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RELATIVE DECLINE AND BRITISH ECONOMIC POLICY IN THE 1960s*

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ABSTRACT. *In explaining Britain's post-war relative economic decline, contemporary historians have concentrated upon 'government failure': not enough, too much, or too much of the wrong sort of government intervention. Implicitly, such explanations conceive the British state as both centralized and powerful. Recent developments in political science have questioned this traditional view. Using this insight to structure its historical analysis, this article examines the wide array of policy changes that flowed from the British government's adoption in the early 1960s of an explicit target for higher growth. It finds that the principal reasons for the failure of these policies can be found in the fragmentation and interdependence of Britain's economic institutions – the source of which lay in the particular historical development of Britain's polity. These issues of governance required new conceptions of both policy making and policy implementation able either to strengthen the power of the centre to impose change, or to promote consensus building. However, lacking a sufficient shock to the system, and imprisoned in a mindset in which the British state was conceived as both centralized and powerful, elites saw little need for fundamental institutional change.*

Britain's relative economic decline has been a persistent feature of British historiography for much of the post-war period.[1] There has been a particular fascination with the 1950s and 1960s, not least because of the paradox that the concept of Britain's long-term relative economic decline (prompted by new international statistics demonstrating both Britain's relatively poor economic

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[1] Recent examples include N. F. R. Crafts, 'Forging ahead and falling behind: the rise and relative decline of the first industrial nation', *Journal of Economic Perspectives*, 12 (1998), pp. 193–210; R. English and M. Kenny, eds., *Rethinking British decline* (London, 1999); A. Ringe and N. Rollings, 'Responding to relative decline: the creation of the National Economic Development Council', *Economic History Review*, 53 (2000), pp. 331–53; J. Tomlinson, *The politics of decline: understanding postwar Britain* (Harlow, 2000).

performance and its continuing deterioration) was virtually invented in these years of unparalleled economic growth, subsequently dubbed the 'golden age' of British capitalism.[2]

Long-term factors clearly played some part in Britain's relatively poor post-war performance.[3] There is, however, a weighty literature that locates its principal causes in the period after 1945 and which focuses on defects in British institutions, particularly on the government failure highlighted by Middlemas in the 1970s.[4] Eichengreen, for example, has argued that in the 1950s and 1960s Britain failed to develop the necessary institutions for growth.[5] Kirby has suggested that Britain's economic performance would have benefited from more and better government intervention.[6] Kirby's cavils about the quantity and quality of government intervention are echoed by the recent claims of post-neoclassical endogenous growth theory that growth might have been improved had governments in the 1960s and 1970s focused their attention more on improving human capital, broadly defined, than on physical capital.[7] Kirby noted, however, that '"a purposive national programme" of postwar economic modernization' had been 'beyond the realm of practical politics in Britain'.[8] Indeed, a significant feature of the 'declinism' that Tomlinson and Supple have identified as emerging after the 1950s has been a widespread disillusion regarding the ability of government to modernize Britain's economy.[9] The failure to create an effective 'developmental state' is central to many analyses, with the Treasury being a favoured target of criticism, particularly for its alleged failure to pursue higher economic growth and enhance the capacity of British industry to achieve it.[10]

[2] B. Supple, 'Fear of failing: economic history and the decline of Britain', *Economic History Review*, 47 (1994), pp. 441–58; idem, 'British economic decline since 1945', in R. Floud and D. McCloskey, eds., *The economic history of Britain since 1700* (3 vols., Cambridge, 1994), III, pp. 318 and 326; N. F. R. Crafts, *Britain's relative economic decline, 1870–1995* (London, 1997); J. Tomlinson, 'Inventing "decline": the falling behind of the British economy in the postwar years', *Economic History Review*, 49 (1996), pp. 731–57.

[3] R. C. O. Mathews, C. H. Feinstein, and J. C. Odling-Smee, *British economic growth, 1856–1973* (Stanford, 1982); S. N. Broadberry, 'How did the United States and Germany overtake Britain? A sectoral analysis of comparative productivity levels, 1870–1990', *Journal of Economic History*, 58 (1998), pp. 375–407.

[4] K. Middlemas, *Power, competition and the state* (3 vols., London, 1986–91), I; R. Middleton, *Government versus the market: the growth of the public sector, economic management and British economic performance, c. 1890–1979* (Cheltenham, 1996); J. Melling, 'Management, labour and the politics of productivity: strategies and struggles in Britain, Germany and Sweden', in J. Melling and A. McKinlay, eds., *Management, labour and industrial politics in modern Europe* (Cheltenham, 1996), pp. 1–24.

[5] B. Eichengreen, 'Institutions and economic growth: Europe after World War II', in N. F. R. Crafts and G. Toniolo, eds., *Economic growth in Europe since 1945* (Cambridge, 1996), pp. 38–65.

[6] M. W. Kirby, 'Institutional rigidities and economic decline: reflections on the British experience', *Economic History Review*, 45 (1992), p. 652.

[7] N. F. R. Crafts, '"Post-neoclassical endogenous growth theory": what are its implications?', *Oxford Review of Economic Policy*, 12 (1996), p. 43.

[8] Kirby, 'Institutional rigidities', p. 652.

[9] Tomlinson, 'Inventing', pp. 731–57; Supple, 'Fear'.

[10] See A. Ham, *Treasury rules: recurrent themes in British economic policy* (London, 1981); S. Pollard, *The wasting of the British economy: British economic policy 1945 to the present* (London, 1982); P. A. Hall, *Governing the economy: the politics of state intervention in Britain and France* (Cambridge, 1986); K. Theakston, 'Whitehall,

In contrast, others have seen the problem in terms of too much government intervention, and in particular in too much of the wrong sort of intervention. Excessive intervention, for example, lies at the core of the neo-liberal thesis that Britain's over-large post-war state both reduced growth and weakened the balance of payments.[11] The misguided nature of government intervention is emphasized by Broadberry's finding that the pursuit of consensual wage restraint 'allowed the entrenchment of overmanning and other restrictive practices, which inevitably slowed the growth of productivity', and by Bean and Crafts's conclusion that the government's promotion of social contracts inhibited much-needed supply-side reform.[12] Broadberry and Crafts, similarly, have located the primary cause of post-war relative decline in a low-competition, low-effort economy sustained by government.[13] Each of these critiques, however, presupposes that the government could have addressed the problem. Thus, these analyses also allocate an important role for 'government failure'.

The notion of 'government failure' has therefore been central to the discussion of Britain's post-war relative decline. This article questions that thesis. Traditionally, contemporary historians have tended implicitly to frame their accounts of post-war Britain using what political scientists have termed the 'Westminster model' of British government. In this model, Britain is portrayed as a unitary state characterized by a strong centre in Whitehall (encompassing the prime minister, ministers, and ministers' departments) and by control of that executive by a single governing party in parliament as a consequence of the first-past-the-post electoral system.[14] The model makes implicit 'zero-sum' assumptions about the location of power on a day-to-day basis, seeing it as an object belonging to, for example, the prime minister, cabinet, or civil service. Recently, however, political scientists, particularly those working in and around the UK ESRC's recent Whitehall Programme have begun to flesh out a new conception of the British state which characterizes it not as powerful and unitary but as a 'differentiated polity' – fragmented, disaggregated, and beset by both internal and external interdependencies.[15] Its defining characteristic is the

Westminster and industrial policy', in D. Coates, ed., *Industrial policy in Britain* (London, 1996); N. Tiratsoo and J. Tomlinson, *The Conservatives and industrial efficiency, 1951–1964: thirteen wasted years?* (London, 1998), p. 28.

