

# Revolution or reform?

THE LABOUR PARTY AND ECONOMIC POLICY, 1979-1983

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# 1 TABLE OF CONTENTS

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1	Table of Contents .....	2
2	Acknowledgements .....	3
3	Introduction .....	4
3.1	The Thesis .....	7
3.2	Structure .....	9
3.3	Notes on sources .....	10
3.4	Notes on terminology .....	12
4	The Economic Debate in the 1970s .....	14
4.1	Left-Wing Revisionism .....	15
4.2	Liberal Socialism Revised .....	22
4.3	Labour in the 70s: The Alternative Economic Strategy .....	27
4.3.1	The New Way: Monetarism .....	32
5	The Economic Policy of the 1980s .....	34
5.1	The Socialist Alternative .....	34
5.1.1	Meacher and Hodgson .....	38
5.2	The Social Democratic Party and the Right .....	40
5.3	The Party Leadership .....	45
6	Conclusion .....	52
7	Bibliography .....	56

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### 3 INTRODUCTION

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The history of Michael Foot's tenure as leader of the Labour Party is a troubled one. The historiography is dominated by accounts of political division inside the Labour Party, Foot's determination to shift the party towards the extreme left, and Labour's most devastating electoral defeat since the Second World War. Foot assumed the party leadership at a time when it was still trying to come to terms with the breakdown of the 'post-war settlement' in Britain, which had been built on the idea of a mixed economy and Keynesian budgetary techniques to help manage the economy.<sup>1</sup> The biggest threat to the 'post-war settlement' had always been the problem of inflation, which had turned into 'stagflation' by the end of the 1970s. This problem was so troubling for British policy-makers that even Labour leader and Prime Minister James Callaghan seemed to abandon the economic means to sustain the 'post-war settlement'. When he gave a speech at the 1976 Labour Party Conference, Callaghan told Labour delegates that after a period of rising unemployment and rising inflation, new measures would have to be found to arrest British economic decline:

'We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candour, that the option no longer exists, and that insofar as it did exist, it only worked by injecting a bigger dose of inflation into the economy followed by higher levels of unemployment as the next step.'<sup>2</sup>

Callaghan had now revealed a gaping hole in Labour policy, one that had not been seen since the 1930s.<sup>3</sup> It was argued that Keynesian economics could no longer manage a faltering British economy alone, which meant that the party would now have to revise its economic strategy.

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<sup>1</sup> Thompson, Noel, *Political Economy and the Labour Party*, UCL Press, London, 1996, pp. 197-199.

<sup>2</sup> Newman, Michael, *Socialism – A Very Short Introduction*, University Press, Oxford, 2005, p. 121.

<sup>3</sup> Wickham-Jones, Mark, *Economic Strategy and the Labour Party – Politics and Policy-Making, 1970-1983*, Macmillan Press, London, 1996, pp. 2-3.

Pressure quickly mounted against Callaghan's leadership and Labour MPs and supporters began to question what type of economic policy the party should adopt. One of the key questions was whether Labour should adopt a revised, social democratic model or a genuine socialist alternative, which the party as a whole had historically avoided.<sup>4</sup>

It was at this stage in the party's history that Labour arguably abandoned the Keynesian economic model that prioritized full employment in favor of curbing inflation in the belief this new model would both increase the competitiveness of British industry and reduce unemployment.

Government spending was reduced, because the rising cost of inflation now surpassed the threat of unemployment, but in doing so, Prime Minister Callaghan found it difficult to fund and implement the policies his Party had campaigned for.<sup>5</sup> Politically, this left the party in chaos because some sections of the Labour Party battled over what type of economic policy the party should adopt and what other type of leftist policies the party should pursue. When Michael Foot assumed the leadership in 1980, the Labour Party was already becoming unmanageable and the contours of division were becoming evident both internally and externally, and it was in this context the party had to seek consensus on an economic strategy that could challenge the Conservative government. The left felt that the Callaghan government had not fulfilled its promises while in power, and therefore sought increased control of the party machinery in order to hold the Parliamentary Labour Party to account. Many people, and in particular those Labourites who thought of themselves as social democrats, felt that Labour was becoming increasingly left wing, and that it would return to its socialist roots, a prospect that many Labour MPs feared. In reality, those fears were somewhat misplaced, because the outcome was more in line with a revisionist social democratic tradition than a socialist one.<sup>6</sup> Nevertheless, the reforms in the party meant that the established PLP coalition, dominated by revisionist MPs on the right, was compromised. Eventually, a small group of former Labour ministers and prominent party

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<sup>4</sup> Desai, Radhika, *Intellectuals and Socialism – 'Social Democrats' and the Labour Party*. Lawrence & Wishart, London, 1994, pp. 3-4.

<sup>5</sup> Shaw, Eric, *Crisis and Transformation – The Labour Party since 1979*, Routledge, London, 1994, pp. 6-7.

<sup>6</sup> Crewe, Ivor & King, Anthony, *SDP – The Birth, Life and Death of the Social Democratic Party*, Oxford University Press, London, 1995, pp. 104-105.

figures broke away from the Labour Party and formed the centrist Social Democratic Party. But despite an overwhelming burst of support in the opinion polls, the SDP performed badly in the 1983 general election. Labour remained the second largest party, but it had been left in a seriously weakened state.<sup>7</sup>

As the Labour Party battled itself, Margaret Thatcher's Conservative Party won a second consecutive general election. Her unwavering convictions and flare for politics meant that she was able to command loyalty from her party and colleagues, something that the Labour Party leadership failed to do in this period. Thatcher and her Chancellor, Geoffrey Howe, embarked upon policies of privatisation and 'monetarism' to fight off inflation.

Foot, on the other hand, who assumed the Labour Party leadership in 1980, was lauded as a traditional man of letters, an intellectual historian who had performed well as a minister in Callaghan's government.<sup>8</sup> As a writer and orator, Michael Foot excelled, but as party leader he struggled to make an impact in the television age. His unkept style, his gentlemanly unwillingness to lash out at Margaret Thatcher, and his general unease in front of the cameras were all seized upon by the media, which reinforced the view that he was unfit for the premiership.<sup>9</sup> The apex of this campaign against him was reached when he wore a blue-green duffle coat to the Cenotaph on Remembrance Day in 1981. Foot suffered almost national condemnation for being inappropriately dressed for what was a very formal occasion, and his jacket was described in the media as "the donkey-jacket."<sup>10</sup> Foot was now charged with keeping the party together. But procuring a consensus on policy proved to be an impossible task.

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<sup>7</sup> Hill, Richard, *The Long Road Back – The Labour Party and Economic Strategy 1979-1997*. Palgrave, London, 2001, pp. 28-29.

<sup>8</sup> Morgan, Kenneth O., *Michael Foot – A Life*. Harper Perennial, London, 2008, pp. 221-223.

<sup>9</sup> Thorpe, Andrew, *A History of the British Labour Party*. Palgrave Macmillan, London, third edition, 2008, pp. 216-218.

<sup>10</sup> Jones, Mervyn, *Michael Foot*, Victor Gollancz, London, 1994pp. 476-477.

The turmoil was perfectly captured by Margaret Thatcher who told a press conference that ‘There really is no alternative,’<sup>11</sup> a zeitgeist-phrase if there ever was one. Monetarism was the way to solve stagflation in the eyes of the Conservatives, and the failure of the political left and the centre-left to form a coalition inside the Labour Party on a common economic outlook meant that there really was no other choice for voters. The 1980s quickly became a fierce ideological battleground, where the Labour Party fought for its very identity and survival.

### **3.1 THE THESIS**

Historians, who have understandably focused on other periods of the party’s history when it was successful, have neglected the Labour Party of the early 1980s. This is especially true of the Attlee and Wilson governments, which did much to build and maintain the ‘post-war settlement’ respectively.<sup>12</sup> Historians have not subjected Foot’s leadership to as much historical scrutiny because it was widely perceived at the time to have been a disaster for the Labour Party. Therefore, this thesis raises important questions about Labour in this period and adds to the relatively thin historiography on the subject. In doing so, it seeks to answer the following question:

Why was the Labour Party unable to agree on a new economic policy before the 1983 general election?

The thesis focuses on Labour support for a monetarist or Keynesian economy.<sup>13</sup> Political and economic debate within the Labour Party centred mainly on public ownership, inflation, employment, industrial policy, trade unionism, and privatisation. It asks what alternatives the left had to an economic policy centred on monetarism. It discusses how unified the left was in its opposition to monetarism. Finally, it investigates in what ways the left tried to revise Keynesian economic models. Michael Foot, Dennis Healey, Tony Benn, Gerald Kaufmann, Roy Hattersley

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<sup>11</sup> Thatcher, Margaret (Jun. 25<sup>th</sup>, 1980): Press Conference for American correspondents in London. Thatcher Archive: COI transcript, accessed 4<sup>th</sup> May, 2014.

<sup>12</sup>Thorpe, Andrew, pp. 3-6.

<sup>13</sup> Wickham-Jones, pp. 26-28.



and the ‘Gang of Four’, Bill Rodgers, David Owen, Shirley Williams and Roy Jenkins will be central figures in this thesis because they represent the various factions and ideological positions within the Labour Party. They are the natural focal points for investigating the expression of satisfaction or dissatisfaction with party policy at parliamentary level.

This period in British history is riddled with divisions and defeats for Labour. For example, the SDP-split, a civil war between the left and the social democrats that remained inside the party frame, and for the most part a declining public image.<sup>14</sup> While the events occurred in the 1980s for the most part, it is necessary to view the conflict of the 1980s as a consequence of the discontent of the political left in the late 1970s. Furthermore, although the Social Democratic Party came into its own after 1981, and as such was arguably to be an external factor in the debate, it represented at the time a beacon for discontented Labour members who were closer to the social democratic outlook than they were to a more radical form of socialism. Therefore, they are included in this study in order to understand what differences of opinion that the parties fostered, and how the revisionist social democrats argued the case of remaining a part of a party increasingly dominated by the left, or leave to establish an independent social democratic party. Hence, a part of this study is devoted to the Social Democratic Party alternative, and how this contributed to the failure to produce a consensus strategy inside the Labour Party. How did the social democrats of both Labour and the breakaway SDP adopt new economic policies to remedy the gap left by abandoning Keynes and a policy for full employment? Why did prominent social democrats decide to remain within the Labour party?

Lastly, it is necessary to examine the leadership of Michael Foot, and his efforts to procure this consensus. What measures did he implement to bring the different sides together, and what economic views did he hold personally in this period? Was his leadership an obstacle to building a consensus as has sometimes been claimed and was he really to blame for to the party’s general election defeat in 1983?

However, the main question at the heart of this study is why was the Labour Party unable to agree on a new economic policy before the 1983 general election. To answer this, the secondary

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<sup>14</sup> Shaw, Eric, pp. 25-28.

questions of leadership and party unity are crucial. Both will help to illuminate why Labour failed to convince voters that the party had a credible economic policy in this period.

### **3.2 STRUCTURE**

The thesis is divided into two parts, each focusing on the 1970s and 1980s respectively. This allows us to differentiate between Labour in government and Labour in opposition, which also included a shift of leadership from Callaghan to Foot.

Part 1 discusses the emergence of Labour disagreement in the 1970s when the Callaghan government faced huge economic challenges, which culminated in the ‘Winter of Discontent’ of 1978-79.<sup>15</sup> It discusses how the government was perceived to not be delivering on its election promises, which promised to maintain a policy of full employment. This provoked a reaction from the left, which ended the revisionist social democratic dominance of the party in the process. It explores the main economic arguments of both sides, and how they influenced party policy.

