-" economic strategies helps to explain the complexities involved in forcing through economic and industrial restructuring on a national and/or industry-wide basis, and the implications of pursuing such measures in just one firm or company in a competitive industry. The range of industrial disputes in the 1980s shows that specific policies for bringing about industrial restructuring in one area of the economy or in one industry were not necessarily applicable elsewhere.

Not only were the actual policies important but so too were the tactics pursued for their realisation in each specific case. Working people and their trade unions in Britain have a long tradition of standing up for their rights and livelihoods and the Thatcher Government clearly took account of this.

One key factor which many analyses of the economic and political strategy of the Thatcher Government tend to overlook is the significance of the special historical character of British labour law and the fact that Britain has no written constitution, hence no constitutional court as such. Both of these exist in other advanced industrial nations, especially in Western Europe. Consequently in Britain, great emphasis must be attached to the specific role and development of case law, especially those aspects of it relating to the "resolving" of industrial disputes. It is therefore worth noting that the absence of a written constitution together with any resulting provisions for one guaranteeing various rights for workers gave the Thatcher Government a considerable degree of leeway in bringing about major changes in trade union and labour relations law, just on the basis of a simple majority vote in Parliament, in a way which would not have been possible elsewhere. In other countries, simple majority votes in Parliament alone would be insufficient if changes to workers' rights require constitutional changes.

The very fact that a revival of the common law in seeking to "resolve" industrial disputes was an essential element in economic and "social" strategy in the 1980s is clearly evident. This is so, not only in the ways in which the trade union laws of the Thatcher Government sought to narrow the scope of "immunities" for the individual organisers of industrial disputes, but also to expose trade unions

themselves to tort liabilities thus, to a great extent, putting the law back to what it had been before the historic Trade Disputes Act, 1906, got onto the Statute Book. It is this crucial legal aspect which has been lacking in many analyses of British Government strategy of the 1980s and beyond.

Lord Wedderburn has made a most valuable contribution in filling this gap by his analyses of legal aspects of the Thatcher Government's economic and "social" strategy and by placing them in a historical context. He has demonstrated that there is a link between a "free"- market economic strategy and the part the common law can play in helping to make it work. On the basis of Wedderburn's findings, chapter 3 will attempt to show how significant this link is between the "macro-" and "micro-" economic strategies of the Thatcher Government.

The inviolability of the law of contract, the very foundations upon which the common law is based, tends in practice, especially where employer/employee relationships in a "free" market for labour are concerned, to come down more on the side of those who are better placed to shape the terms and conditions of the employment contract – namely the employers.

Nevertheless, it has been alleged by those who supported the "free"- market economic policies of the Thatcher Government e.g. the late Friedrich August von Hayek, that working people acting in unison, i.e. in trade unions, obstruct the "free" functioning of the labour market and that the removal of the "immunities" Parliament conceded to trade unions would be a precondition of any successful economic and industrial restructuring in the 1980s. The argument that legal "immunities" which made trade unions "privileged" bodies, thus being protected from claims in tort in the course of their normal functions and leading to allegations that they were responsible for Britain's declining position in the advanced industrial world, is by no means new. It is therefore necessary to determine whether these "immunities" were really "privileges" or, in the words of Lord Wedderburn, "social rights". But, whatever line of argument one takes in this respect, it can be shown that there is an interaction between a "free"- market economic strategy and the part the common law can help in making it work. Consequently, the practical applications of this whole strategy become clearer when it is related to specific events, especially in the 1980s with the 1984/1985 miners' strike and disputes in the British printing industry. This is the main objective of the fourth chapter.

It is therefore necessary to assess how the trade union and labour movement responded to this challenge. The Thatcher Government was well aware of the fact that, in the not so distant past (at the end of the 1960s and subsequently, in the early 1970s), a Labour Government followed by a Conservative Government (in which Margaret Thatcher herself was a Cabinet Minister) had been defeated in their industrial relations policies by the organised labour movement. Thatcher

was therefore determined and careful enough to ensure that her Government was not going to be the third to suffer that fate.

However, before one can consider whether the Thatcher Government's policies were "successful", one has to determine the criteria by which "success" should be measured. If the criteria were to be based on the overall performance of the British economy and the well-being of the masses of ordinary people, opinions would be divided. However, a judgement on political grounds by those forces identifying themselves with the ownership of vast holdings of capital would, no doubt, be positive.

"New"-Right thinking would generally be that governments should not be determining economic policy anyway. Rather, their tasks should be limited to the pursuit of those measures which are deemed necessary to ensure that market forces can operate "freely" and "efficiently". Only then, according to this line of thinking, would the best economic results be attained.

Trade unions and their practices have often been seen as a factor impeding the efficient functioning of a "free"-market order. It is therefore necessary to determine whether or how successful the Thatcher Government was in its trade union laws. To what extent did these laws weaken the bargaining power of organised labour? There is also the question of whether the labour movement conceded defeat unnecessarily. In this respect, there is also the question of whether the review the Labour Party leadership authorised of the Party's policies in the aftermath of the Party's election defeat in 1987 (its third consecutive defeat) was necessary after all.