[11] An analysis typified by R. Bacon and W. Eltis, *Britain's economic problem: too few producers* (London, 1976), and restated by them in *Britain's economic problem revisited* (London, 1996).

[12] S. N. Broadberry, 'Employment and unemployment', in Floud and McCloskey, eds., *Economic history*, III, p. 219; C. Bean and N. F. R. Crafts, 'British economic growth since 1945: relative economic decline … and renaissance?', in Crafts and Toniolo, eds., *Economic growth*, pp. 146–7.

[13] S. N. Broadberry and N. F. R. Crafts, 'British economic policy and industrial performance in the early postwar period', *Business History*, 39 (1996), p. 86; idem, 'The postwar settlement: not such a good bargain after all', *Business History*, 40 (1998), pp. 73–9.

[14] R. A. W. Rhodes, *Understanding governance: policy networks, governance, reflexivity and accountability* (Maidenhead, 1997), pp. 5–7.

[15] For a summary and guide to the publications arising from the programme see R. A. W. Rhodes, 'A guide to the ESRC's Whitehall Programme, 1994–1999', *Public Administration*, 78 (2000), pp. 251–82. For key texts see D. Marsh, ed., *Comparing policy networks* (Buckingham, 1998); M. J. Smith, *The core*

existence of 'self-organizing, inter-organizational networks' (often crossing the traditional divide between state and civil society) in which all actors have power resources and are forced to trade them in pursuit of their objectives. Such exchanges are positive-sum in that typically all actors gain something, though the process of exchange means it is likely that none will achieve their objectives entirely. This implies a different notion of governing: 'governance' rather than government, negotiation rather than central command, or as Osborne and Gaebler put it, 'steering not rowing'.[16]

Contemporary historians have begun to draw on these insights to argue that the notion of 'government failure' in respect of post-war British economic performance may involve far too simple a conception of the British polity.[17] Ringe and Rollings, for example, have used the notion of 'governance' both to examine the creation of the tripartite National Economic Development Council (NEDC) in 1962 (intended as the means to achieve higher growth through the setting of indicative targets for key indices such as the rate of growth of gross domestic product and of investment in specific industrial sectors), and to explain its failure to fulfil the hopes of its creators.[18] They argue that, frustrated by the conservatism of other Whitehall departments, acknowledging the limits this placed on central government power, and recognizing the ability of industry and the unions to resist reform, the Treasury sought to co-opt both sides of industry in a co-operative strategy based on the NEDC. Its approach was therefore a product both of the weakness of British central government and of the fragmentation and the marked interdependence of its economic institutions. Ironically, however, Ringe and Rollings argue that this fragmentation was also at the root of the NEDC's failure, with discussions within it reflecting the fragmented structure of Britain's underlying economic institutions. They conclude that this indicates that the failure of the NEDC was therefore not a consequence of government failure but of the problematic nature of British 'governance'.

Ringe and Rollings's analysis is persuasive, but it is limited to a relatively narrow case study. How applicable is it to wider policy? This article will widen the focus to include the wide array of parallel policy developments inaugurated after 1961 in supply-side policy, fiscal policy, and incomes policy; developments which attempted to dynamize the British economy and halt relative economic decline. In doing so it will argue that, whilst 'governance' problems also

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executive in Britain (London, 1999); R. A. W. Rhodes and P. Dunleavy, eds., *Prime minister, cabinet and core executive* (London, 1995); Rhodes, *Understanding*; idem, ed., *Transforming British government* (2 vols., London, 2000).

[16] D. Osborne and T. Gaebler, *Reinventing government* (Reading, MA, 1992).

[17] P. Bridgen, 'Making a mess of modernisation: the state, redundancy pay and economic policy-making in the early 1960s', *Twentieth Century British History*, 11 (1999), pp. 233–58; R. Lowe and N. Rollings, 'Modernising Britain, 1957–1964: a classic case of centralisation and fragmentation?', in Rhodes, ed., *Transforming*, 1, pp. 99–118; H. Pemberton, 'Policy networks and policy learning: UK economic policy in the 1960s and 1970s', *Public Administration*, 78 (2000), pp. 771–92.

[18] Ringe and Rollings, 'Responding'.

contributed to the failure of these policies to attain their objectives, the key problem was the under-estimation of the scale of these problems by policy actors (both inside and outside government) who were unable to shake off assumptions about the power of the British state to achieve change alone.

I

The shift towards much more interventionist government economic policies was heralded by a Treasury report to the cabinet in 1961 entitled 'Economic growth and national efficiency'.[19] It was highly sceptical that a breakthrough into higher growth could be achieved simply by raising aggregate demand as was often argued, not least by the prime minister's informal economic adviser, Sir Roy Harrod.[20] In the Treasury's view, this would simply run into bottlenecks on the supply-side and trigger an inevitable balance of payments crisis.[21] Instead, it suggested a dual strategy. First, it proposed to restrain home demand in the short term to encourage manufacturers to seek overseas markets and boost the balance of payments. Secondly, it proposed a longer-term programme of concerted government action on the supply-side to promote 'national efficiency', changes to fiscal policy to promote growth, and action to bring the 'national interest' to bear on wage negotiations. In effect, therefore, it was proposing short-term restrictions in the growth of consumption whilst simultaneously embarking on a radical and wide-ranging overhaul of the economy – the theory being that in the medium to longer term these economic reforms would allow faster growth.[22]

The policy shift seemed sudden.[23] In fact, however, the Treasury's 'great reappraisal' of 1960–1 (as Brittan termed it) was the product of a widespread perception which had been gaining ground since the mid-1950s that new policies were needed if growth was to rise. These ideas had originated in academia in response to emerging evidence of Britain's relative economic decline and of problems with the Keynesian policy framework, particularly the phenomenon of 'stop–go'. Proponents of change had come to encompass a wide range of actors: academics such as Roy Harrod; the National Institute for Economic and Social Research; pressure groups such as Political and Economic Planning; financial journalists; industrialists such as Sir Hugh Weeks and Sir Hugh Beaver at the Federation of British Industries; the general secretary of the Trades Unions Congress (TUC), George Woodcock, and members of its staff such as Len Murray; politicians in both major parties; and some key government officials,

[19] 'Economic growth and national efficiency', July 1961, the National Archives: Public Record Office, Kew (PRO), CAB 129/105 C(61) 94 (hereafter referred to as 'Economic growth and national efficiency').

[20] 'Correspondence between prime minister and Sir Roy Harrod on economic policy and growth', 1957–60, PRO, PREM 11/2973, passim; and 'Correspondence with Sir Roy Harrod on economic problems and policy', 1960–1, PRO, PREM 11/3287, passim.

[21] 'Economic growth and national efficiency', p. 9.

[22] Ibid., pp. 8–10, 40–109.

[23] S. Brittan, *The Treasury under the Tories* (Harmondsworth, 1964), ch. 7.

particularly the joint permanent secretary of the Treasury, Sir Frank Lee, and the director of its economic section, Sir Robert Hall.[24] Nevertheless, although the Treasury identified in 1960–61 both a wide scope for government intervention to raise growth and considerable support for such action, it also recognized that this would 'call for a "difficult" battle with vested interests'.[25] It did not describe the form that this battle would take, but it would clearly need to be waged on two fronts: within Whitehall, and against conservatism on both sides of industry.