Part 2 examines the continuing debate in opposition, after Labour's electoral defeat in 1979. This includes the socialists' response to the crisis and their alternative strategy for pursuing the traditional objectives of the Labour movement. It then discusses the main components of this strategy, and how it failed to appear as feasible and credible. It also discusses the case for a new vessel of social democracy and the continuation of a revisionist Labour movement. Therefore, it focuses in particular on the nature of the schism between the hard left and the social democratic wing of the party, and indicates that the schism was not only attributable to the organizational reforms of 1980 and 1981.

Lastly, this chapter discusses the position of Michael Foot and Denis Healey, and how they positioned themselves in the economic debate, and how they worked to keep the party together.

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<sup>15</sup> Thorpe, Andrew, pp. 205-206.

### 3.3 NOTES ON SOURCES

Andrew Thorpe, in his *A History of the British Labour Party* (2008) <sup>16</sup> points out that historians face a number of challenges when working on Labour Party history. There are significant fluctuations in Labour Party historiography, which are attributable to electoral and political fortune, the personal predilection of historians, and the availability of sources. There are primarily three variables in Labour Party historiography that have influenced my approach.

Firstly, the tone of books written on the Labour Party generally set a tone that is indicative of its prospects, achievements or failures in a period. Books written on the topic of Tony Blair's Labour Party tend to be jubilant and cheerfully optimistic, fuelled by three consecutive election victories and the cementing of Labour as a governing party. By contrast, books on Michael Foot, Neil Kinnock and John Smith, are often pessimistic. In other words, historians tend to illuminate Labour in a different light depending on the electoral successes or failures, and the time of authorship.. Much of the literature of the period bears titles expressing this tone, with titles such as "The End of British Labour" or "Decline of British Socialism", all pontificating that the end of left-wing socialist policy in Britain began in this debate.<sup>17</sup> Therefore, to some extent historians are guilty of misjudging Labour's outlook in the early 1980s based on what followed. There is now a need to take a more impartial view of Foot's leadership.

The second variable is the political agenda of the politicians, historians and biographers who authored the sources, some who were political rivals and sought to discredit their opponents, or persuade supporters. There are also Labour historians who felt a need to cover up its left-wing past so that it could construct a more convincing narrative today based on reaching out to the centre of British politics and 'middle England'.<sup>18</sup> Historical discourses are always intrinsically scrutinised for any sign of partiality or sympathy on part of the author, and while objectivity in matters of value and ideology is difficult, it is a necessity when considering how one can

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<sup>16</sup> Thorpe, Andrew, pp. 3-6.

<sup>17</sup> Newman, Michael. pp. 121-128.

<sup>18</sup> Thorpe, Andrew, pp. 4-5.

accurately portray a historical entity and period. For instance, Hattersley and Kaufman's critique of Michael Foot as a party leader was in context with their social democratic orientation, and as animosity and fear, they harboured against a left-dominated Labour. For this period, it is especially important since the devastating 1983 loss is often used as proving the necessity of the comprehensive organisational reforms the Labour Party undertook in the course of Kinnock's and Smith's leaderships, eventually resulting in a very different party in 1997, rebranded as New Labour by then-party leader Tony Blair.<sup>19</sup> There is nothing wrong with this assumption per se; election defeat often serve as a catalyst for change, but it is nonetheless the revisionist view of party history, presuming that the reforms were necessary and a socialist Labour was not electable in the eyes of the electorate, something that the traditional left dispute.

The third and last variable is the availability of sources, which has become significantly easier in the last few years due to the opening of the Party archives to researchers and several freedom of information acts.<sup>20</sup> It is still the case though that the resources desired are not always available. As a period in British political history, the Labour side of 1970s and 1980s history is often overshadowed by the first Thatcher premiership, which is unsurprising, given its intermediate position between a Labour premiership that marked the beginning of discontent in the party, and extensive party reforms in the long opposition period that followed. Despite this limited selection of literature, I draw on a number of different secondary sources to support and underline my arguments and interpretations in this thesis.

Since this is primarily a study of intellectual debate about economic policy in this period, the most important sources are books, political statements, articles and general election manifestos. This means that much of this thesis is devoted to the utilization and analyses of primary sources. Politicians have authored these sources in an attempt to persuade the public, but since this is an examination of the debate rather than an evaluation of policy, these representations are balanced by rival response or critiques, and the analyses in the secondary literature. Other sources are used when needed.

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<sup>19</sup> Hill, Richard, pp. 197-198.

<sup>20</sup> Thorpe, Andrew, pp. 5-6.

The sources include original publications of the Labour Party from the period, with the most essential documents being the *1983 Labour Party Manifesto* and other election manifestos, made available digitally and with the assistance of the People's History Museum in Manchester. The analysis presented by the memoirs, diaries and biographies, such as Michael Foot's own review of the election, in his "*Another Heart and Other Pulses*"<sup>21</sup>, are vital to understanding the components that contributed to party's devastating loss, and how the failure of finding a common economic platform was conducive to electoral defeat.

Together, these sources will highlight intellectual debate, and the correlation between the debate on economic policy and the party leadership; both how it influenced the public image, but also the extent of Michael Foot and Denis Healey's efforts to unify the divided party.

### 3.4 NOTES ON TERMINOLOGY

Finally, when dealing with the great multitude of political thinkers and politicians that this thesis requires, one finds an inevitable multitude of descriptive terms that are used liberally and can be difficult to distinguish from each other. The secondary literature reflects this, and Noel Thompson uses the terms left-wing revisionism and liberal socialism<sup>22</sup>, Andrew Scott Crines speaks of the inside and outside parts of the party with reference to the parliamentary Labour party<sup>23</sup>, Wickham-Jones deploys revisionist left or right wing terminology<sup>24</sup>, while others restrict themselves to speak broadly of the left and right of the party.

The only term, which seems accepted by most authors, is social democrat. Even that term, which should be readily available to use of any member of the Social Democratic Party, is difficult to use, as there were still people who identified with the social democratic tradition inside Labour.<sup>25</sup>

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<sup>21</sup> Foot, Michael, *Another Heart & Other Pulses – The Alternative to the Thatcher Society*, Collins Publishing, London, 1984.

<sup>22</sup> Thompson, Noel, pp. x-xi.

<sup>23</sup> Crines, Andrew Scott. *Michael Foot and the Labour Leadership*, Cambridge Scholars Publishing, London, 2011, pp. 4-6.

<sup>24</sup> Wickham-Jones, Mark, pp. 8-9.

<sup>25</sup> Desai, Radhika, pp. 3-4.

The authors also agree that the left wing of the party frequently identifies as socialists, although British socialism is a distinct strain from continental socialism, and they disagree whether this is a technically correct term.<sup>26</sup> There is however, few terms that can be applied to those in between socialists and social democrats in the party.

For the purpose of this thesis, distinguishing between ‘outside and inside’ as Crines does, would be inexpedient as it focuses entirely on the Parliamentary Labour Party, but the general term of Thompson, *liberal socialist*, can be used to fill the void between the two extremities. Overall, to avoid difficulty, this thesis will use the terms of left and right to signify the more general observations, and the terms of socialist and social democrat, whereas outside and inside social democrats refer to those who remained inside Labour or deflected outside to the SDP. The terms themselves are also generalisations, to be carefully used. Politicians might agree on some topics, while disagree on others while still sticking to the same tradition, or indeed be influenced heavily by external pressures such as electoral prospects to adjust and realign themselves politically.<sup>27</sup> Any assumption of unity within the groups must be with a pinch of salt, and serve as an indicator rather than a strict label. Therefore, the objectivised ‘Croslandite, Hollandite’ etc. will be deployed to denote adherence to a particular thinker’s principles.

One term which all authors do agree on, however, is the use of ‘revisionism’ to explain the continuing process of revising the socialist tradition and strategy to new challenges as they arise over time.<sup>28</sup> This also means we are dealing with a term with some degree of duality. On the one side, revisionism speaks broadly of the need for a pragmatic Labour movement that adjusts itself to the realities of the day while maintaining the traditional objectives of equality, social justice and welfare. On the other hand, the term is more narrowly, though still interchangeably, used to refer to the revision of Keynesian demand management in this period. The latter is thus a more specific and narrowly defined element of the former, and although the terms are interchangeable, the narrow meaning of revisionism is used in this thesis.

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<sup>26</sup> Newman, Michael, pp. 118-119.

<sup>27</sup> Crines, Andrew Scott, pp. 88-105.

<sup>28</sup> Wickham-Jones, Mark, pp. 14-18.

## 4 THE ECONOMIC DEBATE IN THE 1970S

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The discontent between the extremities of the party was nothing new in historical terms. Indeed, the policy debate between socialism and social democracy was part of a deeper and ongoing debate that could be traced all the way back to Gaitskell, Bevan and Attlee, so the debate itself was hardly atypical in the Labour Party history.<sup>29</sup> Despite this, the party had produced common economic platforms before every general election since its conception in 1900. To understand why this period broke that record, and failed to produce a platform, it is necessary to identify the issues that launched the debate on economic policy.

The 1960s and the 1970s saw developments that fostered a need for a reappraisal of economic strategy in the Labour Party. It seemed that Prime Minister Harold Wilson was failing to deliver on his promise of making a ‘New Britain’, forged in ‘the white heat of the [technological] revolution’<sup>30</sup>, and his government was experiencing huge economic problems. These culminated in cuts in public spending, a 60 per cent rise in unemployment, increasing national indebtedness, and inflation rising from 3.3 per cent in 1964 to an annual rate of 6.4 per cent by the time Wilson left office in 1970.<sup>31</sup> These economic difficulties resulted in ‘stagflation’, which is when both unemployment and inflation rose simultaneously. This meant that Keynesian demand management had failed to secure the trade-off between inflation and unemployment that economists had previously expected.<sup>32</sup> By increasing government spending, and causing more inflation, one could also increase employment. This approach was adopted by both Labour and the Conservative Party after WWII and remained a cornerstone of the ‘post-war settlement’ until the 1970s. A policy of full employment was the main political and economic objective, and inflation was the price necessary to pay for it. But inflation decreases Britain’s ability to compete in international markets. Higher prices and rising labour costs made sterling more expensive as a

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<sup>29</sup> Desai, Radhika, pp. 5-10.

<sup>30</sup> Thompson, Noel, pp. 197.

<sup>31</sup> Crewe, Ivor & King, Anthony, pp. 4.

<sup>32</sup> Shaw, Eric, pp. 2-3.

currency for trade. Since much of the British economy relied on trade in international markets, deflationary response to the sterling to improve Britain's competitiveness quickly became unavoidable. In 1967, Wilson had went on television to inform the British people that he had devalued the pound sterling. He assured them that 'This does not mean that the pound here in Britain – in your pocket or purse – is worth any less ...', but the public perceived it otherwise, and it became a devastating legacy for Wilson and the Labour Party, and caused Labour's ability to manage the economy to be questioned.<sup>33</sup> If Keynesian demand management could no longer sustain Labour's welfare state, then what could?

This chapter will examine the intellectual debate around the revision of economic policy, and identify the main solutions and ideas that influenced the left and right of the party in the 1970s. These ideas provide an understanding for why the left and right were unable to agree on a common economic platform, and how the party became dominated by the left in the early 1980s.

Economists, some of whom are easily identified, such as Roy Jenkins, Anthony Crosland and Stuart Holland, who all feature prominently in the literature, made most of the economic contributions, while others are less known. The economists selected for study are chosen based on cross-referencing of the secondary literature in order to identify the most important of these, which is also the method used to explore the main components of their ideas. The results include the five most important schools of thought, and the monetarist alternative.

#### **4.1 LEFT-WING REVISIONISM**

Having become disenchanted with Wilson, a group of left-wing economists joined together to create the Conference of Economic Socialists in 1970.<sup>34</sup> There were primarily two economic theories on the left of the party that came out of the CES, produced by the academic authors Stuart Holland, and Michael Barrat Brown. Each proposed explanations for why Keynesian demand management had failed, ideas on how to revise the Keynesian economic strategy, and how to counter economic decline.

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<sup>33</sup> Thorpe, Andrew, pp. 167-168.