The fact is that despite Labour's policy review, the Conservative Party and Government led by Margaret Thatcher's successor John Major managed to avoid defeat in the 1992 election and by the time the Labour Party got back into office in 1997, public discontent with the Major Government was such that Labour, with or without a policy review, would have got back into office anyway. In this, it is necessary to examine what went wrong for Labour in the run-up to the 1992 election. In this, one should not overlook the implications of Labour supporting the decision of the Conservative Government in October 1990 (shortly before Thatcher was replaced as Prime Minister) to anchor sterling in the European Exchange Rate Mechanism (ERM) and the conditions attached to this. This is one purpose of chapter five. Another purpose of this chapter is to make an assessment of the policies of the Blair Government especially in the area of economic and social policy. There, the issue of trade union and labour relations law is especially important as this helps to illustrate the closeness between the policies of the Conservative Party in government from 1979 to 1997 and those of *New Labour* since then.

In view of the wide-ranging legislative measures enacted against trade unions and trade unionists since 1979, there has been the question as to whether the rights' of workers and trade unions to organise and bargain collectively fulfill the various norms and conventions which have been laid down at European and international level which in turn have been signed and ratified by the UK. This question has gained even more importance due to the Human Rights Act, 1998, the cornerstone of which is that British law should not contravene the European Convention on Human Rights and Fundamental Freedoms from 1950 and any of its subsequent protocols and subsequently, the ruling in the European Court of Human Rights in 2002 in the Wilson and Palmer case. Consequently, there is the question as to what extent the rights of workers and trade unions in Britain conform to the norms of this Convention (despite any limitations it may permit on countries which have ratified it and incorporated its provisions into their own laws). This is another objective of the fifth chapter.

Put simply, one could conclude that the Thatcher Government did, in the short term, have some success in achieving its major objectives – namely pushing back the strength and influence of the organised labour movement. Supporters of the policies of the Thatcher Government can also claim success in that these policies helped to shape government policy in economic and social areas long after Margaret Thatcher ceased to be Prime Minister. However, an assessment of the longer term consequences for the British economy as a whole and for working people and their families continues to remain wide open.

The Thatcher Government's economic and political strategy as well as those of the Major and Blair Governments can, in fact, be assessed from many angles. Through a detailed analysis of Government papers, political party documents, trade union and TUC documents, the viewpoints of other organisations and individuals involved in the controversies, together with a wide range of secondary sources, this book aims to provide a contribution to the understanding of economic and social developments in Britain since 1979.

Chapter One: The significance of the post-1945 "consensus" in Britain for the trade union movement

1.1. Economic developments interacting with social consensus

What is often, though misleadingly, referred to in Britain as the "post-war consensus" era, has its roots in the change in the balance of forces between labour and capital arising out of the 2nd World War, which brought full employment back to Britain.¹ With the generally accepted feeling that mass unemployment and large-scale poverty should never again be tolerated, as had been the case in the pre-war years, the trade union and labour movement was able to secure the most comprehensive reforms in social welfare ever known in Britain at the time. What was to become known as the "welfare state" had its origins in the Beveridge Report,² published at the end of 1942, which, significantly, was written with the assistance of a group of young Keynesian economists³ reflecting a clear rejection of the *laissez-faire* policies of the inter-war years.

Equally significant was a governmental commitment⁴, subsequently endorsed by all the major parties⁵ to macroeconomic measures for maintaining a high and stable level of employment, i.e. "full employment". This commitment on the part of the State, it should be noted, was very much influenced by the Minister of Labour in the wartime coalition government under Winston Churchill, Ernest Bevin (formerly General Secretary of the Transport and General Workers' Union (TGWU)) who persistently pressed for full employment to be government policy irrespective of which party was to win the coming election.⁶

The incoming Labour Government under Clement Attlee in 1945 set about establishing the institutions and reforms to which the wartime coalition had agreed. At the heart of the programme of the Attlee Government (1945-1951) was the nationalisation of basic industries, reflecting their strategic importance in Britain's post-war economic recovery. What is often overlooked is that the nationa-

¹ Coates, David, *The Crisis of Labour*, Philip Allan (Oxford and New Jersey), 1989, p. 10.

² *Social Insurance and Allied Services*, Report by Sir William Beveridge, HMSO (London), Cmd. 6404, November 1942.

³ Grahl, John, The Liberal Revolutionary, in: *Marxism Today* (London), Vol. 27 No. 6, June 1983, p. 20.

⁴ See *Employment Policy*, HMSO (London), Cmd. 6527, May 1944.

⁵ See Craig, F. W. S. (Ed.), *British General Election Manifestos 1900-1974*, Macmillan (London and Basingstoke), 1975, p. 115 (Conservative Party), pp. 125f (Labour Party) and p. 113 (Liberal Party).