The Treasury faced a battle in Whitehall because its power over economic policy was less mighty than was widely assumed. Despite the Treasury's accrual of post-war responsibilities for managing the economy, its relationship with other departments remained rooted in nineteenth-century traditions with the doctrine of ministerial responsibility to Parliament preventing it directing other departments.[26] This meant that its power was essentially negative, residing in its ability to veto expenditure plans and in its control of civil service appointments.[27] Lacking powers of enforcement, the Treasury had traditionally brought these negative powers to bear in secret inter-departmental committees. Given the significant post-war shift in the purposes of 'Treasury control', this had become ill-suited to achieving policy objectives that went well beyond questions of public expenditure and civil service appointments.[28]

The Treasury therefore had two options: either it could seek to increase its power or it could seek to mobilize Whitehall support through the established system.[29] The former would raise fundamental issues of the collective nature of British government, not to mention strengthen an institution already seen as excessively powerful by many, and widely seen as part of the problem rather than the solution. In short, it looked a political non-starter. The Treasury therefore chose the latter course. In 1960, Sir Frank Lee, the new joint permanent secretary of the Treasury, set up a secret inter-departmental committee of selected permanent secretaries to oversee a reappraisal of the government's policy on growth,

[24] Pemberton, 'Policy networks'; idem, *Policy learning and British governance in the 1960s* (London, 2004). Particularly influential works produced by this network were A. Shonfield, *British economic policy since the war* (Harmondsworth, 1958); M. Shanks, *The stagnant society* (Harmondsworth, 1961); A. Sampson, *Anatomy of Britain* (London, 1962); N. Macrae, *Sunshades in October* (London, 1963); Political and Economic Planning, *Growth in the British economy* (London, 1960).

[25] 'Economic growth and national efficiency', p. 13.

[26] S. E. Finer, *A primer of public administration* (London, 1957), pp. 58–63; Lord Bridges, *The Treasury* (London, 1964), pp. 23–53; D. N. Chester and F. M. G. Willson, *The organization of British central government* (London, 1968), p. 17; H. Roseveare, *The Treasury: the evolution of an institution* (London, 1969), pp. 199–207, 289–90; J. P. Mackintosh, *The government and politics of Britain* (London, 1982), pp. 166–73; G. C. Peden, *The Treasury and British public policy, 1906–1959* (Oxford, 2000), pp. 6–16.

[27] S. Beer, *Treasury control* (Oxford, 1957), pp. 77–8; D. N. Chester, 'The Plowden report: 1. Nature and significance', *Public Administration*, 41 (1963), pp. 7–9; S. Brittan, *Steering the economy: the role of the Treasury* (Harmondsworth, 1969), pp. 315–16; Sir R. Clarke, *New trends in government* (London, 1971). Treasury control of appointments was then lost in the wake of the 1968 Fulton Report.

[28] Beer, *Treasury*, pp. 2, 120–1.

[29] C. Thain and M. Wright, *The Treasury and Whitehall: the planning and control of public expenditure, 1976–1993* (Oxford, 1995), p. 538; G. Jordan, *The British administrative system* (London, 1994), pp. 99–198.

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consider ways in which changes to policy might stimulate growth, and begin a process of education of other departments.[30] The culmination of this process was that in 1961, after ten years in which it had endeavoured to move towards a more *laissez-faire* economic policy, the Conservative government changed course radically. In July, in a debate on the emergency deflationary measures required to meet yet another severe sterling crisis, the then chancellor, Selwyn Lloyd, suddenly told the Commons that he intended to embrace 'planning'. Pressed further, he confirmed that the new policy would involve five-year forward planning of consumption, of government spending, and of public and private investment, and would involve the creation of a new planning institution.[31]

The detail of these changes, however, remained unclear. Much of the discussion up until this point, both inside and outside government, had focused on the French approach. This was logical if one subscribed to the 'Westminster model' view of Britain as a strong centralized state, presupposing an ability to draw up industrial targets and impose them on interests in the manner of the Commissariat Général au Plan (though, in practice, the Commissariat wielded less power than was at first supposed, the evolution of planning in France in fact serving to undermine the étatism of the French state on which it at first depended).[32] As the policy evolved, however, it became increasingly clear to the Treasury (despite Macmillan's professed preparedness to see 'a switch over towards more direction') first that assumptions about its excessive power would not allow of any increase in its ability to intervene in the economy, and secondly that the reality of its weakness presupposed a co-operative approach in a demonstrably independent institution.[33] This pointed towards an essentially 'corporatist' solution in the sense of an interest-intermediation in which peak organizations on both sides of industry would negotiate with the state and regulate their members.[34]

[30] '1961/2 Working party on economic growth – correspondence and memoranda', PRO, T 230/523–6, passim; see also Vinter to Hopkin, 30 Jan. 1961, T 230/579. The committee reported directly to the chancellor of the exchequer, and its report was submitted by him to the cabinet in July ('Economic growth and national efficiency', PRO, CAB 129/105 C(61) 94). A slightly revised version was passed to the NEDC on its creation in 1962. Dismissed as 'Treasury trash' by some members (Brittan, *Treasury*, p. 240) it nonetheless formed the basis of its first report *Conditions favourable to faster growth* (London, 1963).

[31] *Parliamentary Debates, House of Commons*, 25 July 1961, col. 220.

[32] 'French economic planning', 2 May 1961, PRO, T 230/657, EC(S)(61)5; PEP, 'French planning: some lessons for Britain', *Planning*, 29 (1963), pp. 355–63, 388; P. A. Hall, 'Economic planning and the state: the evolution of economic challenge and political response in France', in M. Zeitlin, ed., *Political power and social theory* (London, 1982); Hall, *Governing*, pp. 164–91.

[33] Macmillan to Lloyd, 1 July 1961, PRO, PREM 11/3883; 'Economic planning', 3 Aug. 1961, PRO, T 230/706, EC(S)(61)9; permanent secretaries' group on planning, 1st meeting, 21 Aug. 1961, PRO, T 277/1074; memorandum on planning by the FBI, 25 Aug. 1961, PRO, T 277/1073; Boyle to Lloyd, 'French planning', 6 Nov. 1961, PRO, T 325/72; minutes of the TUC Economic Committee, 1961–2, records of the TUC, Modern Records Centre, University of Warwick (TUCA), MRC MSS 292B/560.1/03, passim; PEP, 'Economic planning in France', *Planning*, 27 (1961), pp. 231–7.

[34] P. C. Schmitter and G. Lembruch, eds., *Trends towards corporatist intermediation* (London, 1979), passim.