<sup>34</sup> Wickham-Jones, Mark, pp. 126-130.



The first theory was offered by Holland, who argued that the government had pursued a fusion of Keynesian social democracy and unsound indicative planning, which meant that it had failed to grasp the point that economics and capitalism had fundamentally changed in the period since the war. Ever since the Second World War, Holland argued, there had been a concentration of ownership over the means of production, which had resulted in monopolies and oligopolies.<sup>35</sup> The top 100 firms in the UK now commanded half or even more of the key macroeconomic aggregates of the economy, including output, industrial manufacturing, employment, assets and trade.

This was particularly troubling when once considered the emergence of the multinational corporation, with an international division of labour with national subsidiaries. This organisation gave them the opportunity to base themselves in the most economically feasible country. Further, they could make, well within the law, intra-company payments that would minimise declared profits and maximise undeclared global profits. When coupled with 'transfer pricing', where one subsidiary traded with another at a fixed price, and while the transfer may be uneconomical or appearing to be at a considerable loss, the international company would profit, they possessed a very credible and real ability to impact the economy.<sup>36</sup> The government, in their pursuit of redistributive fiscal and social welfare policies, would be missing out on substantial tax revenues, and could be actively obstructed from aggregating the economy.

By artificially inflating or deflating export and import prices, and thence trade performance and exchange rate policy, they could also exert pressure on the exchange rates upwards or downwards. In fact, they had done this in 1967, Holland points out, when the companies delayed their declaration of profits in expectation of devaluation of pound sterling, which actively exerted influence on the exchange rate, forcing the government to act, and thus asserting over the decision-makers in the Exchequer.<sup>37</sup> Moreover, by not reducing the prices in accordance with the extent of the currency devaluation, they could bolster profits and avoid any potential price competition, at the cost of reducing the impact any government exchange rate policies intended.

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<sup>35</sup> Thompson, Noel, pp. 198.

<sup>36</sup> Thompson, Noel, pp. 200.

<sup>37</sup> Thompson, Noel, pp. 200-201.

In addition, any threats to relocate, which would lead to substantial regional and national increases in unemployment and a drop in production, could be used as a tool to coercing the authorities into making concessions on planning and policies that benefitted the companies.<sup>38</sup> Sometimes even blindly giving them the ability to predict and prevent growth of emerging indigenous companies and influence prices upward. When undermined in this way, the entire foundation for a Keynesian social democratic economy disintegrates, as it assumes that one can regulate the activity in an economy, and by extension national employment, by adjusting and managing fiscal, monetary and exchange policies.

Why would they do this? Holland proposed self-interest as the evident explanation, but stressed that the companies were not by themselves negative or egotistic, but simply reflected the failures of national policy to regulate the economy and stimulate for a socially conscious environment for enterprise.<sup>39</sup> This explanation returned to the core of the issue; the government simply did not possess the institutions and mechanisms to counteract the new economic powers that emerged, and would increasingly be at the mercy of the multinationals. Previous nationalisations of corporations had been as a response to failing firms in essential areas or sectors, or in sectors where private investment was discouraged by high risk, such as technology development and basic industries and services.<sup>40</sup> This had inevitably created an association with inefficiency in the public eye, and a resentment against rationalisation.

Furthermore, politicians, whose parliamentary tenure never exceeded five years, formed national economic policy, whereas corporations often planned for longer terms, and consequently would make their investments and programmes independently from national policy and thus had developed a resistance or very high tolerance against any aggregate demand.<sup>41</sup>

In other words, following the Second World War, the world had seen a globalization of the markets, and a shift from national to a dominantly international economy, which emasculated any government's attempts to conduct policies in pursuit of socio-economic goals. This new

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<sup>38</sup> Wickham-Jones, Mark, pp. 55-58.

<sup>39</sup> Thompson, Noel, pp. 201-202.

<sup>40</sup> Hill, Richard, pp. 25-26.

<sup>41</sup> Thompson, Noel, pp. 200.

status quo, being neither macro nor microeconomics and labelled 'mesoeconomics', signifies the power of economic aggregates was shifted from traditional macroeconomic institutions to sector-leading multinational corporations.<sup>42</sup>

The solution, Holland argued, was to abandon the gradual aspect of Keynes' social democratic system, and pursue combative economic policies to regain economic power from the multinational corporations, by hitting them hard and fast.<sup>43</sup> This included the selective nationalisation of 20-25 of the leading British companies, who operated in sectors of high growth, in the course of no more than one parliamentary term. In order to achieve the means to implement such a programme of expansion, the state should create a State Holding Company, the National Enterprise Board, which could purchase shares on behalf of the government and assert direct control of decision-making in the companies. The NEB would be responsible for the stimulation of investment and innovation, maximising promotion of exports and domestic import substitution, and most importantly, it would transform the public attitudes towards nationalisation previously created by earlier first generational nationalisation programmes. The public resentment for rationalization had to be overturned by acquiring innovative high-growth companies that could prove to the public that the state was capable of being in business and that its heavy presence benefited society as a whole.<sup>44</sup>

The state could not hope to administer this remedy without the support of the workers, and Holland proposed a series of planning agreements between the state, the unions and the corporations.<sup>45</sup> These agreements would establish a tripartite collaboration that could counteract any concentration of power in the hands of the executives, and decrease centralised planning in benefit of more collaborative and regional negotiations. In return for this increase in industrial democracy, the unions would accept a social contract with the government where they pledged to support the economic policies of the government, and the government committed to policies of

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<sup>42</sup> Thompson, Noel, pp. 200.

<sup>43</sup> Hill, Richard, pp. 25-27.

<sup>44</sup> Wickham-Jones, Mark, pp. 61-64.

<sup>45</sup> Thompson, Noel, pp. 203.

redistribution of wealth, increasing spending on social welfare and the pursuit of alternatives to major redundancy when required.

Expanded public ownership, increased industrial democracy and a shift to purposive economic planning was the only viable solution that could accommodate a non-inflationary, fully employed Keynesian economic strategy.<sup>46</sup>

The second prominent economist from the left was Michael Barratt Brown, who published his economic treatise in *From Labourism to Socialism* in 1972.<sup>47</sup> Much like Holland, he proposed that multinational corporations were responsible for the shift in economic power that had led to the economic troubles of the 1970s, and that the solution to this problem was a left-wing economic strategy.

However, Barratt Brown rejected the corporations as the cause of this trouble. Rather, the state is the culprit who have failed miserably in its management of the economy.<sup>48</sup> The state had actively contributed to the shift in power, and emasculated itself by pursuing a policy where firms assumed control of diminishing resources, input and markets that in the short-term brought economic prosperity to the state, but in the long term contributed to emaciation of resources and a loss of potential tax revenue and production. The state furthermore provided support for company mergers and hostile takeovers that diminished market competition through the IRC. The state had also focused their higher education expenditure in a manner that promoted exclusive research that would only benefit a small number of companies, which consequently became and remained leading in their sector of the economy. It did not reflect the accelerating rate of technological innovation that was salient in the global economy, and thus weakened the British industries in their competition with the multinational companies, who could draw on a diversely educated labour force and cutting-edge innovation in their subsidiaries. All of these factors played a part in the erosion of macroeconomic power, and the emergence of

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<sup>46</sup> Wickham-Jones, Mark, pp. 79-83.

<sup>47</sup> Thompson, Noel, pp. 204.

<sup>48</sup> Thompson, Noel, pp. 205.

mesoeconomics in the hands of *transnational* companies (echoing Holland's '*multinational corporations*').<sup>49</sup>

Not only did size contribute to their economic power, but also the transnational nature of these companies made them resilient and evasive of economic policy. A company with subsidiaries across the globe would be far less responsive to any domestic economic policy. Diversification and trade within the transnationals allowed the companies to function as closed and isolated markets. Inside the company machinery, they could trade between subsidiaries at fixed prices in the system Holland presented as 'transfer pricing', and arrange for the transmission of funds and management to the countries whose economic policy would prove most profitable to the company, or even illegally to conceal profits from tax declarations.<sup>50</sup> In addition, in the context of increasing international tensions, increasing defence spending made the government interdependent on the companies producing the material for the military, which was damaging to state autonomy.

The solution, Barrat Brown argued, was still very Keynesian. Demolition of the market power of these companies was necessary, or at the very least to decrease the power, all the while with the intermediate goal of maintaining full employment.<sup>51</sup> If accomplished, inflation would be unproblematic, and the trade-off with employment resumed. After all, full employment would mean increased output, income and expenditure, and a system of price controls would ensure manageable inflation. As to any repercussions the pursuit of full employment might have for the balance of payments and exchange rates, these could be controlled with strict import and exchange controls, and international trade agreements, although not in the form of the EEC's free trade agreements.

The welfare state should not only maintain its present status quo and committing to increasing social welfare expenditure, but rather seek to include the provision of more social goods, and prove its major interventionist capacity for the welfare of the people. Again, there was the need

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<sup>49</sup> Wickham-Jones, Mark, pp. 57.

<sup>50</sup> Thompson, Noel, pp. 206.

<sup>51</sup> Thompson, Noel, pp. 207.

for trade union support, but in terms of industrial democracy, Barratt Brown did not seek the tripartite collaboration of Holland. During the 1970s, there had been ample evidence of the workers' ability to govern themselves through sit-ins and industrial action as well as their ability to participate in rational arguments regarding the efficiency and productivity of industry.<sup>52</sup> The industrial democracy could thus safely be strengthened with a system of checks and vetoes against company management on topics of economy, pay, employment, firing and redundancy.

Barrat Brown's idea of a self-governing industry was an idea with great appeal to many in the Labour party and the trade union movement. In the last decades, there had been significant rises in trade union organisations, and the emergence of transnational corporations meant that never before had there been such a great distance between the central executives and the workers on the floor.<sup>53</sup> This led to increasing resentment amongst the workers, who found themselves frequently subjected to managerial decrees that ran contrary to their own perceptions of efficiency and productivity.

The Institute for Worker's Control was established in 1972 at the Party Conference, to provide the framework and assistance to those seeking trade union organisation, and service those unions already established.<sup>54</sup> The IWC came an important voice in the Labour Party for strengthening industrial democracy in Britain, and upholding the social contract between Labour and the unions. It came to represent a moderate Brownite view of self-governing industry, and presented several papers on industrial democracy in the 1970s. These would call for greater transparency in boardrooms and management decisions, where workers were represented with significant powers of veto over the appointments of those managers and was allotted significant promises in party papers in the 1970s:

'Our aim is to make industry democratic - to develop joint control and action by management and workers across the whole range of industry, commerce and the public

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<sup>52</sup> Hill, Richard, pp. 68-70.

<sup>53</sup> Thompson, Noel, pp. 207-208.

<sup>54</sup> Thompson, Noel, pp. 209-211.

services. [...] This objective involves strong trade union organisation and widening the scope of collective bargaining.’<sup>55</sup>

Although frequently playing with the idea of self-governing industries, and questioning the executives’ *raison d’être*, the organisation never managed to gain the complete socialist ownership over the means and management of production.

## 4.2 LIBERAL SOCIALISM REVISED

On the other hand, the 1970s provided the liberal socialists with a headache. The Wilson governments had tried to manage the economy in troubling times, using a combination of indicative planning and Keynesian demand management, but unemployment remained high, industrial unrest plagued the country, and Britain seemed to be caught in an endless cycle of balance of payment crises.<sup>56</sup>

The left presented a clear explanation of why Keynesianism had failed to produce the fertile soil in which social democracy could flourish. More importantly, the left produced a clear alternative that suggested remedies for these shortcomings and significant benefits for the people if mainstream Labour subscribed to them.