⁶ Bullock, Alan, *The Life and Times of Ernest Bevin – Vol. 2 Minister of Labour 1940-1945*, Heinemann (London), 1967, pp. 313-322.

lisation which took place under this Government was largely in response to reports of Conservative-dominated investigating committees⁷ and, as the 1945 general election showed, most voters favoured such measures.

With the nationalisation programme in place, along with the commitment to "full employment" and the establishment of the "Welfare State", both sides of industry were expected to take part in daily economic and political life, with the government of the day, as it were, playing the role of "manager of the economy" in a way which was without precedent in peacetime. With the nationalisation of key industries e.g. coal mining and the railways, the 1945-1951 Labour Government based Britain's economic and industrial strategy on the basis of a "mixed economy" in which publicly-owned industries of strategic importance to the country as a whole would exist parallel with those in or remaining in the private sector.

Whatever criticisms may have been made of the various industries which had been nationalised from those who in any way were generally critical of public ownership, principally, up to 1979, the concept of a "mixed economy" had not been brought into question by any post-war government even if there had been individual industries which after nationalisation were then denationalised. There, a most notable example was the steel industry which had eventually been taken into public ownership in 1951 and then denationalised in 1953. Nevertheless, all this would imply that a "mixed economy" was seen to be an integral part of the post-war "consensus". All these measures enabled the government of the day, initially Labour and then from 1951 Conservative, to mobilise the productive forces of the economy in the early post-war years and, on the surface, brought about an era of economic prosperity around the 1950s.

However, the foundations upon which this "consensus era" was established were shaky for two reasons. Firstly, the masses of ordinary people were largely excluded from day-to-day decision-making processes – this being largely left in the hands of trade union leaders who could politically identify themselves with Labour's parliamentary leadership and the forces of capital. Secondly, policies implemented in an attempt to restore Britain as a world power – rearmament and large-scale overseas investments – were tolerated, even though they operated at the expense of modernising Britain's industrial base. The effect of this was that productivity was lower and grew more slowly than that of other countries in the advanced industrial world (see below). Such a phenomenon, being characteristic of British capitalism in peacetime since the 1880s, has been in striking contrast

⁷ Sugden, Philip, Dissertation A: Post-war British Conservative Party economic, political and ideological strategy, with particular reference to the period 1974 to 1979, Humboldt University, (Berlin), 1985, p. 11 (unpublished).

to that of Britain's major competitors who had consequently grown faster.⁸ With her major competitors concentrating on building up their economic strength and devoting substantial state support for modern technology, it is not surprising that Britain's standing in the world as a major economic power was increasingly challenged.⁹

In terms of economic growth, from 1950 right up to the early 1970s, Britain's performance, in comparison with other countries of the advanced industrialised world belonging to the Organisation for Economic Co-operation and Development (OECD), was weak (see Appendix 1, table 1). However, despite her relatively poor economic performance in this period, demand and output generally rose fast enough to maintain "full employment", although with imports rising twice as fast as exports in this period,¹⁰ it was surely inevitable that balance of payments difficulties would put the brakes on Britain's economic expansion. "Stop-go" policies were therefore introduced in an attempt to keep the balance of payments in check. However, Britain's underlying economic difficulties became more exposed in the 1960s, oscillating between recession and recovery, with inflationary pressures as well as the negative trade balance plus large capital outflows holding back her economic advance.¹¹

In recognition of her weak economic performance, the Macmillan Government (1957-1963)¹² embarked upon a two-pronged strategy. Firstly, it turned towards a corporatist concept which was characterised by setting up the National Economic Development Council (NEDC) and the National Incomes Commission. There, the emphasis was on tripartite collaboration consisting of the Government, employers and the trade unions. Secondly, with Britain's trade growing faster

⁸ Aaronovitch, Sam, *The Road from Thatcherism*, Lawrence and Wishart (London), 1981, pp. 5f.

⁹ Ibid.

¹⁰ *Cambridge Economic Policy Review*, Vol. 6, No. 1, University of Cambridge Department of Applied Economics, April 1980, p. 5.

¹¹ See *Economic Policy Review*, No. 4, University of Cambridge Department of Applied Economics, March 1978, pp. 1ff.

¹² In October 1963, Harold Macmillan, whose government in June of that year had been shaken by the circumstances surrounding the resignation of the Secretary for War John Profumo (by attempting to conceal his involvement in a scandal which then raised serious doubts as to the effectiveness of the country's security), resigned following an operation. As national security ultimately was (and still is) the personal responsibility of the Prime Minister, this scandal dented Macmillan's personal standing and therefore his ability to lead his Party to another victory in a general election which in anyway was due in the following year at the very latest. After a "long drawn-out struggle", Sir Alec Douglas-Home (as Lord Home became after renouncing his peerage) "emerged" as Macmillan's successor. See Pelling, Henry, *A Short History of the Labour Party* (Fourth Edition), The Macmillan Press Ltd (London and Basingstoke), 1972, p. 130.

with the original member states of the European Economic Community (EEC) than with the European Free Trade Association (EFTA) or the countries of the Commonwealth, Macmillan sought Britain's entry into the EEC.