Yet, despite support for more 'planning' amongst both employers and unions, in practice there was little desire in British industry to see the construction of powerful corporatist-style institutions. The government, for example, arranged for a TUC delegation to visit Sweden, in the hope that they would be converted to Swedish-style centralized unionism and to making binding national agreements on wages and productivity; but the delegation returned completely unpersuaded of the need for radical institutional change on these lines.[35] Similarly, amongst the leaderships of employers' organizations, although 'revisionists' such as Sir Hugh Weeks and Sir Hugh Beaver were prepared to consider intermediation between business and public interests, others were opposed to what they saw as the stifling of business enterprise.[36] On both sides of industry, many were both wedded to the idea that a solution to raising growth somehow lay with the government (thus demonstrating the intellectual hold exercised by the Westminster model), and simultaneously antithetical either to taking direction from government (thus demonstrating the model's exaggeration of government power), or to reforms that might allow them to impose on their members policies agreed in any putative tripartite institution. The result was a particularly weak form of neo-corporatist 'planning' in the shape of the NEDC.[37]

Following the creation of the NEDC, the government then went on to make higher growth an explicit target of economic policy, adopting the 4 per cent annual growth target recommended by the new institution in 1962 and beginning the implementation of an array of new policies to achieve it. Essentially, there were three dimensions to the policies ushered in by the new priority attached to growth, a priority shared by the incoming Labour government in 1964. First, the government began to craft an innovatory set of policies on the supply-side of the economy; intervening to correct perceived market failure and to this end creating a range of new supply-side institutions such as the NEDC and its associated office (NEDO) and industry-level EDCs; the industrial training boards created by the Conservatives' 1964 Industrial Training Act; Labour's creation in 1964 of the department of economic affairs to oversee long-term economic planning; the new ministry of technology; and the industrial reorganization corporation, set up in 1965. Secondly, it attempted to construct an 'incomes policy' that would give unions and employers some influence over economic policy in return for restraint on wage demands and price rises, the intention being thus to sustain faster growth by ensuring that higher demand did not simply raise inflation and precipitate a sterling crisis that would force the government to deflate the economy. Thirdly, extensive changes to fiscal policy were set in train to make both the tax structure

[35] 'TUC visit to Sweden: report from the ambassador to Sweden', 3 Dec. 1962, PRO CAB 134/1902. For an overview of Swedish 'planning' at this time see A. Shonfield, *Modern capitalism* (Oxford, 1965), pp. 199–211.

[36] J. Boswell and J. Peters, *Capitalism in contention: business leaders and political economy in modern Britain* (Cambridge, 1997), pp. 107–8.

[37] W. Grant, *The political economy of corporatism* (London, 1985), pp. 9–11; Ringe and Rollings, 'Responding', passim.

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and government expenditure decisions more related to the attainment of higher growth.

This re-shaping of the government's economic priorities, the adoption of a specific growth target, the consequent creation of a wide range of new policy instruments, and the resetting of many existing instruments, was potentially a fundamental policy shift comparable with the paradigmatic shift from a Keynesian to a 'monetarist' policy-making framework in the late 1970s.[38] However, the growth-oriented policies ushered in by the Conservatives, and taken up by Labour in opposition and developed by it when the party entered power in October 1964, proved to be short-lived. Despite the hope that they would allow Britain to break out of the constraints placed upon it by the commitment to sterling, the hoped-for growth failed to materialize. Consequently in July 1966 the growth objective, indicative planning, and the attempt to build a voluntary incomes policy were effectively jettisoned in favour of deflation to avoid devaluation.

The potential economic policy revolution therefore came to naught, or at least to very little. Why was this? It might be argued that the proposed reforms were incapable of delivering higher growth. It is, however, very hard to evaluate the success or failure of the proposals since they were never properly implemented in any of the three dimensions of policy change. As with the NEDC, a key reason for this failure lay in Britain's fragmented polity. At a deeper level, however, the fact that so many economic actors were captivated by a 'Westminster model' view of how Britain's polity should function prevented widespread agreement on the ends of the modernization project from being translated into agreement on the means to these ends. Without such agreement, it proved impossible for the modernizers to prevail over those who resisted change.[39] To assess the truth of this assertion, we now consider why the policy changes inaugurated in the early 1960s failed to fulfil their revolutionary promise, examining in turn examples from each of the three elements of the new policy package.

II

If indicative planning in the NEDC foundered on the rocks of long-standing institutional fragmentation and interdependency, as Ringe and Rollings argue, how effective was other action taken by the government on the supply-side? A specific instance of the new interventionism was the attempt to improve the

[38] P. A. Hall, 'Policy paradigms, social learning and the state: the case of economic policy making in Britain', *Comparative Politics*, 25 (1993), p. 279, argues that a 'paradigm shift' in economic policy occurs when the very goals of that policy are changed and, as a result, the policy instruments and instrument settings used to achieve them are altered.

[39] See Lowe and Rollings, 'Modernising', p. 112; and Pemberton, 'Policy networks', pp. 785–6. The key 'modernizers' being Frank Lee, Richard ('Otto') Clarke, William Armstrong, and Robert Hall in the Treasury under the Conservatives, and the economic advisers Nicholas Kaldor and Robert Neild under Labour.

quality of British industrial training via the introduction in 1964 of a training levy/rebate system for industry, and the creation of a central training council and industrial training boards intended to oversee and reform training.

Once growth had been embraced as an economic objective by the Treasury in early 1961, a new policy on training was its natural corollary. Lacking the power of direction, the Treasury began to promote a more activist approach to industrial training in the relevant inter-departmental committees.[40] In fact, however, mounting evidence of the failure of industry adequately to train workers in the 1950s had already produced growing support amongst many ministry of labour officials for the imposition of a levy/rebate system on the French model to force industry to raise both the quality and quantity of training.[41] In industry too there was a feeling that change was required if growth was to be raised. The influential Federation of British Industry conference at Brighton in November 1960, for example, strongly emphasized training and re-training and advocated a new attitude to apprenticeships.[42] The main organization in the training world, the British Association for Commercial and Industrial Education was also in favour of radical reform.[43] Likewise, many unions (though, significantly, not the craft unions) were prepared for change – Tom Williamson, on behalf of the TUC General Council, for example, warned a conference of the Industrial Training Council that the government would have to act if industry could not reform training itself.[44] By 1961, therefore, there appeared to be extensive support on which the Treasury could capitalize for a new approach to training as a means to higher growth.

In December 1962, the government published a white paper which outlined three objectives: 'to enable decisions on the scale of training to be better related to economic needs and technological developments'; to improve the overall quality of industrial training and establish minimum standards; and to spread the cost more fairly.[45] This led directly to the 1964 Industrial Training Act. Yet, despite temporary success in spreading the cost of training more fairly, overall its achievements were limited. The apprenticeship system remained essentially

[40] See 'Training within industry: inter-departmental working party on training levy schemes, 1961–2', PRO, T 227/1576-8, passim.

[41] The head of an official delegation which investigated the French system of training levies and rebates found the approach to be both 'remarkable' and 'admirable' and urged that the ministry of labour adopt the idea (see 'Summary of the visit to France', 5 Feb. 1961; and Stewart to Rossetti, 6 Feb. 1961, PRO, LAB 18/729).

[42] 'The next five years', 26 Nov. 1960, Records of the Confederation of British Industry and predecessor organizations, Modern Records Centre, University of Warwick (CBIA), MSS 200/F/4/75/19. Brittan, *Treasury*, p. 216, saw the 'Brighton revolution' as a key moment and in 'Economic growth and national efficiency' the Treasury acknowledged the important role that the Brighton conference played in paving the way for its policy reappraisal in 1961.

[43] See P. J. C. Perry, *The evolution of British manpower policy: from the Statute of Artificers 1563 to the Industrial Training Act 1964* (London, 1976), pp. 71–87.

[44] Industrial Training Council, *Second report, January 1960 to March 1961* (London, 1961).

[45] Cmnd 1892, *Industrial training: government proposals* (London, 1962).