This might explain why the left dominated economic debate inside the Labour Party in this period. The liberal socialist wing of the party might have suffered from a lack of credibility based on their records in government under Wilson and Callaghan, but they certainly did not lack the intellectual capacity to revise Keynesianism so that it could be a vessel for social democracy in Britain. There were three names from the liberal socialists prominent in the debate: Roy Jenkins, James Meade and Anthony Crosland.<sup>57</sup>

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<sup>55</sup> ‘Programme for Britain’ (1973). The People’s History Museum, Manchester.

<sup>56</sup> Shaw, Eric, pp. 5-7.

<sup>57</sup> Thompson, Noel, pp. 215.

These contributors were unwilling to accept the interpretation of the left wing, rejecting them as a form of “refurbished Marxism”.<sup>58</sup> After all, the Wilson government had achieved considerable progress in other fields of the economy, and so the economic strategy required only the revision of those aspects where it had failed, such as damping inflationary pressures. Inflation was the great danger, which had several major implications for economic policy. If the government did not tackle inflation, long-term unemployment and sustainable economic growth would be impossible.

Roy Jenkins had served briefly as Chancellor in the late 1960s under Wilson, and been active in the economic debate in the party for many years. Therefore, he had personal interest in revising the Keynesian policies he had implemented as Chancellor. He called for a revision of the purpose of economic policy.<sup>59</sup> What was the central goal for the economic strategy? Was it the indicative attempts to fend off the repeating troubles with balance of payments? The government had failed in their strategy because short terms goals, such as overcoming the balance of payments deficits has taken precedence over the long term objectives that the government should pursue. Why? The balance of payments deficits has immediate and severe implications for much of the electorate, and stabilizing these were necessary to resume an environment for sustained economic growth.<sup>60</sup>

The government had to be clear in their priorities, Jenkins argued, and provide an economic strategy that held social justice as the central theme, and be committed long term to that objective.<sup>61</sup> A long-term commitment to social justice would strengthen the social contract with the trade unions. It was the workers, who suffered the most under the inflationary policies, and increasing inflation gave the unions a feeling of wage-erosion. The commitment to social justice would thus by necessity include a prices and incomes policy, to ensure proper redistribution of wealth and social welfare. If apposite incomes policies were implemented, including the

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<sup>58</sup> Desai, Radhika, pp. 138-140.

<sup>59</sup> Crewe, Ivor & King, Anthony, pp. 52-60.

<sup>60</sup> Crewe, Ivor & King, Anthony, pp. 279-281.

<sup>61</sup> Thompson, Noel, pp. 220.



introduction of a national minimal wage, prices would be stabilised, but the government should be prepared to intervene in the economy if necessary to secure key prices that affect the real income of wage earners.

It was also necessary to make a substantial extension of public ownership to obtain the necessary mechanism to implement these policies, and Jenkins presented his argument in *What Matters Now* in 1972:

‘[The] Government, acting through the public sector, can adopt a broader perspective than that of any board of directors nominally responsible to its shareholders. It can view an investment in a much longer time scale. It can estimate the benefit of an industrial development in the community as a whole, in terms of new jobs and better use of social capital. It can assess the profitability of any single project in the context to other linked developments. Often the scale of the development required to provide the base for a new industrial complex is too great for any individual firm to take the risk. Perhaps, most important of all, the Government alone can estimate the costs of inaction as well as action. The problems of the regions will not be cured without more direct Government involvement and a greater use of public enterprise.’<sup>62</sup>

To make this a reality, Jenkins supported the notion of a State Holding Company that could administer this expansion, and fuel itself by the profits it made, very similar to the proposal of Stuart Holland. However, there were significant differences in how expansive this company should be, and Jenkins argued that it was a tool to strengthen regional economies and the performance of a largely Keynesian economy, whereas Holland viewed it as a monumental shift in power and the return of control over the means of production to the workers.<sup>63</sup>

James Meade, on the other hand, was sceptical. As a distinguished political economist who would go on to win the Nobel Prize for Economics in 1977, he believed it would be difficult, if not impossible, to regulate an entire economy through price policies.<sup>64</sup> The economy was far too

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<sup>62</sup> Thompson, Noel, pp. 221.

<sup>63</sup> Thompson, Noel, pp. 218-219.

<sup>64</sup> Hill, Richard, pp. 52-53.

complex, and although a Stabilizing Committee could make some progress, it was unlikely to solve the problem without a massive centralisation and extension of public ownership.

Meade's proposal shares one important similarity with the left-wing economists Holland and Barrat Brown. The emergence of large multinational corporations that dominated the economy was responsible for the failure of economic strategy. However, this was not due to their emasculating influence of government economic aggregates, but rather their influence on inflation. Monopolies circumvented the price levels of a competitive market, and thus had inflationary implications on the economy. Meade then proposed that economic policy should encourage the dispersal of monopolies into small-scale enterprise, which could operate in a competitive and fair environment.<sup>65</sup> This meant replacing the corporate tax with a tax on number of employees, the creation of special sources of finance for small-scale businesses and anti-monopoly legislation. This strategy would include not only restrictions on the size and power of companies, but also completely free imports of products from foreign companies, a substantial tax on advertisement, and the prohibition of restrictive practises such as transfer pricing or price agreements.<sup>66</sup>

Overall, the solution was to use price competition as the immediate antidote against inflation. The bureaucrat would not be capable of regulating price policies, so the market would constrain price level rises by competition. This did not exclude direct intervention into the economy, Meade assured, and when required, it is the duty of the state to contemplate the establishment of social ownership with determined prices.

Meade also rejected any incomes policy, as this would be unnecessary with full competition, and any attempts to create such a short-term policy would eventually infringe on notions of fairness in the economy, and erode away. Should it be voluntary, on the other hand, the TUC and the CBI would dominate it; monopolies that worked counter to the remedy Meade prescribed.<sup>67</sup>

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<sup>65</sup> Thompson, Noel, pp. 219.

<sup>66</sup> Thompson, Noel, pp. 220.

<sup>67</sup> Thompson, Noel, pp. 219.

The suggestion then, was a set of wage increase norms, which could be calculated by the Stabilizing Committee and serve as an indication of what was reasonable to negotiate in the current economy. In order for this to work, the corporations needed increased transparency and information on profitability, production, demand and supply of labour made available to the workers.<sup>68</sup> It also would require means to penalise the trade unions who went out of line with their demands. This, Meade, argued, would restore control over the labour monopolies and begin the transition towards an economy where small was beautiful.

The third contributor on the right wing of the party, Anthony Crosland, disagreed with Meade, and supported the implementation, although difficult as it might be, of a prices and incomes policy.

‘I have no doubts in my mind that we must have a prices and incomes policy. We must have it because the only alternative will be squeeze and deflation ..., and unemployment. I personally ... believe that a prices and incomes policy is also necessary for reasons of social justice, and reasons of social equality.’<sup>69</sup>

Crosland too accepted the argument made by Jenkins over an expansion of public ownership through the State Holding Company, although he maintained a more critical view of the premise of this company. After all, Crosland argued, the concentration of power that Holland and Barrat Brown suggested, concurred with a significant increase in public spending through the 1960s and 1970s, and the government regulated the economy extensively through legislation and trade unions were undoubtedly strengthened.<sup>70</sup> This did not equate to any significant shift in economic power to the private companies. Nor did studies suggest the multinationals were unfaithful in relation to their host country, and the evidence was an increase in real wages in 2 per cent through inward investment, and transfer pricing controllable through legislation.<sup>71</sup> The State Holding Company would thus not actively combat the multinational corporations, as laying down the foundations for a more stable and fair economy. Backed up by a State Investment Bank

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<sup>68</sup> Wickham-Jones, Mark, pp. 17-19.

<sup>69</sup> Thompson, Noel, pp. 217.

<sup>70</sup> Thompson, Noel, pp. 223.

<sup>71</sup> Thompson, Noel, pp. 223.

to fund, advise and insure the SHC, it would produce leading companies that consolidated the public enterprise.

Jenkins and Crosland agreed that the progress of socialism was dependant on a revised Keynesian strategy that included the expansion of public ownership and a restructuring of the industrial base, which would reinvigorate the supply side of the economy so that Keynesian aggregate demand again could reverse the economic decline. Together with Meade, the three also shared a commitment to redistribution of wealth through taxation, but although they contributed significantly to the right's revisionism, they were overlooked in party papers by the more prominent and left-leaning Stuart Holland. Despite this, their ideas influenced the right greatly, and the social democrats in the party were committed to Croslandite ideas, and those who departed from the party in 1981 to the Jenkinsite economics.<sup>72</sup>

#### **4.3 LABOUR IN THE 70S: THE ALTERNATIVE ECONOMIC STRATEGY**

It was in this context of widely differing solutions and analyses that Labour sought to formulate an economic strategy. This strategy, known as the Alternative Economic Strategy (AES), became a staple for the Labour left, and influenced party papers for more than a decade. In the formulation of this strategy, the economic school of Stuart Holland dominated, and was able to do so out of several reasons.<sup>73</sup> The left was slowly beginning to strengthen its position in the party after repeated economic turmoil for the Wilson government. Furthermore, Roy Jenkins, who had been pivotal to the social liberal wing of the party on economic policy, made the decision to resign from his post as Deputy Party Leader, over deep dissatisfaction on European policy. This was a devastating blow to the social liberals, because Roy Jenkins had also been Chairman of the Finance and Economic Committee, and could greatly influence the economic policies of the party up until his resignation.<sup>74</sup>

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<sup>72</sup> Crewe, Ivor & King, Anthony, pp. 64-65.

<sup>73</sup> Wickham-Jones, Mark, pp. 85-90.

<sup>74</sup> Crewe, Ivor & King, Anthony, pp. 9-10.

The result was a handbook in left-wing economics, echoing Holland and Barrat Brown heavily. Labour would seek to make a long-term capital investment in a greatly expanded public sector, which included the nationalisation of the 25 leading companies.<sup>75</sup> They would also nationalise developing land, mineral deposits, oil deposits in the North Sea and shipping, including the manufacturing of ships. To do this, they would establish a State Holding Company, the National Enterprise Board. The National Enterprise Board under parliamentary control would operate to provide the economic aggregates the government had lost, and supply job creation, investment promotion, technological development, export growth and promoting policies, including industrial democracy and import substitution.<sup>76</sup>

They would also make planning agreements with the leading 100 companies in the British economy.<sup>77</sup> Selective financial aid would be provided to companies who embraced the government's social policy, whereas those companies who resisted would be coerced to comply through sanctions. The unions gained reserve powers over some decisions in the companies, and an official Trustee would represent the state in the tripartite negotiations. All of these measures aimed to tackle the fundamental problem of multinational corporations' control of the economy.

It was then hardly surprising that the Crosland and Jenkins were highly critical of this strategy, and Shirley Williams and Edmund Bell made public criticisms of the left. They all hailed from the social liberal wing of the party, and were adamant in their claims that the Alternative Economic Strategy was misguided in its premise. The left had made a fallacious equation between nationalisation and socialist progress, argued the critics and in addition, it would have severe ramifications for the economy and the confidence in British companies if the government could pursue these expansive economic policies.<sup>78</sup> Britain would not appear a feasible market to companies seeking new ground, if the international companies got the impression that the British government were eager to intervene in the economy. Furthermore, an expansion of state control, would result in an expansion of bureaucracy which when combined would harm British

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<sup>75</sup> 'Labour's Programme 1973': People's History Museum, Manchester.

<sup>76</sup> Thompson, Noel, pp. 230.

<sup>77</sup> 'Labour's Programme 1973': People's History Museum, Manchester.

<sup>78</sup> Thompson, Noel, pp. 231-232.

competitiveness. Finally, the remedy suggested was the same remedy that had failed earlier; the large nationalized industries faced public difficulties when forced to rationalize, they were unresponsive to policy due to their existence in a market environment and would be difficult to manage. It seemed evident that the giant national conglomerates would act independently of ministerial control, which meant that the state no levers of power. The economist Wilfrid Beckerman also began to challenge the notion of the power of the multinational corporation.<sup>79</sup> It was, Beckerman observed, also subject to the strict competition, and thence regulated by market limitations.