Attempts to keep the balance of payments and inflation under control by means of "stop-go" policies were highly resented on the shop floor. An indication of this can be seen through the increase in the number of strikes and the rising proportion of them over wages (see Appendix, table 2).

By the late 1950s, there appeared to be three features of industrial relations practice reflecting the fact that, with there being "full employment", the influence of the shop stewards grew. This became of growing concern, not only to most politicians and employers, but also to many trade union leaders who feared that their authority was being undermined. These three features became known as "wage drift", "restrictive practices" and "unofficial strikes".¹³

By "wage drift", it was meant that there was a widening gap between earnings and nationally agreed rates of pay, especially in manufacturing industry. In this, increases in earnings were said to be running ahead of increases in productivity, and local groups of workers, it was claimed, were able to exploit local shortages of skilled labour to their advantage. Regarding "restrictive practices", it was alleged, initially by the media that local groups of workers (often without official union support) were able to impose rigid forms of work control which were undermining industrial efficiency. "Unofficial strikes" (strikes without official union support) were, it was argued, increasing in number even though the number of "official" strikes showed no upward trend¹⁴ (see Appendix, table 3).

So, with the domestic economy being sacrificed in pursuit of "imperial aims", the rising incident of industrial unrest was inevitably going to put into question the future of the "consensus era". For whatever claims the Conservatives could make in terms of falling unemployment and strong economic growth in the run-up to the 1964 general election, the extent to which they had any solid foundation became questionable (see Appendix, tables 4 and 5). In addition, a most notable factor questioning any such claims on the economic front was Britain's worsening balance of payments. In view of all this, not forgetting the events leading to the resignation of Profumo, the previous year, electoral support for the Conservative Party fell sharply enough for it to be narrowly voted out of office in the 1964 election.¹⁵

¹³ Coates, David, ..., pp. 45f.

¹⁴ Ibid.

¹⁵ See Pelling, Henry, ..., pp. 130f.

When Labour was returned to office in October, 1964, it inherited a weakening economy and with what was then a record balance of payments deficit of £800m¹⁶ which was aggravated by a large capital outflow.¹⁷ Fully realising both the domestic and international implications of a weak economy, the incoming Labour Government under Harold Wilson, in line with its 1964 election manifesto commitments, introduced a National Plan with the dual purpose of expanding the economy and tackling Britain's negative trade balance.¹⁸ But in addition to all this, Labour, under the obvious influence of the Treasury, was determined to maintain the value of sterling. In the absence of any decisive measures to divert outflowing capital into investment in manufacturing industry, the National Plan lacked a solid foundation upon which it could bring about the results it was intended to, i.e. for the economy to expand by 25% by 1970.¹⁹

However, the value of sterling could hardly be maintained unless investment and state support for manufacturing industry were put on a level comparable to that of Britain's major competitors. As a considerable amount of capital had been allowed to flow out of the country unhindered since the end of the War, the dual aim of economic expansion and maintaining the value of sterling could only be achieved by deflationary measures. In other words, incomes policies were, in effect, the undeclared "key" to the success of the Labour Government's National Plan.

Labour embarked upon what has been described as a "modernist" approach to the task of arresting Britain's economic decline. This consisted of four elements.²⁰ These were making industrial capital more effective, a major role for the state in restructuring key areas of industry, more prominence for tripartite collaboration and, increasingly after the effective collapse of sterling as a reserve currency in 1967, entry into the EEC. It can therefore be seen that Labour was, in effect, to continue with the type of policies which were introduced by Macmillan's Conservative Government.

In order to maintain the value of sterling, the negative trade balance had to be corrected. Initially, the measures taken were relatively modest: import surchar-

¹⁶ Hamilton, Malcolm B., *Democratic Socialism in Britain and Sweden*, Macmillan Press (Basingstoke), 1989, p. 120.

¹⁷ *Economic Policy Review*, ..., March 1978, p. 2.

¹⁸ See Craig, F. W. S. (Ed.), ..., 259.

¹⁹ See Kastendiek, Hans, "Gewerkschaftsmacht" und Arbeitskonflikte als Hauptthema der britischen Politik, in: Jacobi, Otto, and Kastendiek, Hans (Hg.), *Staat und industrielle Beziehungen in Großbritannien*, Campus Verlag (Frankfurt/New York), 1985, p. 17.

²⁰ Jacques, Martin, Thatcherism: The Impasse Broken?, in: *Marxism Today* (London), Vol. 23 No. 10, October 1979, p. 7.

ges were imposed and also incomes policies to help keep inflation under control. To assist in this process, Labour established the National Board for Prices and Incomes on the same tripartite model as the NEDC and the National Incomes Commission. However, with only modest economic growth in the mid-1960s and with the balance of payments remaining in deficit, coupled with a big capital outflow in mid-1966, deflationary measures were more rigorously applied – largely through incomes policies.