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unchanged and key objectives relating to raising the volume and quality of trainees were not attained.[46]

An important factor in this failure, as with the failure of indicative planning, was the fragmented nature of both British government and of British labour market institutions. For example, departmental infighting between policy networks based on the ministries of labour and education (but encompassing institutions of civil society such as industrial training managers and trade unions in the case of the former, and universities and colleges of further education in the case of the latter) lay behind the two-year delay in publishing the Industrial Training Bill and prevented the construction of a policy that embraced both further education and on-the-job training.[47] Turf disputes between the ministry of labour and the expenditure division of the Treasury (on which the ministry of labour depended for the funding of the proposed reforms) also hampered the construction of new policies, until Treasury economic policy officials realized that better industrial training was fundamental to any policy for growth.[48] Similarly the inland revenue refused to take on the task of collecting the levy; a problem only solved by allowing industry to take responsibility for administering the levy/rebate system.[49]

Fragmentation and interdependence did not just manifest itself in Whitehall. The ministry of labour was all too aware that it would depend on labour market institutions if it was to succeed in reforming industrial training. However, although both the employers' organizations and the TUC acknowledged the failures of post-war British industrial training and were prepared to consent to government intervention and to an institutional overhaul, they were divided on what this should consist of and lacked the power to deliver their members in any bargain that they came to.[50] The various employers' organizations, for example, often disagreed, found it difficult to co-ordinate their response to the government's initiative, and continually fell back on the idea that a solution to the 'training problem' ultimately lay with the government.[51] There were also

[46] D. King, *Actively seeking work? The politics of unemployment and welfare policy in the United States and Great Britain* (Chicago, 1995), p. 130; D. Finegold and D. W. Soskice, 'The failure of training in Britain: analysis and prescription', *Oxford Review of Economic Policy*, 4 (1988), pp. 21–53; Shonfield, *Modern*, p. 119. J. Sheldrake and S. Vickerstaff, *The history of industrial training in Britain* (Aldershot, 1987), pp. 37–8, detected some improvement in engineering, but overall their assessment was also negative.

[47] 'Industrial training: consideration of an industrial training levy, 1961–1962', PRO, LAB 18/729, passim.

[48] See, for example, the objections cited in 'Joint note by the Treasury and inland revenue', 8 Sept. 1961, PRO, LAB 18/784. The change in attitude is particularly evident in Clarke to Cairncross, 'The means to faster growth', 22 Oct. 1962, PRO, T 230/580.

[49] 10th meeting of the cabinet committee on economic policy, 3 May 1961, PRO, CAB 134/1689, EA(61); Evans to Stewart, 18 June 1962, PRO, LAB 19/714.

[50] The respective appraisals of the white paper by the British Employers' Confederation (BEC) and the TUC are a good illustration of the divide between them (see 14 Feb. 1963, CBIA, MSS 200/C/3/EDU/24/5; and 22 Jan. 1963, TUCA, MSS 292B/132. 14/1).

[51] The joint FBI/BEC education and training committee is a good example and its minutes for 22 June 1961 indicate the extent of the problem (CBIA, MSS 200/C/3/EDU/1/35).

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significant divisions between these organizations and their members.[52] Many companies were reluctant to cede control of training or feared that interfering with apprenticeships would worsen industrial relations (as employers' representatives on the NEDC privately acknowledged, firms could be just as bad as unions, sometimes worse, when it came to entrenching restrictive practices in industry).[53] Smaller firms completely opposed the idea of a training levy because it would end their free-riding. There was also disagreement in the TUC with craft unions, which had a vested interest in restricting the number of apprentices, resisting reform. The TUC proved unwilling, or unable, to surmount institutionalized divisions between craft and non-craft unions which gave the former the power to limit the scope of TUC agreement to change.[54] Furthermore, although elites in the employers' organizations and the TUC were prepared to agree to the idea of institutional reforms in apprentice training, in individual firms and factories employers and craft unions proved profoundly resistant to radical change. This low-level opposition, and their lack of power over their members, led both the employers' organizations and the TUC to oppose important aspects of the government's proposals. One notes, for example, their common resistance to a strong central authority able to compel industries radically to overhaul their training practices.[55]

The ministry of labour, reluctant to push ahead aggressively for fear of spoiling its relations with industry and prejudicing its traditional role as an industrial conciliator, was unable either to prevail over this fragmentation within and between organizations of employers and unions or to surmount divisions between these actors and the ministry itself.[56] A reluctance to cede authority to non-governmental institutions was also noticeable for, essentially, the ministry remained trapped in a zero-sum 'Westminster model' view of power.[57] This prevented it from mobilizing the considerable support that existed amongst what Boswell and Peters termed 'vanguard elites' in the peak organizations, for a radical re-shaping of apprenticeships in the pursuit of better economic performance.[58] Moreover, Britain's adversarial two-party political tradition both

[52] G. T. Page, *The Industrial Training Act and after* (London, 1967), pp. 60–4; Grand Council of the FBI, 13 Feb. 1963, CBIA, MSS 200/C/3/EDU/1/38; and CBIA, MSS 200/C/3/EDU/24/5, passim.

[53] 'NEDC', 5 July 1964, CBIA, MSS 200/B/3/3/201.

[54] Nowhere was this split more noticeable than in the conflict between the TUC's general council and its education committee (on which craft unions predominated). See Boyfield to Woodcock, 4 Feb. 1963, TUCA, MSS 292B/132. 14/1; and 'Comments on growth of the UK economy', 12 Feb. 1963, MSS 292B/811/3, Ed. Ctee. 5/2.

[55] For the BEC's opposition to a strong central authority, see 'Central body under the training act', 14 Feb. 1963, CBIA, MSS 200/C/3/EDU/24/5. For the TUC's retreat from the general council's initial desire for such a body, see 'Note of a meeting with representatives of the TUC', 6 Mar. 1963, PRO, LAB 18/835.

[56] Brittan, *Treasury*, pp. 328–9. For the ministry of labour's awareness of the possible consequences of radical government intervention, see Nash to Stewart, 5 Mar. 1963, and Maston to Rossetti, 7 Mar. 1963, PRO, LAB 9/382; also file note, 10 May 1963, PRO, LAB 9/378.

[57] Note by H. F. Rossetti, 17 Feb. 1961, PRO, LAB 18/729.

[58] Boswell and Peters, *Capitalism*, pp. 34–5.

restricted constructive political debate on the means to higher growth and prevented any attempt to capitalize on the widespread bipartisan support for new policies and thus create a mandate that would enable the government to take on these vested interests in the labour market. Like the ministry of labour's officials and much of industry, therefore, politicians remained trapped in a 'Westminster model' conception of British politics.

The consequence of this fragmentation and interdependence, and the inappropriateness of the Westminster model mindset, can be seen in the judgement of ministry of labour officials that, despite support for reform amongst elites on both sides of industry, radical reform of industrial training was impossible given the barrier to change formed by the preference of many individual firms and craft unions to retain their autonomy.[59] Instead, the institutional structure of the new industrial training boards and the creation of a weak central training council by the 1964 Industrial Training Act simply reproduced the fragmented structure of the labour market, and entrenched the existing apprenticeship system rather than reforming it.[60] Consequently, both the quality and quantity of industrial training remained lower than the achievement of the new growth objective required them to be.