Despite this critique from the right of the party, the AES was central to party documents of the 1970s, and the 1973 Programme carried much of the left's revised strategy.<sup>80</sup> It promised a new social contract with the unions, where the government committed itself to pursuing an accelerated rate of ecological growth, extensive economic planning, rising social welfare expenditure, redistributive fiscal policies, tight control on the costs of living. They would negotiate an agreement that provided stable prices and orderly growth of incomes. In terms of industrial democracy, it offered the trade unions extensive power, by promising the provision of direct representations on the boards, Supervisory Boards to supervise management as well as joint control committees.<sup>81</sup>

The staunch criticisms that the left had attracted from the right did result in some modifications, though. The 25 companies for nationalisation, and what coercive powers the state was to have against non-compliance with policy was noticeably undefined in the 1974 Programme 'Let's work together', despite the overall extension of public ownership in oil, gas, developing land, shipping and aeroplane construction.<sup>82</sup>

The major difference, however, came when Labour won the election in 1974. Edward Heath's Conservative government had suffered massive industrial unrest and by necessity implemented a three-day week, which was hugely unpopular with the electorate. Shortly after the election, the

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<sup>79</sup> Thompson, Noel, pp. 232.

<sup>80</sup> 'Labour's Programme 1973': People's History Museum, Manchester.

<sup>81</sup> 'Labour's Programme 1973': People's History Museum, Manchester.

<sup>82</sup> Desai, Radhika, pp. 140-141.

Confederation of British Industry voiced their concern in 1974 about a loss in industrial confidence if the plans for the National Enterprise Board were implemented, and when the Treasury concluded that an expansion of public ownership could have inflationary effects on the economy, the AES began to disintegrate in government policy.<sup>83</sup> The Treasury also maintained that planning agreements with the industry would be impossible to enforce by law, and the disclosure of information would be unnecessary. The 'Official Trustee' disappeared, and the interventionist powers of the NEB left curbed and greatly reduced. In the end, Wilson and his Chancellor Denis Healey had emasculated the AES and abandoned the interventionist approach by listening to the concerns of the CBI and the Treasury over the Party Conference, giving the right wing the victory in implantation of policy.<sup>84</sup>

Naturally, the left was furious at this U-turn and disregard of the Labour Party Conference on economic policy. Shortly after the election, Wilson unexpectedly announced his retirement, and left the party in the hands of his Foreign Secretary James Callaghan. The right wing Callaghan won the leadership election narrowly over left wing Michael Foot, having greater credibility in economic policy, and began the fight against inflation. This contradicted the AES which the Party Conference had agreed on, but solved little in terms of inflation. In 1977, the Labour government found themselves in the most difficult situation yet. Chancellor Denis Healy had not accounted for such an increase, and the budget faced a catastrophic £ 3.5 billion deficit, which had to be provided by a loan from the International Monetary Fund, complete with major reductions in public spending.<sup>85</sup> This meant tackling the trade unions on pay increases to curb further inflation, and became instantly unpopular. The Labour government quickly became plagued with the same industrial unrest that brought down Edward Heath. The demonstration-plagued winter of 1978 became known as the Shakespearian 'Winter of Discontent', and the general election defeat in 1979 was inevitable.<sup>86</sup>

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<sup>83</sup> Thompson, Noel, pp. 233.

<sup>84</sup> Thompson, Noel, pp. 235.

<sup>85</sup> Healey, Denis, *Time of My Life*, Politico's Publishing, London, 2006, pp. 399-403.

<sup>86</sup> Thorpe, Andrew pp. 205-207.

The leftist ascendancy reached its zenith when Labour went into opposition. Once again, the Labour government had failed to fulfil the promises it had made, and this time gone blatantly against the expressed wishes of the Conference. The left of the party had stood by and seen how their economic strategy was dismantled and abandoned, and the outcome had once again been a period of economic unrest and stagflation. It thus presented a double accusation against the leadership of the party, where the Parliamentary Labour Party had become a tool of the party leadership, rather than the party organisation, and that they no longer recognized their subordinate position to the supreme Party Conference.<sup>87</sup>

The left made three specific proposals to the Labour Conference in 1981 to remedy this, and strengthen the National Executive Committee, the party's highest instance on policy between the annual Party Conferences, where the left had a majority of the members.<sup>88</sup> The NEC would be responsible of the final draft of the election manifestos, the MPs would be subject to annual reselections by their constituencies, and in addition, a newly established electoral college, in which representatives of the constituencies, unions and the PLP, would elect the party leadership.

James Callaghan realised that if the vote passed, and an electoral college came to existence, it was likely that a representative of the left wing, such as Tony Benn, would ascend to the leadership.<sup>89</sup> In a move to ensure continuing left-of-centre dominance of the party, he promptly announced his intention to resign, and that the party would elect a new leader before the Electoral College became the reality. This was a move widely agreed to have paved the way for Denis Healey, the former Chancellor, Home Secretary and prominent social democrat.

The reality became quite different. The left had backed Tony Benn as their candidate, but foreseeing the difficulties of uniting a party with such a hard-liner and adversarial leader, they sought to find a candidate with a greater appeal across party divisions. In the end, they managed to persuade Michael Foot to accept the candidacy, and in one of the closest leadership elections

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<sup>87</sup> Foot, Michael, 'My Kind of Party'. *The Observer*, Jan. 17<sup>th</sup>, pg. 13.

<sup>88</sup> Foot, Michael, 'My Kind of Party', pp. 13.

<sup>89</sup> Healey, Denis, pp. 477-478.



in Labour history, won the contest against Healey, who became Deputy Leader. The election was so close that only the swing of six votes in Healey's favour would have made him the winner.<sup>90</sup>

#### 4.3.1 The New Way: Monetarism

There were also those who saw Keynesian revision as insufficient, and rejected the long tradition of Keynesian economics in Britain. In 1975, the Conservative Party had elected Margaret Thatcher as their party leader, who had run on a platform of radical economic reform, and she would spend the next years consolidating the new economic position in her party. The response to Keynes on the other side of the political spectrum was in sharp contrast with the solutions in the Labour Party, and influenced by a new school of thought, spearheaded by American economist Milton Friedman and his 'Chicago School'.<sup>91</sup>

This new economic thinking, named '*monetarism*', was severely critical of the Keynesian trade-off between inflation and employment, and raised questions as to whether or not extensive government spending equated to net permanent employment.<sup>92</sup> In the short term, there would definitely be favourable outcomes and temporary relief for the unemployed, but in the long term, the ensuing inflation would cause a rise in price levels that would eventually surpass salaries. Moreover, the rampant inflation would harm the competitiveness of British companies.

Friedman then proposed the existence of a 'natural rate of unemployment' in the economy, which meant that the economy would have a level of unemployment parallel to the level of inefficiency in the economy.<sup>93</sup> When the government attempted to increase employment beyond the natural rate, by inflationary action, i.e. increased government spending, they would effectively create stagflation. Such a monetary expansion would lead to a rise in the rate of inflation, and the subsequent erosion of international corporate competitiveness would end in

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<sup>90</sup> Crines, Andrew Scott. pp. 113-131.

<sup>91</sup> Thompson, Noel, pp. 235.

<sup>92</sup> Thompson, Noel, pp. 235.

<sup>93</sup> Thompson, Noel, pp. 236.

recurring balance of payment crisis. Keynesian policies would in effect create the very obstacle it sought to overcome.

What then caused the economic inefficiency in the first place? The antagonist, argued Friedman, where the powers that prevented full competitiveness in the economy, who pushed production costs up and interfered with the corporation's management. In other words; the trade unions.<sup>94</sup>

In the Labour party, this was certainly not the preferred school of thought, because it was counter to what many Labour politicians held as the traditional objectives of the Labour movement; full employment, social security and industrial democracy.<sup>95</sup> Even so, the failures of Keynesian economics had shaken British politics to the core, and it was difficult to reject the monetarist approach to inflation completely, even though the remedy prescribed was hard to swallow. After all, the liberal social Jenkins, Meade and Crosland had all argued for targeting inflation as obstacle to growth, while Holland on the left wing of the party voiced similar concerns. Furthermore, the sterling crisis of 1976 drove James Callaghan and the Labour government into the hands of IMF in order to find economic confidence. Thompson suggest that they were 'tainted, if not seduced' by a monetarist approach.<sup>96</sup>

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<sup>94</sup> Thompson, Noel, pp. 239-240.

<sup>95</sup> Newman, Michael, pp. 124-127.

<sup>96</sup> Thompson, Noel, pp. 239-240.

## 5 THE ECONOMIC POLICY OF THE 1980s

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The Labour Party thus went into the 1980s in a new political environment, where the party was no longer burdened with the realities of office, and still trying to come to terms with their defeat following failed economic policies.

In this chapter, the debate is carried into the 1980s and Michael Foot's tenure and Labour Party Leader. It investigates the political debate on economic policy in the context of opposition and increasing left-wing dominance, and how the social democrats responded to losing their hold on the party, and how the party leadership attempted to negotiate peace.

The people identified in this chapter have been selected for study on two criteria. Firstly, based on their positions within Labour Party and the Social Democratic Party, where the natural focal point is leadership or influence. Secondly, based on their contributions to the debate on economic policy and whether they produced a political work that included a discussion on economic policy or industrial democracy. Special focus was naturally paid to any discussion on party unity or division. For this reason, Roy Jenkins and Bill Rodgers were not utilized to their full potential, as Jenkins did not participate in the debate in Britain during his Presidency of the European Commission, and Bill Rodgers did not produce a political book similar to Shirley Williams and David Owen. Furthermore, Michael Foot, Tony Benn and Denis Healey have been selected for their prominence as leaders, although in the latter case, leadership outweighed the second criteria, and memoirs have been considered sufficient.

### 5.1 THE SOCIALIST ALTERNATIVE

The figurehead of Labour's socialist hard left was Tony Benn, who rose to prominence in the 1960s when leading the fight for peers to renounce their titles so that they would be eligible to sit in the House of Commons.<sup>97</sup> Much more than his social democratic colleagues in the party and parliament, Benn welcomed the economic turmoil as an invitation to a broader debate on policy.

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<sup>97</sup> Benn, Tony, *Arguments for Socialism*, Penguin Books, Middlesex, 1979, pp. 13-16.

By failing to provide the capital investment and equipment for the highly skilled, Benn argued, Britain was engaging in a process of unwanted deindustrialisation, caused by conflicting interests and a lack of political vision.<sup>98</sup> Since a deindustrialised economy would lose the economic strength to maintain and support a comprehensive social security network, the welfare state would be effectively dismantled. The IMF loan and consequential cuts in public expenditure proved that the right wing were incapable of managing the economy, and arrest the industrial decline that would eventually erode the foundation for socialism in Britain.

In his book, *Arguments for Socialism* (1979), Benn outlined his solution to Britain's economic decline and argued the case for a more radical and interventionist state. With views very much akin to that of Holland and Barrat Brown, Benn assumed the unofficial leadership of the hard left, and became the political proponent for a far-left economic strategy, that he believed should seek to overthrow the power of capital.

“The debate about democratic socialism which is now in progress in Britain is also taking place all over the world and its appeal is so great that it will prevail over both capitalism and communism.”<sup>99</sup>

The crisis was deindustrialisation and by extension of unemployment. Unemployment not only left people outside of the labour market and caused frictions between employed and unemployed over social security, but also diverted funds away from satisfying social needs. Furthermore, although women were far more integrated into the labour market than ever before, they still held positions that were extremely vulnerable to sudden economic downturns. Abandoning an economic strategy for full employment, as Wilson and Callaghan had done, had both monetary and social consequences that were insufferable for the economy in the long term. The result was such inexplicable contradictions as overcrowded classrooms and unemployed teachers.<sup>100</sup> (141)

Benn argued that the monetarist alternative was rooted in the doctrines of Adam Smith and laissez-faire economics, and that it was flawed because it relied on competition to achieve its

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<sup>98</sup> Benn, Tony, *Arguments for Socialism*, pp. 139.