This time, however, deflationary measures which had previously succeeded in correcting the negative trade balance failed. This, together with another large capital outflow, meant that the existing value of sterling could no longer be defended. In November 1967, Labour was forced to devalue the currency. By making the defence of sterling central to its National Plan (which is also an indication of the traditional influence the Treasury has over the formulation of British economic policy), Labour thus failed in achieving both of its objectives – the desired level of economic growth and the maintenance of the pre-November 1967 value of sterling.

Although sterling's devaluation led to a large rise in exports, the trade balance continued to remain in deficit. So, further deflationary measures were introduced. Not surprisingly, by the end of the 1960s, the economy had dipped into a full-scale recession coupled with rising inflationary pressures. This has been characterised as "slumpflation".²¹ Inevitably, unemployment was also rising.

Failure on the economic front brought the Labour Government into conflict with the organised working class. 1968 had witnessed the highest degree of industrial militancy since the end of the 2nd World War (see Appendix 1, table 2). This was to mark a turning point for the Government.

Upon attaining office, the Wilson Government had foreseen that industrial unrest was not likely to subside. So, in 1965, using "unofficial" strikes as a pretext, a Royal Commission²² was established to help find ways of lowering the degree of industrial unrest. Predictably, this Royal Commission (often known as the Donovan Commission) was able to show that, in the period 1964-1966, on the basis of figures submitted by the Ministry of Labour, 95% of all strikes were "unofficial";²³ its significance was more that it itself symbolised the way trade

²¹ Hall, Stuart, *The Great Moving Right Show*, in: *Marxism Today* (London), Vol. 23 No. 1, January 1979, p. 15.

²² This being the Royal Commission on Trade Unions and Employers' Associations - often known as the "Donovan Commission" after Lord Donovan who chaired this commission.

²³ *Royal Commission on Trade Unions and Employers' Associations 1965-1968*, HMSO (London), Cmnd. 3623, June 1968, p. 97, paras. 367f.

unions on the shop floor were being officially blamed for Britain's weak economic performance. In this, Labour sided openly with the opposition Conservative Party and employers' associations, and opened the door to legal intervention in industrial relations – a process which could not possibly be associated with "consensus" politics.

In official circles, there were two schools of thought²⁴ concerning the above mentioned features of industrial relations practice resulting from the growing influence of shop stewards. The "Tory Right" along with some employers' associations put the causes down to the "privileged" legal position of trade unions as a result of the 1906 Trade Disputes Act (see below). There was also then the so-called "Oxford School" associated with industrial relations professors Allan Flanders and Hugh Clegg, who put the causes down to deficiencies in the institutions of collective bargaining in conditions of "full employment".

The real concern in ruling circles was clearly summarised by the Inns of Court Conservative and Unionist Society (a group of prominent Conservative lawyers) in its evidence to the Donovan Commission in 1966. Clearly being aware that there had been conditions of "full employment", they claimed that: "In the last twenty-five years there has been a sellers' market for labour and the present power of the trade unions derives in the main from this. It is likely to persist".²⁵

So, the task of the Donovan Commission was to determine how, in conditions of "full employment", the influence of shop stewards could be curbed. There, this Commission had to determine ways in which incomes policies (as already noted, the undeclared "key" to the success of Labour's National Plan) could be made to work effectively.²⁶ The Commission itself stated: "We are, however, convinced that incomes policy can make a contribution of outstanding importance to the economic growth of this country and a more ordered system of industrial relations, and that any proposals which we make for the reform of industrial relations should assist an incomes policy to work effectively. The proposals we have made ... will do so".²⁷

It went on to say: "Our proposals are designed to provide effective control of industrial relations, including pay, at the level of the factory and company by means of properly constructed agreements between companies and trade unions.

²⁴ Coates, David, ..., pp. 46f.

²⁵ *Trade Unions for Tomorrow*, Conservative Political Centre (London SW1), CPC Number 346, p. 10.

²⁶ See Ramelson, Bert, *Donovan Exposed: A critical analysis of the Royal Commission on Trade Unions*, Communist Party (published in London), 1968, pp. 4f.

²⁷ *Royal Commission on ...*, ..., p. 52, para. 207.

If the decisions take accord with incomes policies, then incomes policy will work."²⁸

By largely putting Britain's economic ills down to "unofficial" strikes and seeking a cure through the implementation of incomes policies, the Wilson Government set itself on a confrontation course with the organised labour movement. If "consensus" policies were still to have any meaning, it was clear that shop floor activists were to have no part in it. By the close of the 1960s, the basis of the "consensus" era was coming under strain on both the economic and industrial fronts.

On the economic front, any success that could be claimed e.g. the turn-around in Britain's negative trade balance (leading to a current account surplus of £735m in 1970 – the largest in real terms since 1950) together with the large reduction in the public sector borrowing requirement (PSBR), with there actually being a surplus in the financial year 1969-1970 (shortly before Labour's defeat in the June 1970 general election) was at the cost of economic stagnation and rising unemployment.²⁹

On the industrial front, the rising degree of industrial militancy led to a "politicisation" of many shop-floor workers. This had a noticeable effect on a number of key trade union elections which were won by left-wing candidates (including those belonging to, or with the backing from, the then Communist Party of Great Britain (CPGB)). The most striking of these were the elections in 1969 of Jack Jones (succeeding Frank Cousins) as General Secretary of what was then Britain's largest trade union, the TGWU and in 1967 of Hugh Scanlon as President of what was then Britain's second largest union, the Amalgamated Engineering Union (AEU). Both Jones and Scanlon had risen through the shop-stewards' movement and were both supportive of militant tactics when they were elected.³⁰

²⁸ Ibid., p. 53, para. 211.