III

The acceptance of the need to modify collective wage bargaining via a permanent voluntary 'incomes policy' was another of the innovatory ideas ushered in during 1961.[61] Between 1960 and 1961, a consensus emerged amongst Treasury officials that such a policy was essential to the achievement of higher growth.[62] An agreement with unions and employers on wage restraint would, it was hoped, relate the growth of incomes to no more than the rate of growth of productivity, thus preserving international competitiveness and ending the damaging series of sterling crises that had dogged economic policy since the war. By doing so, the theory went, 'stop–go' would be eliminated and the trend rate of growth would be raised by avoiding the lower growth and lost output associated with 'stops'. This was a classic 'positive-sum' approach to policy, and one which acknowledged the lack of power exercised by the government over wage settlements in Britain's fragmented labour market.[63]

Wage restraint was not a new idea. The lesson that an incomes policy was required had been fully learned by the Treasury's economic section in the 1950s,

[59] The dependence of the ministry of labour on both sides of industry in any reform, and its fear of alienating either were evident from the first ('Memorandum by the minister of labour', 19 Oct. 1962, PRO, LAB 43/396, EA(62) 108).

[60] Shonfield, *Modern*, pp. 117–18; Finegold and Soskice, 'Failure', pp. 25–6; King, *Actively*, p. 211.

[61] P. Meadows, 'Planning', in F. Blackaby, ed., *British economic policy, 1960–1974* (Cambridge, 1978), p. 412. [62] A. Cairncross and N. Watts, *The economic section, 1939–1961* (London, 1989), p. 342.

[63] The degree of such fragmentation was highlighted by H. L. Wilensky and L. Turner, *Democratic corporatism and policy linkages: the interdependence of industrial, labor-market, incomes and social policies in eight countries* (Berkeley, 1987).

although concerns that wage restraint was essential to full employment were evident as early as 1944.[64] However, it was not until the widespread intellectual change produced by the proponents of new policies on growth that the economic section, in conjunction with Macmillan, was able to persuade the Treasury during 1960–1 that a permanent incomes policy must be an essential element of any new policy on growth.[65] The first manifestation of this change was a 'pay pause' for public sector workers in July 1961.

The 'pay pause' was not just an ad hoc response to the sterling crisis, though it was a sign of how resistance within the Conservative party to intervention in wages had conditioned policy during the 1950s; the sterling crisis of the summer of 1961 being used by Macmillan and by elements of the Treasury to bounce the chancellor, then Selwyn Lloyd, into a radical shift towards government action in the economy in the quest for faster growth.[66] It was part of a conscious wish to construct a long-term voluntary solution that would help deliver higher growth.[67] In effect, the 'pause' was implemented to buy the government time to devise a more coherent long-term strategy encompassing the private sector as well as the government's own employees. Unfortunately, its unilateral imposition in the public sector poisoned the well of co-operation on which the government would depend for any compromises on free collective bargaining. In the face of union opposition, progress on building the institutions needed to support a voluntary policy was painfully slow. In February 1962, a white paper announced its replacement by a 2–2½ per cent 'guiding light' for wage increases, but it did not define the means by which this would be administered.[68] In July, Macmillan announced the setting up of a new national incomes commission (NIC) to provide the necessary machinery. However, with the continuing refusal of the unions to co-operate, the initiative ran into the sands. In effect, the guiding light was 'quietly buried' and the commission remained ineffectual.[69]

Substantive progress on a voluntary incomes policy had to await the October 1964 general election. An incomes policy embedded within economic planning was acceptable to the TUC as long as it was 'based on social justice, taking into account all forms of incomes'.[70] A policy of co-operation in the 'planned growth of incomes' produced a 'joint statement of intent on prices and incomes' between the new Labour government, TUC, and employers' organizations on 16 December 1964 that was reminiscent of a treaty between sovereign powers.

[64] Cmd 6527, *Employment policy* (London, 1944), p. 18.

[65] Cairncross and Watts, *Economic section*, p. 342; Macmillan to Lloyd, 4 July 1961, PRO, PREM 11/3620.

[66] W. P. Fishbein, *Wage restraint by consensus* (London, 1984), p. 33; Pemberton, *Policy learning*, ch. 5.

[67] Macmillan certainly saw it in this light, see Macmillan to Lloyd, 15 July 1961, PRO, PREM 11/3841; and H. Macmillan, *At the end of the day, 1961–1963* (London, 1973), p. 36.

[68] Cmnd 1626, *Incomes policy: the next step* (London, 1962).

[69] A. Cairncross, *The British economy since 1945* (Oxford, 1995), pp. 144–5.

[70] TUC, *Report of proceedings at the 95th Annual Trades Union Congress, Brighton, September 2 to 6, 1963* (London, 1963), p. 446.

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Further bilateral negotiations with the TUC and employers led to the creation of the national board for prices and incomes (NBPI) in March 1965 to oversee a 'pay norm' of 3–3½ per cent (subject to exceptional increases for productivity bargains, exceptional manpower needs in specific industries, to remedy unacceptably low pay or on grounds of comparability).

Despite this apparent agreement at elite level between the key actors, given the lack of power of the peak organizations over their members there was considerable scope for agreed pay norms to be breached by plant level bargains.[71] In the summer of 1965, with little being delivered by the new policy, a sterling crisis nearly led to a compulsory wage freeze but the government, fearing that this would stymie any future attempt to negotiate a voluntary incomes policy, stepped back. Instead, it persuaded the TUC to institute an 'early-warning system'. This proved inadequate.[72] In July 1966, following a severely disruptive strike by seamen over a 17 per cent pay claim and in response to a severe run on the pound, the government imposed a six-month statutory wage freeze followed by a further six-month period of 'severe restraint'.

Thus, the attempt to build a permanent voluntary incomes policy had failed.[73] Nor was the policy as implemented all that successful, being not particularly effective in controlling the growth of wages, indeed in the longer term probably counter-productive, and poorly integrated into the overall growth policy package.[74] A fundamental cause of the failure was again the fragmented yet interdependent nature of both British government and its labour market. Whilst the Treasury came to the view during 1960–1 that the growth of wages must be related to that of productivity, it could not simply dictate wage settlements. It needed to secure the co-operation of employers and unions and build with them a consensus on both ends and means. It also needed to secure the support of those government departments that would oversee incomes policy. However, the

[71] A point made by the TUC's Economic Committee to George Brown, the minister tasked with constructing a workable voluntary policy ('TUC: the government's statement on the economic situation', 11 Nov. 1964, TUCA, MSS 292B/110. 44/2, Econ. Ctee 2/5). See also Fishbein, *Wage restraint*, p. 2; and J. Boston, 'Corporatist incomes policies, the free-rider problem and the British Labour government's social contract', in A. Cawson, ed., *Organised interests and the state* (London, 1985). A key problem of course was that those who broke with restraint still received its benefits (M. Olson, *The logic of collective action* (Cambridge, MA, 1965)).

[72] A failure privately acknowledged by Len Murray, head of the TUC research department in 'Prices and incomes policy: brief for the First Secretary's meeting with Mr Woodcock on 8 July', 7 July 1966, PRO, EW 8/16, and in minutes of the 17th meeting of the TUC economic committee, 26 July 1966, TUCA, MSS 292B/560. 1/12.

[73] Blackaby, ed., *British*, pp. 641–2.