<sup>99</sup> Benn, Tony, *Arguments for Socialism*, pp. 141.

<sup>100</sup> Benn, Tony, *Arguments for Socialism*, pp. 141.

goals of efficiency, productivity and profitability. As is always the case with competition, Benn argued, there is winners and losers.<sup>101</sup> Benn suggested that the victors were the monopolies who assumed economic powers so great that they could threaten national sovereignty, which was a very similar argument to that made by Holland a decade earlier. Benn also thought that capitalism was a threat to democracy, and that equally democracy was a threat to capitalism. Unemployment, welfare reduction and the prospect of increased economic and social inequality was the antithesis of the Labour movement, so the Labour Party held a particular responsibility for providing the strategy to counter these developments, and democratic socialism was the most viable solution to the crisis of unemployment.

In order to counter the deindustrialisation, it was necessary to support, develop and invest in the domestic British economy, and especially the labour market. Material resources were finite, but the expansion of intellectual property was endless, and would be a new and radical new form of growth.<sup>102</sup> The government had to invest in the labour force by intelligent and democratic planning, which included making higher education more available to the masses, investing and expanding the public sector and reducing social and economic differences.

The prices and incomes policies, argued by the liberal socialists, were rejected entirely, because it was 'narrow, limited and obsessive.'<sup>103</sup> Wages were undeniably an important form of wealth redistribution and a means to reduce socio-economic differences, but any form of militant and singular focus on this object would result in policies similar to those who brought the economic instability. However, if industrial democracy were accordingly extended, it would include the unions in more than just wage-negotiations, and contribute to investment and support of local communities.

In the short-term, technology might lead to the redundancy of some workers, but in the long term represented a necessity in order to maintain productivity, efficiency, and the legitimacy of employment. Tony Benn offered the following conclusion:

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<sup>101</sup> Benn, Tony, *Arguments for Socialism*, pp. 146.

<sup>102</sup> Benn, Tony, *Arguments for Socialism*, pp. 152-155.

<sup>103</sup> Benn, Tony, *Arguments for Socialism*, pp. 150.

‘Democratic socialism which combines direct public investment in industry and expanded public expenditure, combined with self-management does offer a real prospect of resolving the present deadlock, and protecting personal freedom.’<sup>104</sup>

It seems Benn was greatly influenced by the Holland and Barrat Brown works, and the AES in his work, and ‘*Arguments for Socialism*’ fuses the two together by focusing on a policy of employment with intellectual growth and reindustrialisation at its hearth, and an expansion of industrial democracy that includes planning agreements and union powers.

On the question of party unity, Benn and the left were little concerned with the divisions evident in Labour. The left gained control of the party once the defectors left, and without them, the party could return to the traditional and true socialist objectives. Callaghan and Wilson had tainted it with monetarism. Foot and Healey’s efforts to minimize the divisive devastation was mocked by Benn in his memoirs as foolish pursuits of weak party members. ‘*He now has to lie in the bed that he has made*’<sup>105</sup>, he wrote in relation to the issues that Foot faced when tackling the militant left. This attitude was likely to have contributed greatly to the lack of a concerted effort for party unity, and strengthened the social democratic resolve to find a new vehicle for social democracy.

The left’s influence on the 1983 Manifesto was very evident, given their control of the party machinery and the NEC. It pledged that the Labour Party would ‘launch a massive programme for expansion’<sup>106</sup>, which included investment, construction, social welfare and reindustrialisation. But most importantly, it pledged to nationalize the corporations that the Tories had privatized, a measure that was very unpopular amongst the new home-owners who had bought council houses under the ‘Right to Buy’-scheme, which had been introduced by the Thatcher government in 1980.

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<sup>104</sup> Benn, Tony, *Arguments for Socialism*, pp. 140.

<sup>105</sup> Benn, Tony, *The End of An Era: Diaries 1980-90*, Arrow Books, London, 1994, pp. 176.

<sup>106</sup> ‘The New Hope For Britain’ (1983): People’s History Museum, Manchester.

### 5.1.1 Meacher and Hodgson

There were also those who sought to transcend the already radical AES, and return Labour to its socialist roots. Michael Meacher published his approach in *'Socialism with a human face'*, and sought to promote a revolutionary transformation of the British economy.<sup>107</sup> The number of organized workers had risen substantially in the course of the 1960s and 1970s, and was interpreted to be an expression of working class distaste for a materialistic economy.

The solution, Meacher argued, was a 'steady-state economy'<sup>108</sup>. A utopian self-sufficient society with constant total population and total stock of wealth, which was regulated and determined to certain levels by a government that promoted a non-material growth, such as creative leisure, sports, arts and education that had no implications on the finite resources.

In order to achieve this utopia, the government would have to implement policies that would insulate the British economy for foreign and international pressures, to protect the economy for an unregulated flow of money and investment that could offset the overall balance of payments. Quickly criticized as a 'siege economy', Meacher stressed that the emphasis lay on the avoidance of an unregulated flow of money, and that exports and imports could be maintained by trade agreements, and that a managed economy in the long term actually would absorb more imports than a deflationary one.<sup>109</sup>

Domestically, the economy would be subject to detailed planning by a central bureaucratic apparatus, and a price and value system that was independent of market value. This traced back to the socialist idea of 'true value of labour'<sup>110</sup>, where price was relative to the labour consumed in production and profits would be exploitation of labour, but went even further by reflecting costs of finite resources and environmental impact to determine 'the relative true value of different projects'.

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<sup>107</sup> Thompson, Noel, pp. 242.

<sup>108</sup> Thompson, Noel, pp. 243.

<sup>109</sup> Thompson, Noel, pp. 244.

<sup>110</sup> Newman, Michael, pp. 26.

The economist Geoffrey Hodgson joined Meacher in this pursuit, and in *The Democratic Economy* (1984) and *Labour at the Crossroads* (1981) identified the transformative agency of the economic revolution as extended industrial democracy.<sup>111</sup> Arguing that ‘the system as a whole is determined by the relations of power’, socialism should embody a collectivisation of those relations.<sup>112</sup> The AES did go some way to increase industrial democracy, but it had to be radically extended to engage the workers in more than pay policy, and integrate them into determining industrial and economic strategies. This would create a social and humanistic political economy that bred new socialists, produced social benefits rather than profits, and unleashed the creative and productive energies of the workforce to transform the supply side of the economy. In the end, this would empower the working class and shatter the capitalist relations of power, and keep social purpose rather than profit at the centre of the economy.

The influence these radicals had on actual party policy was marginal, and many scholars degrade them to nothing more than the last push of the left before it disintegrated and disappeared.<sup>113</sup> In historical terms, that is correct, and the hard left has not represented a significant force in British politics and the Labour Party since. It is, however, necessary to include these because they were present and contributed to the mood of the debate in the 1970s and 1980s, and as such represented an extremity in the party that seemed to be gaining momentum. That contribution, with its monolithic and almost revolutionary policies, created an adversarial atmosphere between the left and the right in the party, and caused increasingly disheartened social democratic Labour members to doubt whether the Labour Party was capable of representing their views.

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<sup>111</sup> Thompson, Noel, pp. 245-246.

<sup>112</sup> Thompson, Noel, pp. 247-248.

<sup>113</sup> Wickham-Jones, Mark, pp. 164-166.



## 5.2 THE SOCIAL DEMOCRATIC PARTY AND THE RIGHT

Immediately after the Wembley Labour Conference in 1981 when the propositions of the left was accepted, although barely, a group of social democrats gathered to discuss the prospects of a new party devoted to social democracy. This group of prominent politicians, including Shirley Williams, Bill Rodgers and David Owen, were quickly joined by Roy Jenkins, who returned to Britain after serving as President of the European Commission. To them, the reforms signified a permanent decline in the right's dominance of the party, and they feared having to be held accountable to left-wing policies they did not support. Together they announced the establishment of a Council for Social Democracy, which shortly after became the Social Democratic Party, and under the leadership of Jenkins, formed an alliance with the Liberal Party under David Steel.<sup>114</sup> 29 MPs, mainly Labour, deflected to the new party that quickly became a political reality, and the Social Democratic-Liberal Alliance saw great popularity in the polls, but failed to gain substantial support at the 1983 election.<sup>115</sup>

There can be no doubt that the Wembley Conference was the catalyst that initiated the first stages of the schism, but seeing as the changes to the party democracy, with the exception of the electoral college with trade union block vote, were not necessarily biased towards the left, at least not permanently. If the social democrats had the majority on the NEC, they would have enjoyed the same advantages. Murmurs of a new party was also not new, arose earlier than 1981. Indeed, the election of Michael Foot as leader is generally accepted to have been attributable to a small group of soon-to-be defectors who found it easier to justify their action if the party leader was from the left.<sup>116</sup>

Why did they choose to leave? The disagreement must have been more fundamental and politically motivated. To investigate whether or not economic policy was a substantial part of this, it is necessary to examine the publications of some of the leading members of the Social Democratic Party, as well as the statements and manifesto of the party in the 1983 election

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<sup>114</sup> Crewe, Ivor & King, Anthony, pp. 104.

<sup>115</sup> Thorpe, Andrew, pp. 215.

<sup>116</sup> Crewe, Ivor & King, Anthony, pp. 74-75.

campaign. One must also take into account that economic policy would not have been the only cause of the split, and as Meredith points out, the initial division in the Labour social democratic right was on the issue of Europe.<sup>117</sup> Is it then possible to make a distinction between policy on Europe and economic strategy, when a response to the Common Market certainly would be a part of any political strategy? Alternatively, must one consider the two issues to be interconnected and inseparable?

Clues as to why the schism began can be found in the Limehouse Declaration that launched the Council for Social Democracy in 1981, and where the now Gang of Four explained;

‘We want more, not less, radical change in our society; but with a greater stability of direction. Our economy needs a healthy public sector and a healthy private sector without frequent frontier changes. We want to eliminate poverty and promote greater equality without stifling enterprise or imposing bureaucracy from the centre. We need the innovating strength of a competitive economy with a fair distribution of rewards. We favour competitive public enterprise, cooperative ventures and profit-sharing. There must be more decentralization of decision-making in industry and government, together with an effective and practical system of democracy at work. [...] The council will represent a coming together of several streams: politicians who recognize that the drift towards extremism in the Labour party is not compatible with the democratic traditions of the party they joined, and those outside politics who believe that the country cannot be saved without changing the sterile and rigid framework into which the British political system has increasingly fallen in the last two decades.’<sup>118</sup>

As a political statement of intention rather than actual policies, it is necessary to consider these pledges cautiously. Even so, the support expressed for a mixed economy, competition and decentralisation is a stark contrast to the views expressed by the left. The most important sentence is perhaps the sentence that justify the establishment of the Council, which must be

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<sup>117</sup> Meredith, Stephen C. (2012): ‘European Divisions and the Schism of British Social Democracy’ in *Historical Research*, vol. 85, nr. 228 (May 2012), page. 329.