²⁹ See Shaw, Eric, *The Labour Party since 1945*, Blackwell Publishers Ltd (Oxford), 1996, p. 80.

³⁰ Kelly, John, *Trade Unions and Socialist Politics*, Verso (London and New York), 1988, p. 109. NB The AEU, founded in 1920, became the Amalgamated Union of Engineering and Foundry Workers in 1968 with the accession of the Amalgamated Union of Foundry Workers. In 1970, this union became the Amalgamated Union of Engineering Workers (AUEW) upon amalgamation with The Draughtsmen and Allied Technicians' Association (DATA) and the Constructional Engineering Union. The amalgamation allowed for four sections of the AUEW: engineering, foundry, technical and supervisory (TASS) and construction with each section retaining its own organisation, hence affiliating separately to the TUC and the Labour Party, but coming together in a national conference. At the time of amalgamation, the combined membership was 1.4 million with the engineering section being the most influential with 1.2 million members. The ultimate objective was the creation of one union for the engineering industry however, a common rule book which was

This meant that a new generation of trade union leaders emerged who were more likely to be in conflict with Labour's parliamentary leadership than previously, even though in most cases, as with Jones and Scanlon, being members of the Labour Party.

This leftward swing in a number of key unions weakened the power structure in the Labour Party in the 1970s which had traditionally rested on a cohesion of the party's national executive committee (NEC), the party conference, the party's parliamentary leadership, the party leader and affiliated trade unions. This cohesion, having previously functioned for decades, brought about a system of integrated organisational control within the party which gave considerable authority to the party leader.³¹

The leftward swing in those unions helped the left in becoming a dominant force at the annual party conference and hence, on the party's (NEC). This development, it should be noted, did not lead to the left in gaining "control" of the party at any time. However, the traditional grip of those who supported Labour's parliamentary leadership was loosened and party leaders, particularly those of the parliamentary party, had to take account of this development.

Following the defeat of proposals to resolve the problem of "unofficial" strikes as formulated in its White Paper *In Place of Strife* of January 1969, the Labour Government needed to heal the rift this had caused with the trade union movement. This defeat came about, not only through intensive pressure from prominent trade union leaders e.g. Frank Cousins and Jack Jones of the TGWU and Hugh Scanlon of the AEU, but also through considerable opposition within the Parliamentary Labour Party (PLP) and subsequently within the Labour Government itself.³² This change in the leadership of prominent trade unions not only influenced the events leading up to the defeat of this White Paper but was also to have the effect of influencing the degree of the TUC's opposition to the 1971 Industrial Relations Act a couple of years later (see pages 49f).

drafted in 1972 had never been fully implemented. See Marsh, Arthur and Ryan, Victoria, *Historical Directory of Trade Unions* (Volume 2), Gower Publishing Company Ltd. (Aldershot, Hants.), 1984, pp. 12f and 19. For details of membership of the four sections of the AUEW at the time of amalgamation, see *Report of 103rd Annual Trades Union Congress*, TUC (London), 1971, pp. 651-655. For the purposes of this book, the AUEW will mean the AUEW (engineering section).

³¹ Shaw, Eric, *The Labour Party Since 1979*, Routledge (London and New York), 1994, p. 159.

³² See Barnes, Denis and Reid, Eileen, *Government and Trade Unions*, Heinemann Educational Books Ltd (London), 1980, pp. 116-126.

Clearly, the "consensus" which had almost broken down through the publication of *In Place of Strife* could not be restored as long as there were threats of authoritarian and penal measures against trade unions and trade unionists as proposed in this White Paper (see below). As events had subsequently shown, Labour's failure on the economic front coupled with its loss of credit on the industrial relations scene led to its election defeat in 1970. Subsequent events were to show that the rupture the "consensus" era had suffered through this White Paper was never really healed and this episode in the eyes of the trade union movement is something which has never been forgotten.

The pursuit of "consensus" politics was hardly the intention of the incoming Conservative Government under Edward Heath in 1970. On the contrary, its strategy for tackling Britain's economic ills was to secure entry into the EEC, using this to weed out "inefficient" sectors of industry; and to strengthen the role of the state in industrial relations,³³ in the hope of succeeding in taming the trade union movement where Labour had failed.

The Heath Government started by dismantling the various tripartite institutions which the previous Labour Government had established e.g. the National Board for Prices and Incomes.³⁴ At first, by "officially" not having an incomes policy, it sought nevertheless to keep down pay settlements in the public sector and to use this as a norm for the rest of the economy (i.e. incomes policy via the back door).