[74] See for example, A. Cairncross, *Managing the British economy in the 1960s* (London, 1996), pp. 269–71; P. A. Haywood, 'The political development of incomes policy in Britain from 1945–1975, with special reference to relations between government and the trade union movement' (D.Phil. thesis, Oxford, 1987); R. Jones, *Wages and employment policy* (London, 1987), chs. 5–7; Kirby, 'Institutional rigidities', p. 640; Middleton, *Government*, p. 595; J. Tomlinson, 'British economic policy since 1945', in Floud and McCloskey, eds., *Economic history*, III, pp. 282–3; L. Ulman and R. J. Flanagan, *Wage restraint: a study of incomes policies in Western Europe* (Berkeley, 1971), pp. 42–7; R. J. Flanagan et al., *Unionism, economic stabilization, and incomes policies* (Washington, 1983).

divisions within and between the key players had again proved an insuperable barrier to progress in an area of policy beset by interdependencies.

Within government, the Treasury had faced strong initial opposition from the ministry of labour, which feared that an incomes policy would prejudice its traditional role as a industrial conciliator and its relationship with industry more generally.[75] For similar reasons of institutional history, and as a consequence with its links to industry, commerce, and financial institutions, the Board of Trade was equally reluctant to countenance reciprocal action on prices or dividends (not least because such action might reduce investment).[76] Since the Treasury could not compel these departments to comply with its strategy, which was bound to involve intervention in both fields if incomes policy was not to operate to the disadvantage of any particular group, it found it hard to make progress.[77]

Outside government, as officials recognized immediately, the policy could only work with the active support of unions and employers.[78] The price of TUC co-operation proved to be an extension of the policy into prices and dividends.[79] From the start, there was considerable resistance to this from employers.[80] Bargaining with these two groups was long and hard since, fundamentally, each wanted restraint from the other but was reluctant to make an equivalent sacrifice. Despite the positive-sum basis of incomes policy, therefore, a 'Westminster model' style zero-sum approach continued to shape the actions of key actors.

It might have been expected that, since incomes policy was so essential to the wider growth project, the NEDC would have helped in the construction of an agreement. It proved virtually useless. Such were the sensitivities, and such were the divisions between the various groups, that it proved impossible to break out of bilateral discussions between each and the government into a more wide-ranging debate about the crucial importance of incomes policy to growth.[81] The weakness

[75] This fear was evident from the first in 'Wages policy', 28 Apr. 1961, PRO, CAB 134/1690, EA(61) 30.

[76] Its permanent secretary told the Treasury group on incomes policy that it 'would be better to abandon all attempts to seek an agreed incomes policy than to embark on a course which might lead to controls of this kind' (8 Oct. 1964, PRO, T 311/188, TGIP(64) 7th meeting).

[77] Haywood, *Political*, p. 255. [78] Cairncross to Macmillan, 3 Nov. 1961, PRO, PREM 11/3287.

[79] See, for example, verbatim minute of NEDC meeting, 5 July 1963, CBIA, MSS 200/B/3/3/201, E. 171. 63.

[80] Whilst the BEC was prepared to accept some price intervention, the FBI, the Association of British Chambers of Commerce and the National Association of British Manufacturers were not ('Incomes policy', 11 Dec. 1963, CBIA, MSS 200/B/3/3/201. 1; minutes of the FBI economic study committee, 30 Oct. 1963, CBIA, MSS 200/F/3/E3/2/14; 'Minutes of a meeting between management members of the NEDC and representatives of the 4 employers' organisations', 11 Dec. 1963, CBIA, MSS 200/B/3/3/201. 4, E. 311A. 63).

[81] An inter-departmental group of permanent secretaries recommended against pursuing tripartite talks in the NEDC for fear of the government's losing control of the development of the policy (19 Feb. 1965, PRO, EW 8/100, OGIP(65) 2nd meeting).

of Britain's new planning structure was therefore a key contributor to its failure to construct an effective voluntary incomes policy.[82] Nor was the development of policy aided by the broadly bipartisan political support for incomes policy since, in a profoundly adversarial political culture, neither of the major parties was prepared to admit their broad agreement on policy in this field and thus bring greater pressure to bear on unions and employers to co-operate together in the policy.

Moreover, labour market fragmentation and interdependency went deeper than disagreement between the TUC and employers' organizations. Conciliators and arbitrators, for example, were outside government control. The result was a succession of awards that broke agreed norms.[83] Furthermore, although the TUC and employers' organizations were eventually persuaded to support the policy after 1964, there proved to be too little power at the centre to make these national agreements stick at plant-level and 'wage drift' was a major factor in the failure of incomes policy to contain inflation.[84] This failure, and the fact that after July 1966 incomes policy was abandoned for some years (and when resurrected in the 1970s was viewed as a way of controlling the balance of payments rather than as a means to higher growth) suggest that, whilst many in Britain's political economy had come to the conclusion that an incomes policy was essential to the attainment of higher growth, this lesson was not properly translated into a durable and effective policy – policy makers being balked by Britain's fragmented institutional structure in the field of wages. Thus, the institutional fragmentation and interdependence of British economic policy institutions, coupled with the fact that many of the key actors found it hard to adapt their long-held 'Westminster model' assumptions to a more corporatist style of policy formulation, stymied substantive progress on this second element of the post-1961 policy package, as it had with the first.

IV

What then of the third dimension of the new policies: the attempt to raise growth by improving fiscal policy? This had two elements. The first involved the introduction of long-term planning of public expenditure on the lines recommended by the Plowden report in 1961. Plowden had found that the crude use of public expenditure variations for demand management was exacerbating 'stop–go' and recommended that major items of spending be planned 'over the long term and

[82] Tomlinson, 'British', pp. 272–3; Wilensky and Turner, *Democratic corporatism*.

[83] George Woodcock thought the 1966 Kindersley award to doctors was 'devastating' to attempts to build a voluntary policy ('Note of a meeting with first secretary of state', 25 May 1966, PRO, EW 8/16).

[84] Official concerns about wage drift were evident from the start ('Incomes policy: effect of wage drift on national incomes policy, 1961–1963', PRO, T 311/85, passim; and 'Wages drift and incomes policy, 1961–1964', PRO, LAB 10/1699, passim).

in relation to the prospective resources'.[85] This led directly to the setting up of the new public expenditure survey committee (PESC) in 1961, an attempt (ultimately flawed) to plan public expenditure over a five-year horizon and to relate that expenditure more effectively to the achievement of higher growth.[86]

The second element, upon which this section will focus, involved enhancements to the structure of taxation. To assist the attainment of higher growth, from 1961 the Treasury attempted to rebalance the tax system to increase investment and work incentives and sought to improve its ability to control the level of demand in the economy through the use of new taxation instruments.[87] These were important changes. Henceforth, tax was also to be used to attain economic ends; revenue raising and questions of equity were no longer to be the predominant criteria by which new taxes were judged.[88] The result was an array of new taxes introduced during the 1960s to help attain the new growth objective.