<sup>118</sup> Crewe, Ivor & King, Anthony, pp. 93.

noted was a part of the Labour Party for a short period before the Party was launched, was: ‘We do not believe in the politics of an inert centre purely representing the lowest common denominator between two extremes.’<sup>119</sup>

Shirley Williams wrote in her book *‘Politics is for People’* (1981) a lengthy and elaborate explanation as to why it was necessary to split the party into two separate parliamentary parties, since ‘Institutions have bred attitudes, especially class attitudes, that militate against a common effort to resolve her problems.’<sup>120</sup>

The problem, as Williams saw it, was that the socialists failed to notice a shift in the balance of opinion against social democracy. The pledges of the left, such as nationalisation and extension of the public sector was no longer realistic, and most had been found wanting in practise. However, most importantly, those who sought to revolutionize and break the system would also break the democracy that stemmed from it. The pluralist democracy emanated from a pluralist economy, and if this were to be exchanged for the democratic centralism of the left, one would end up with a democratic system akin to the inner-party democracy that Lenin established.<sup>121</sup> David Owen and Bill Rodgers shared this conviction too; and argued that ‘centralized statism’ was wholly incompatible with the social democratic tradition of decentralized government.<sup>122</sup>

Williams then concluded that the Social Democratic Party was a necessary response to increasing extremism in the Labour Party:

‘Reformers cannot support the concentration of power inherent in a monolithic economy, whether it is commanded by a corporatist, communist or military government. [...] There is no possibility of reconciling the reformers and the revolutionaries for their objectives are incompatible.’<sup>123</sup>

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<sup>119</sup> Owen, David, *Face the Future*, Oxford, Oxford University Press, 1981, pp. 19-20.

<sup>120</sup> Williams, Shirley, *Politics is for People*, Penguin Books, Middlesex, 1981 pp. 16.

<sup>121</sup> Williams, Shirley, pp. 28-31.

<sup>122</sup> Wickham-Jones, Mark, pp. 112.

<sup>123</sup> Williams, Shirley, pp. 34.

The split thus was attributable to the simple emergence of an extreme hard left and by strengthening their hold on the party organization; the social democrats feared they would have to be held accountable to policies they did not support, and that the centre in politics had suffered a hopeless and irreversible decline. Since economic policy was the issue on which the hard left and the social democrats clashed, it is safe to establish it as one of the decisive driving forces behind the 1981-establishment of the Social Democratic Party.<sup>124</sup>

Despite disagreement on economic policy, the social democrats had run on an AES-platform for much of the 1970s. Desai argues that the AES in moderation was not incompatible with social democratic policy, and that many of the social democrats inside and outside of the party were open to an expansion of public ownership and some increase in industrial democracy.<sup>125</sup>

However, this view takes an overly optimistic approach to the two schools of thought. The socialist desire to manage, plan and insulate the British economy would compromise the mixed economy that the social democrats desired, and concentrate and increase centralised power to curb inflation. Since such a concentration was principally disagreeable to the social democrats, this could be avoided with a prices and incomes policy, which would manage inflation and growth, but be unacceptable to the trade unions as it limited their powers. In other words, they held solutions that was disagreeable to the other side, and considering the left's ascendancy, the social democrats would have to make concessions to the socialists, who in return gave little more than a platform for opposition. It was correct, however, that the social democrats had initially been open to the AES, but the relationship became ambiguous and eventually hostile as it became increasingly identified with the hard left and an anti-Europe platform.<sup>126</sup> Consensus could then probably have been reached if both sides sought moderation and compromise in the debate.

There were also those on the right that did not agree with this division of ideologies, and Healey stepped up to the plate to argue against weakening the social democratic strain of the party, backed by prominent MPs such as Roy Hattersley, Peter Shore and Gerald Kaufman:

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<sup>124</sup> Crewe, Ivor & King, Anthony, pp. 10.

<sup>125</sup> Desai, Radhika, pp. 152-158.

<sup>126</sup> Desai, Radhika, pp. 158.

‘A new centre party was most unlikely to establish itself as a serious competitor with the Labour Party; on the other hand, that the moderates had a good chance of winning a majority on the NEC, and thus transforming the situation – but this was bound to take several years.’<sup>127</sup>

Some argue that the split was also one on European policy, which alienated many of the social democrats within Labour from joining the new party. The majority of social democrats did not share the Jenkinsite ‘Euro-fanaticism’ and Jenkins, as a person, did not always command admiration. However, as Crewe and King points out, the Jenkinsites were unable to attract the majority of pro-Europe social democrats inside Labour, and because of doubt concerning their electability as SDP candidates and the dynamics of a party led by Roy Jenkins.<sup>128</sup> This means that the question of Europe played a minor role to overall economic policy in the split.

Nonetheless, the party began formulating its election manifesto with the Liberals, whose Leader David Steel was a close friend of Jenkins and had begun preparing his party for the absorption of the SDP before it was launched. The tone was one of Croslandite social democracy and incomes policy:

‘We believe that Britain needs the fresh start of the Alliance even more in 1983 than it did in the heady days of our birth in 1981. The Labour Party has not become more moderate. The extremists have been taken out of the shop window; they have not been removed from the shop. The policies of nationalization, attacks on private enterprise, withdrawal from Europe, with its devastating effect upon our exports and investment prospects, and alienation of our international friends and allies, are all enthroned and inviolate. Jobs and national safety would be at risk. [...] By giving a moderate and well-directed stimulus to the economy, accompanied by a firm and fair incomes policy, we can change the trend and begin to get people back to work. Unlike the Labour Party. We would do it in a way which encouraged private business.’<sup>129</sup>

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<sup>127</sup> Healey, Denis, pp. 477.

<sup>128</sup> Crewe, Ivor & King, Anthony, pp. 52-58.

<sup>129</sup> ‘Working Together for Britain’ (1983): People’s History Museum, Manchester.

This pledged the Social Democratic and Liberal Alliance to resist those policies that the Labour Party had in their Manifesto, but also the need for electoral reform to ensure that Labour would not be placed in a position of total power, but rather being dependent on the Alliance, which then could block the most extreme policies.

### **5.3 THE PARTY LEADERSHIP**

How could the Party Leadership respond to this division? How does one manage a party that is suffering a devastating schism? The difficulty of Michael Foot's position is difficult to exaggerate, and historians have interpreted much of the turmoil as a failure of leadership, potentially seeking justification for the shift towards the right that followed in the party in the coming decades. At this point, we can appreciate the difficulty of his situation, and seek a less biased understanding of his tenure. One of the most important questions is whether the election of Michael Foot was a victory of the left, as is often claimed. This is best done by identifying his position on economic policy, and how he acted on the economic division in the party. How did he react to the SDP-split, which many left-wingers welcomed?

In a lecture to the Royal Institute of Public Administration in November 1982 in Cardiff, he reiterated his support for the main aspects of the AES, and spoke at great length on the conflict of ideologies between Labour's commitment to an economy with a social contract at its heart, and the monetarism of Margaret Thatcher and the Conservative government.<sup>130</sup>

The problem, according to Foot, was convincing the public that the AES was still a serious alternative to monetarism, and ensuring that the public was relieved of the misconceptions that arose during 1970s. This idea was common in the Labour Party at this point, especially with the more pragmatic and senior Labour representatives, who believed that the loss in 1979 was due to unfortunate circumstances beyond Labour's control, and that they would be returned to power once those circumstances changed, without any major alterations to the economic strategy and policy.<sup>131</sup> He did however bemoan the lack of ambition and vision in the Labour movement,

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<sup>130</sup> Foot, Michael, pp. 184-185.

<sup>131</sup> Thorpe, Andrew: pp. 210.

which now had become content to debate how Keynesian demand management could recapture the ground lost during the 1970s and early 1980s. This was regrettable to any supporter of Keynesian demand management, since the AES still was a valid and credible strategy in his eyes, and the party should discuss how to improve and make new accomplishments.

How could one improve the highly successful work with the Social Contract with the unions? It had achieved, contrary to popular assumption, impressive social progress and made significant improvements to growth rates and inflation, at least up until the IMF had to intervene after the balance of payments deficit crisis in 1977, after which it still made gradual progress in many respects. The Callaghan government had made leaps in social security by increasing pension funds, introducing child benefits, extending employment protection, health and safety legislation, nationalising aircraft- and shipbuilding, equal pay and minimum wage, as well as introducing sex discrimination and equal pay legislation.<sup>132</sup> The economy thus had grown faster than the US and on par with Germany, but the growth was unsustainable if the IMF eroded the industrial base by forcing cuts in public expenditure.

The government had thus not abandoned or betrayed the unions, such as the left argued, but made honest mistakes. The 1977 crisis was one such mistake, but the dominant factor was Callaghan's '*Cannot spend your way out of a recession*'-flirt with monetarism, which was disagreeable to Foot:

'I have never doubted that it was possible to use Keynesian policies of public spending as one means of getting out of a recession and I repudiate any suggestion to the contrary, in the name of sanity and four million unemployed.'<sup>133</sup>

The 1980s needed a modified and adjusted AES. This meant that the Hollandite planning agreements ought to be voluntary; a Meadeite public sector borrowing reduction to avoid deficit crises; and Croslandite company taxation reduced to encourage employment, but maintaining a balance of tax revenues by increasing indirect taxes and reducing subsidies.<sup>134</sup> What Labour in

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<sup>132</sup> Foot, Michael, *Another Heart and other Pulses*, pp. 190.

<sup>133</sup> Foot, Michael, *Another Heart and other Pulses*, pp. 189.

<sup>134</sup> Foot, Michael, *Another Heart and other Pulses*, pp. 194-196.

government had learnt, however, was that the country only ran successfully by cooperation, and that the social contract with the unions was crucial.

The Deputy Leader Denis Healey, who had served as Chancellor of the Exchequer under Wilson and Callaghan, had experienced that in particular during his time in 11 Downing Street, and thus were responsible for many of the policies that the left now criticised heavily. Being Chancellor was a burden for Healey, who found the work both hard and frustrating, and he struggled to come to grasp with the nature of economics during his first years.<sup>135</sup> His appearance at the Party Conference or in Parliament showed an unconfident Chancellor who struggled and avoided conflict or questioning. Healey thus developed a very critical and practical approach to economics, which he explained in his autobiography *'The Time of My Life'*.

The problem with any economic school of thought was that it was nigh on impossible to assess and evaluate the accuracy of the economic aggregates at the Chancellor's disposal.<sup>136</sup> Healey had sought precise numbers and estimates on which he could make his policy decisions, but as there were too many institutions with particular economic interests and no accurate numbers, this was impossible. This led Healey to conclude that Keynes' theory of maintaining full employment without inflation, by demand management, was an unreliable approach. It did not take into account the impact of social institutions on the policy decision-making, nor did it account for the economic stimulus outside of Britain. How could he manage the domestic economy when unreliable and unpredictable external pressures would offset his budget predictions? This was exactly what had happened in 1977, when lack of accuracy caused the budget deficit that restrained Labour's policies. Nevertheless, it meant that the alternatives were hardly any better. The monetarist approach of fine-tuning the money supply was impossible for the same reason, as was the total control of Marx. He supported the social contract, but cooled considerably in his support when the unions demanded 30% pay rise despite only 20% inflation, which brought a balance of payments deficit of £ 3.5 billion. In response, the Jenkinsite temporary statutory incomes policy was implemented, with discontent erupting in the trade unions, and a massive loss of votes.

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<sup>135</sup> Healey, Denis, pp. 367.

<sup>136</sup> Healey, Denis, pp. 404-406.



As it obvious of these views, neither Foot nor Healey were ideologically inclined to assume defined leadership over the party's economic strategy. They did not possess the intellectual originality nor comprehensive understanding necessary to try to impose a view on the party. They were, however, both experienced politicians who had developed a flare for pragmatism and democratic cooperation far beyond the political differences of opinion they held, and were able to work together.

Furthermore, it is necessary to make a note of how both men at this point were engaged in leadership positions in the party, and that this greatly affects their projection of economic strategy. Foot made his speech during his leadership, Healey held a powerful desire to explain his actions as Chancellor, and both found the leadership status quo difficult. Foot was a natural rebel, who Healey felt 'lacked personal authority and political grip to impose his will'.<sup>137</sup> Still, as Deputy, Healey felt compelled to support and agree with Foot on all issues in public, and in particular as he had become subject to a newly established electoral college that could dismiss him if public dissonance was evident. However, whereas the two men worked in relative peace together, the party at large did not enjoy the same atmosphere.