However, with unemployment continuing to rise within a relatively depressed economy, the collapse of Rolls Royce in 1971 and the long campaign to prevent the closure of Upper Clyde Shipbuilders, the Heath Government was forced to intervene more directly in the economy. This led to what has been described as the "U-turn" of 1972.³⁵

Although the policy of holding back public sector pay settlements had some initial success (e.g. against the post office workers in 1971), the Heath Government suffered a defeat in the same year against the miners.³⁶ It suffered a further defeat in the following year in another conflict against the miners and also against the railwaymen. The conflict against the railwaymen entailed, additionally, a humiliating defeat under an important provision of the 1971 Industrial Relations Act (see below). In effect, the policy of keeping down pay settlements

³³ Sugden, Philip, ..., p. 25.

³⁴ Gamble, Andrew, *The Free Economy and the Strong State* (Second Edition), Palgrave (Basingstoke and New York), 1994, p. 82.

³⁵ Ibid., p. 84.

³⁶ Ibid.

in the public sector had collapsed by the summer of 1972. In its attempt to weed out "inefficient" sectors of industry (the "no lame duck" policy) the Government was not only trying to get industry restructured but was also using this as a means of warning trade unions of mass unemployment if they did not keep down their pay settlements.³⁷

Faced with the apparent collapse of its policy on pay, industrial restructuring and industrial relations, the Heath Government, it could be argued, sought to re-establish the various policy instruments which had been characteristic of "consensus" politics before 1970. This, in effect, was the political significance of the "U-turn".

Realising the economic and industrial implications of its "no lame duck" policy, the Heath Government was compelled to rescue Rolls Royce and Upper Clyde Shipbuilders (through nationalisation), and also to put through Parliament a special Act (the 1972 Industry Act) giving the Government powers to intervene directly in industrial restructuring.

Against its election pledge,³⁸ the Heath Government introduced statutory incomes policies as from autumn 1972. Also, in the aftermath of its failure on pay and industrial relations, attempts were made at re-establishing tripartite collaboration. This change in course appeared to work until the conflict with the miners in winter 1974 which resulted in the downfall of the Heath Government.

Britain's underlying economic weakness continued to become more exposed with balance of payments deficits holding back economic growth. Expansionary fiscal and monetary policies in the 1973 Budget were seen to have been a major factor behind the serious balance of payments deficit, that year. Furthermore, the Bank of England's minimum lending rate (MLR), since the introduction of this particular criterion for the Bank to intervene in the money markets as from October 1972, fluctuated at around 8% until around the middle of 1973. It then started to rise rapidly. MLR reached 13% on 13th November of that year and stayed at that rate until 7 January, 1974, when it started to fall gradually. All the same, MLR continued to remain high, almost constantly in double figures, until it started falling steadily in 1977.³⁹ All this helped to highlight the underlying weakness of the British economy. This was aggravated further by the sudden

³⁷ Sugden, Philip, ..., pp. 35f.

³⁸ Craig, F. W. S. (Ed.), ..., p. 331.

³⁹ Bank of England Money Market Intervention Rates: Changes in Bank Rate, Minimum Lending Rate, Minimum Band 1 Dealing Rate and Repo Rate, in: *Bank of England Statistical Abstract Part 1*, December 2002, Table 22.1.

increases in oil prices at the end of 1973⁴⁰ which led to a downturn in the world economy.

When Labour was returned to office at the beginning of March 1974, it thus inherited, as in October 1964, a balance of payments deficit though this time, on a magnitude hitherto unknown in Britain. This, to mention nothing of the effect of the miners' strike (which led to the introduction of the three-day week), contributed to the severest economic crisis since the end of the 2nd World War. On top of this, with the unpopularity of incomes policies on the shop floor, the period 1968-1974 witnessing the highest level of industrial unrest since the end of the War, Labour realised that Britain's economic difficulties could only be overcome through cooperation with the trade union movement. This was the basis upon which Labour's Social Contract came into being.

The Social Contract should be seen in the context of re-establishing "consensus" politics. This had been ruptured by *In Place of Strife*: it had subsequently been abandoned by the incoming Conservative Government in 1970, and briefly re-established in 1972. "Consensus" politics came under pressure again in consequence of the 1974 miners' strike.

In formulating the Social Contract, Labour's parliamentary leadership had to take into account the leftward shift in a number of key trade unions which in turn, as just noted, had an influence on Labour's NEC. One should not overlook the influence of the CPGB in this process. Despite its relatively small membership, it was able to exert considerable influence on the policies of some key unions and, indirectly, on the policies adopted by Labour Party conferences.⁴¹ This was possible because it was well organised industrially and could work with many non-communist militants who had a similar political outlook on a wide range of everyday issues, particularly with regard to economic, social and industrial matters.