This brings us to the question of Michael Foot's leadership. There is no lack of scholars pointing out that divisions and schisms within a party reflect on the leader and the qualities that person possesses, and even the most sympathetic scholars such as Morgan point to little more than a hesitant and minute effort on Foot's part to keep the SDP from leaving the party.<sup>138</sup> This is problematic, because Foot might have been sympathetic to the far left, but as a former liberal and party leader, he greatly disagreed with the means by which the left so eagerly sought those ends. Furthermore, Foot was wing-clipped by his position as party leader and subject to the NEC.

Considering how the hard left had pushed through changes in the Labour Party that would hold the Parliamentary Labour Party and the Leadership accountable to the NEC, and effectively removed power away from the Party Leader and the PLP, it was very little he could accomplish. With no power over the party machinery, he could offer little to the social democrats without causing conflict in the party. The hard left saw little reason in offering the right of the party any

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<sup>137</sup> Healey, Denis, pp. 480.

<sup>138</sup> Jones, Mervyn, pp. 385.

concessions, and nor would could Foot provide it without the left-dominated party democracy behind it. Therefore, while he did wish for a united party, he did not possess the tools to keep the party together. The question of leadership thus must be relatable to the reality of what he could hope to obtain.

The only option remaining to the party leadership was to fight the cause of the SDP-split so to avoid further deflections. Michael Foot had always appreciated the diversity of opinion within the party, but found himself compelled to address the concerns of extremism in the party and in the media. The Trotskyite organization ‘Militant Tendency’, which called for world revolution and infiltration by revolutionaries into the Labour Party, published the most read party publications.<sup>139</sup> If the Labour Party were to bring back the breakaway social democrats, these groups could no longer be associated with the Party. However, in this fight, the same hard left attacked Foot and Healey.

In 1981, Healey found himself challenged by the left wing’s Tony Benn over the deputy leadership. Benn argued that he was testing the newly established party democracy, and how the electoral college would handle such a situation, but it seemed like an attempted coup by an ambitious left-winger who was taking advantage of a new status quo, where the right was severely reduced.<sup>140</sup> For the right then, it was essential to deny Benn the Deputy Leadership, even though Healey found it to be the ‘busiest and least agreeable job’ in his career. The contest campaign became another downturn in the party history, and one that gave the party a lasting public image of division, militancy and violence, as militant supporters pursued and heckled Healey wherever he went, while Benn upheld the process as a healing of the party. In the end, Healey won by the slightest of margins on September 27, 1981.<sup>141</sup>

In an article in *The Observer* titled ‘My Kind of Party’, Michael Foot fought back against the left, and hoped he could convince the social democrats to rejoin if the commitment to democracy

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<sup>139</sup> Thorpe, Andrew, pp. 217.

<sup>140</sup> Healey, Denis, pp. 481.

<sup>141</sup> Crines, Andrew Scott: pp. 137.

was strengthened in the party. He denounced the militant strain of the party as the ‘infantile disease of leftism’ which ‘[...] raged for some months like measles in Polynesia’.<sup>142</sup>

‘An inhuman means remains inhuman even if it is employed for the purpose of assuring human felicity. [...] It will take a generation to repair the damage, and years more to establish what I believe should become a true, unbreakable Socialist objective – to make the pace of industrial change one which human beings and their communities can tolerate.’<sup>143</sup>

Foot was very well aware that this put him at odds with Benn and the left of the party, and the hard left no longer considered him one of them. The tension reached its apex in the Bermondsey by-election, where the left-wing radical and militant Peter Thatchell ran as the constituency candidate for Labour. Some scholars are eager to point out that Thatchell also was a homosexual, but that deviates from the conflict with Michael Foot. Even though the campaign quickly became a cesspool of homophobic sentiment and sexual innuendo against Thatchell, the SD-Liberal Alliance mainly conducted this, and it might indeed have worked against him, but Thatchell did not have realistic chance of winning the constituency anyhow. For Michael Foot, the problem lay in the young activist’s desire to use parliamentary action against the Conservative government, which would violate the democratic process Foot so deeply respected.

‘And those declarations, let me underline, did not assert the equality and inter-dependence of parliamentary and extra-parliamentary activities as the Labour movement has practised them and the people of Britain understand and support them.’<sup>144</sup>

He had recently ordered the NEC to rid itself with the Trotskyite ‘Militant Tendency’ organisation, and was adamant when he declared to the House of Commons that the Labour Party could not endorse that candidate. This was particularly problematic, since the Party Leader does not dictate who can stand for the Labour Party, done in actuality by the constituency parties, and Foot had to make a humbling U-turn.

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<sup>142</sup> Foot, Michael, ‘My Kind of Party’. *The Observer*, Jan. 17<sup>th</sup> 1982, pg. 13.

<sup>143</sup> Foot, Michael, ‘My Kind of Party’.pg. 13.

<sup>144</sup> Foot, Michael, ‘My Kind of Party’.pg. 13.

Certainly, the handling of Thatchell and the Cenotaph-attire did not merit acclaim for the Party Leader. But who would assume the leadership if he had not? If Denis Healey was elected leader, the SDP split would merely be delayed, for as Andrew Scott Crines points out, with the new Electoral College in place, Benn could have challenged Healey for the leadership and won, which would merely have delayed the split.<sup>145</sup> It could also go some way to explain why Benn did not run for the leadership in the first place. If he believed Healey would win, he could gather his supporters for a leadership contest the following year, and explains his compensation-run for the Deputy Leadership. In other words, neither of these potential candidates would have had a unifying effect on the party. Michael Foot was, in the end, the only unifying candidate, which demonstrates the left's influence in the party.

Despite this, as shown above, it is thus evident that while Michael Foot did support the AES, his leadership was not the shift to the left. His commitment to democracy and opposition to authoritarianism kept him away from the hard left, and his efforts to unify the party was thwarted by a hard left that did not seek compromise and unification.

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<sup>145</sup> Thrope, Andrew, pp. 217.

## 6 CONCLUSION

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This polarisation between the left and the right of the party is the foundation for the title of this thesis, ‘Revolution or Reform’, which seems a fitting title to describe the gap between left and right in the 1970s and 1980s debate on economic policy. Michael Foot seemed to be perfectly aware of this difficult predicament in his party, and quoted the prophetic works of Tawny once more:

‘Exponents of our brand of Socialism must face the fact that, if the public, and particularly the working-class public, is confronted with the choice between capitalist democracy, with all its nauseous insincerities, and undemocratic socialism, it will choose the former all the time.’<sup>146</sup>

Indeed, his words rang true, and the Labour party experienced the worst election in Labour history after WWII.

The thesis does two things to answer the initial problem of why the Labour party failed in agreeing a common economic platform ahead of the 1983 election. The study is both an analysis of the key intellectual debates in the party in the 1970s and 1980s, and how that debate influenced the party’s most prominent politicians in opposition.

The first part of the thesis shows that the Labour Party possessed a range of revisionist economic ideas, and the second part of the thesis explores why they were unable to form an agreement with those ideas. Based on this study studies, the following conclusion can be presented:

Labour in the 1970s and 1980s faced multiple crises that shaped their political influence, some of which were created by themselves and some they held little control of. Firstly, the economic crises of the Wilson and Callaghan administrations put great stress on the Labour Party and their ability to manage the economy on Keynesian principles of demand management, full employment and the trade-off of inflation. This caused the dominant revisionist liberal socialist and social democratic coalition within in the party to disintegrate, and the hard-left was able to

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<sup>146</sup> Foot, Michael, ‘My Kind of Party’, pp. 13.

assume prominence. This was mainly due to the lack of credibility in the right's economic strategy, and the left's ability to produce a strategy unburdened with the realities of governance, and benefit from increasing public disenchantment with the Labour Party to gain power in the party machinery. This ideological crisis between the left and right was however not down to a lack of ideas and proposals for revising the post-war Keynesian demand management. Indeed, quite a few of which could have kept a Keynesian economy working, and would not have necessitated neither the far left policies of Holland nor the creeping neo-liberalism of the SDP, which is what Labour embraced later on under Tony Blair.

Despite this potential consensus, the left pushed for increasing control of the party, and was able to achieve success in 1980 and 1981. This brought about a leadership crisis in the party, where the party organization was at odds with the Parliamentary Labour Party, and divisions increased. By challenging the social democrats for dominance, they effectively mobilized them in a counter-defensive, and adamant resistance from the PLP countered the drive of the left to transform party policy. The establishment of the Social Democratic Party was one such response to the perceived militant extremism in the left, and weakened the entire Labour Party. The remainder of the social democrats inside of the Labour Party remained within the party because of the prospect of regaining control over the NEC, and because the SDP was unlikely to succeed without electoral reform. However, strong leaders such as Jenkins and Benn contributed actively to illuminate the seemingly impossible divide on economic policy.

To promote a credible and united economic policy, the party needed decisive leadership. The leadership of Michael Foot was complex and difficult to assess, but hardly as negative as some scholars have claimed. The lack of ideological and economic gravity in the leadership contributed to the flux and lack of leadership, but there were no other possible candidate that could effectively lead the party, and the SDP-split was likely to have occurred regardless of who became leader. Combined with the lack of mandate from the Labour Party after the 1981 reforms placed power in the NEC, his relative ability to influence the party was marginal. Despite this, his effort to rid the party of the links with extremism and militancy shows a dedication to the party unity and the democratic process deserving of a mention, although it must be noted that success in these pursuits was limited. It was in this process that his leadership qualities came

under greatest scrutiny, and despite few concrete evidence of poor leadership, it is inevitable that it coloured the legacy of Foot.

This eventually culminated in the electoral crisis of 1983, where the extent of the Labour Party's infighting became evident. The infighting produced a poorly organized and chaotic campaign, and the party suffered a devastating defeat, barely becoming the second largest party, and gaining less than 40% of the vote. The petty infighting had secured the Conservatives a second term in office, quite to contrary of what anybody in the party sought to achieve. The catalyst for change and unity in the party came in election defeat, rather than in leadership, and the party began its right-wing reformation under the new leadership of Neil Kinnock, Michael Foot's successor.

To conclude, the reason Labour was incapable of delivering a credible economic strategy in 1983 must be attributed to the polarisation between the extremities in the party, and the change in status quo brought about by the failures of the Wilson and Callaghan cabinets. Organisations such as Militant Tendency or people such as Benn, Meacher, Hodgson or Thatchell embodied this polarisation, but their increasing hold on the party machinery and the NEC prompted a significant rebuttal from the social democratic wing that eventually disintegrated the hard left of the party. Both sides were increasingly combative and tore the party in two directions, while being disinclined towards any form of unifying concessions or even a concerted effort to fight against the Conservatives. Tawney's observation thus rang very clear:

‘British socialists frequently conduct themselves as though the most certain method of persuading the public to fell complete confidence in their cause were to convince it that they feel no confidence in each other.’<sup>147</sup>

Despite this narrow outlook of this thesis, I maintain that the conclusions reached are sound and representative of the parts of the party that this thesis has worked with, and although they only go so far in explaining the complexity of the debate, give a reasonable impression of the core arguments of the parties involved. Those people most central to the Labour movement and the debate in the 1970s and 1980s are represented. Yet, there are dozens, if not hundreds, of

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<sup>147</sup> Foot, Michael ‘My Kind of Party’.: pg. 13.

interesting people who contributed in the media, parliament, or party papers where they offered variations on the problems that the select personalities above did. Just as these people harboured individual and personal political identities, so they possessed a view on the economic policy of the party. It would thus be interesting to use this thesis as the first step in an even broader and more comprehensive study to evaluate how European policy divided opinion, or how the personalities of the politicians hindered cooperation. When discussing economic policy, one can potentially include the whole range of political responsibilities. As Williams pointed out in her criticism of the revolutionaries: any debate on the economic strategy of the party is intrinsically and inseparably connected to the democracy itself.



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