It was this leftward shift which influenced the formulation of *Labour's Programme 1973* which was adopted by the 1973 Labour Party Conference. One major significance of this was the adoption of "A New Economic Strategy"⁴² which was based on an extension of public ownership of industry, price controls, more expenditure on social reforms and, most importantly, the often quoted

⁴⁰ Between October 1973 and January 1974, the world price of crude oil quadrupled. So for countries like the UK which were net importers of oil, this led to the twin problems of inflation and a worsening of their balance of payments. See Hickson, Kevin, *The IMF Crisis of 1976*, Tauris Academic Studies (London and New York), 2005, p. 62.

⁴¹ See Flanders, Allan, *Management and Unions*, Faber and Faber (London), 1975, p. 18.

⁴² See *Labour's Programme 1973*, Labour Party (London) 1973, pp. 13-39.

commitment to "a fundamental and irreversible shift in the balance of power and wealth, in favour of working people and their families".⁴³ This was to form the basis of the Alternative Economic Strategy (AES). The formulation of a "New Economic Strategy" was influenced by an earlier document published by the TUC-Labour Party Liaison Committee in February 1973⁴⁴ which was approved by the TUC General Council, Labour's NEC and the Parliamentary Committee of the Labour Party.

When *Labour's Programme 1973* was adopted, it was unclear as to whether Britain would remain a member of the EEC, which she had joined at the beginning of that year. The Labour Party and the Labour Opposition had opposed Britain joining on the basis of the terms which were negotiated by the Heath Government and, unlike in other countries which had also joined then and later, there was severe criticism in that no referendum on this crucial question had taken place. Consequently, the Labour Party pledged to renegotiate the terms of Britain's membership with the British people having the final say in a referendum as to whether Britain should remain a member or whether it should seek withdrawal.⁴⁵ This decision was to be one vital element in determining whether the key policy commitments of the AES could be realised at all. In this, the position the Labour Government was to take on the question of Britain's continued membership of the EEC was to be indicative of the extent it really supported its own party's programme, especially the AES.

Based on *Labour's Programme 1973*, pledges respecting the above-mentioned "fundamental and irreversible shift" were made in the two general elections in 1974.⁴⁶ But of greater importance, especially for Labour's parliamentary leadership, was the need for a "far reaching *social contract* between workers and the

⁴³ Ibid., p. 13.

⁴⁴ *Economic Policy and the Cost of Living*, TUC-Labour Party Liaison Committee (London), February 1973.

⁴⁵ This promised referendum, in which the British people voted to remain in the EEC, took place on 5 June, 1975. There, the majority of Cabinet Ministers in the Wilson Government together with the Conservative and Liberal parties supported Britain's continued membership. However, there was considerable opposition within the Labour Party itself to its own government's position on this vital question and a special conference of the Party in spring 1975 decided to support Britain's withdrawal. The opposition in the Labour Party to remaining in the EEC was such that the Government was unable to carry the support of the majority of its own MPs. Instead, in the House of Commons vote on the "renegotiated" terms of membership, Wilson was particularly dependent on the support of the Conservative Opposition, which, it is worth noting, was then under its new Leader and future Prime Minister, Margaret Thatcher.

⁴⁶ See *Let us work together – Labour's Way Out of the Crisis: The Labour Party Manifesto 1974* (February), Labour Party (London), p. 2. See also *Britain will win with Labour – Labour Party Manifesto October 1974*, Labour Party (London), p. 30.

Government – a contract which can be renewed each year as circumstances change and as new opportunities present themselves".⁴⁷

By stressing the need for a "fundamental and irreversible shift", this programme was, in effect, trying to re-establish "consensus" politics on a new footing. It recognised that meeting its objectives in economic management meant the control of inflation, the maintenance of full employment and the achievement of rising real standards of living – personal, social and environmental – for all sections of the community.⁴⁸

However, this pledge did not appear so definite in Labour's October 1974 manifesto which stated: "We put forward in this manifesto a list of improvements we want to make in society. We put them forward in good faith; but many of them cost money, and we understand perfectly well ... that the timing of them will depend on how quickly and how completely we get on top of the economic problems".⁴⁹

In all fairness to the Labour Government, the economic situation had deteriorated drastically since the publication of the *Labour's Programme 1973* in a way which could not have been envisaged when it was originally adopted. All the same, this statement in the October 1974 election manifesto, as formulated, is enough to question the extent to which the Labour Government had ever intended to bring about this "fundamental and irreversible shift".

On the positive side, for the trade union and labour movement, the period of the Social Contract brought about a series of significant reforms. Following the repeal of the 1971 Industrial Relations Act by the newly elected Labour Government in 1974, a series of statutes were passed giving working people, their organisations and their families more rights than they had ever had previously, e.g. more protection against dismissal, more rights for trade unions and the right to maternity leave.

On the negative side, these reforms were continually overshadowed by the difficulties Labour faced in overcoming the economic legacy it inherited upon taking office in 1974. All this coincided with a new phase in the economic fortunes of advanced capitalist countries which became apparent in the 1970s. On the one hand, there was economic stagnation associated with rising unemployment; on

⁴⁷ *Labour's Programme 1973*, ..., p. 14.

⁴⁸ *Ibid.*, p. 13.

⁴⁹ *Britain will win with Labour* ..., ..., p. 3.