Although Martin Daunton sees the change of government in 1964 as marking the turning point in tax policy in the 1960s, a substantial continuity in tax policy between 1961 and 1966 indicates that both parties had learned similar lessons regarding the relationship between taxation and growth.[89] The introduction in 1961 of powers to vary purchase tax and excise duties between budgets, the 1961 payroll regulator, and, to a lesser extent, the 1965 selective employment tax (SET) were directly linked to the desire to improve the government's stabilization policy and thus help raise the trend rate of growth. Taxation of short-term capital gains by the Conservatives in 1962 and of long-term gains by Labour in 1965, as well as Labour's simultaneous introduction of a corporation tax, all aimed to use taxation to promote structural changes in patterns of investment – encouraging higher and longer-term investment and raising growth.[90] Similarly, both the payroll regulator and SET attempted to promote long-term changes in the structure of employment and release surplus labour to be used

[85] Cmnd 1432, *Control of public expenditure* (London, 1961), paras. 12, 18, and 23. R. A. Chapman, *The Treasury in public policy-making* (London, 1997), p. 162, noted that the Plowden report was a watershed – marking 'the end of the post-war period and the beginning of a new period of professional management' in public expenditure control.

[86] R. Lowe, 'Milestone or millstone? The 1959–1961 Plowden committee and its impact on British welfare policy', *Historical Journal*, 40 (1997), pp. 463–91; idem, 'The core executive, modernization and the creation of PESC, 1960–1964', *Public Administration*, 75 (1997), pp. 601–15.

[87] The need for a reappraisal of tax policies if growth was to be raised was highlighted by the Treasury in 'Economic growth and national efficiency', 1961.

[88] A. Robinson and C. T. Sandford, *Tax policy-making in the United Kingdom: a study of rationality, ideology and politics* (London, 1983), p. 2.

[89] M. Daunton, *Just taxes: the politics of taxation in Britain, 1914–1979* (Cambridge, 2002), pp. 229–301. The way in which Labour's tax policy after 1964 echoed the policies of the Conservatives is commented upon by H. Pemberton, 'A taxing task: combating Britain's relative decline in the 1960s', *Twentieth Century British History*, 12 (2001), p. 372, and R. C. Whiting, *The Labour party and taxation* (Cambridge, 2001), pp. 153–9, though the latter sees Labour's reform of corporation tax and its capital gains tax as more distinctive than does the former.

[90] Robinson and Sandford, *Tax*, p. 12.

more productively.[91] The new taxes, with the exception of SET, fell less heavily on firms and, coupled with measures such as increased investment allowances, this also contributed to the re-balancing of the tax structure away from companies. Again, this aim was growth-related – aiming to raise corporate profits after tax, and thus increase industrial investment and innovation.

Paradoxically, however, although there was substantial policy continuity between Conservative and Labour governments, there was also a marked lack of coherence.[92] Despite the alteration of economic objectives and some successes with particular taxes, there was no strategic reform programme. Why did it prove impossible to craft a coherent set of changes to the tax system and effectively to link these changes to the new growth objective? Two interlinked factors contributed to the failure. First, Britain's adversarial two-party system made its politicians wary of publicly promoting tax reform for fear of the electoral consequences.[93] Both major parties tended to avoid specific commitments on tax, even avoided internal party discussion in the case of Labour, and neither constructed a strategic programme for reform.[94] Consequently, despite the existence of broad political agreement on the need to make the tax system more growth-oriented, responsibility for reform devolved almost entirely to Treasury officials under the Conservatives (particularly Lee and Hall) and to political advisers under Labour (particularly Kaldor). However, the Treasury could not just ordain tax policy. It had to rely on its powers of persuasion (powers weakened by the lack of heavyweight political support for wide-ranging tax reform). This was a considerable problem, for the Treasury faced opposition from elsewhere in Whitehall, especially from the revenue departments that would administer any new tax but which, whilst ultimately answerable to the chancellor, were historically not subject to direction by Treasury officials because their boards had long held statutory appointments from the crown.[95] Thus customs and excise was able to torpedo Treasury plans for a wholesale reform of sales tax, prevent the introduction of a full-blown payroll tax and, in conjunction with the ministry of pensions and national insurance, strangle the payroll regulator at birth.[96] Similarly, vigorous

[91] R. W. R. Price, 'Budgetary policy', in Blackaby, ed., *British*, pp. 151–2; Robinson and Sandford, *Tax*, p. 12.

[92] Daunton, *Just*, p. 17; Pemberton, 'Taxing', p. 373.

[93] R. Rose and T. Karran, *Taxation by political inertia* (London, 1987), p. 5. S. Steinmo, 'Political institutions and tax policy in the United States, Sweden and Britain', *World Politics*, 41 (1988–9), pp. 500–35, also sees developments in British tax as shaped by its electoral system, though in his emphasis on actual policy he emphasizes political preparedness to countenance change once elected rather than the reluctance of parties to signal such changes in advance of elections.

[94] The inclusion of proposals for a capital gains tax in Labour's 1964 manifesto was a notable exception (the Conservatives were also planning to implement such a tax but did not make this public, see 'History of the Finance Act, 1965', PRO, IR 83/282, pp. 16–17).

[95] Sir Alexander Johnston, *The inland revenue* (London, 1965), pp. 20–4; Bridges, *Treasury*, p. 161; Sir James Crombie, *Her Majesty's customs and excise* (London, 1963). The conservatism of the revenue departments is highlighted by Daunton, *Just*, pp. 232–3.

[96] See 'An economic regulator', 16 Dec. 1960, PRO, T 171/516, BC(60) 41, for its initial statement of opposition. Boyd-Carpenter to Macmillan, 7 Apr. 1961, PRO, PREM 11/3672, sets out the opposition of the ministry of pensions and national insurance.

opposition from the inland revenue obtained important modifications of Labour's proposals for both a corporation tax and capital gains tax.[97] Change was also opposed by important interests outside government (such as the City) which tax changes might disadvantage but which the government needed to acquiesce in any alterations to the structure of taxation if its policy was not to be undermined.

Lacking a mandate for radical reform of taxation, without the ability to enforce change, and politically unable to strengthen the power of the centre, those in the Treasury seeking to use tax to promote growth had only two options if they were to defeat vested interests opposing change and successfully use the tax system to promote faster growth.[98] One was to construct a consensus in favour of change that would transcend the reluctance of politicians to lead reform. This was not done. The new NEDC, for example, was not used to construct a programme of tax reform, mainly because the Treasury jealously guarded its prerogatives in the field of tax.[99] Thus the Treasury betrayed its fundamental allegiance to a zero-sum 'Westminster model' of tax policy making. Instead of seeking to steer actors towards agreement, Treasury officials instead attempted to implement a programme of reforms by stealth. This, the second option, was attractive because changes to the tax system were traditionally devised strictly within the confines of the secretive budget committee.[100] It might have been expected that the hand of the Treasury would have been strengthened by its power to control the agenda in this committee. This did not happen because Treasury modernizers on this committee, whether officials or political advisers, could not make changes without political support to legitimate them. The absence of a prior and publicly endorsed programme of reform meant that reforms had continually to be negotiated with others on the committee, notably the revenue departments and the Bank of England, and with Treasury ministers and the prime minister. Consequently, the modernizers had to trim their proposals to avoid political risks and to avoid antagonizing vested interests; and they were sometimes led into opportunistic and hasty construction of policy, to capitalize on favourable but short-term political conditions. The price was a series of compromises, for example over capital gains tax, that reduced technical efficiency.

The result was that, whilst in 1961 the Treasury came to the view that tax should be used to raise growth, particularly via the raising of investment and redeployment of surplus manpower, the translation of this lesson into policy was poorly handled. Important changes to the tax system certainly occurred under both governments, but these changes were too incoherent to amount to a sustained and effective programme of intervention capable of significantly

[97] PRO, IR 83/282, passim.

[98] As S. Barrett and C. Fudge, *Policy and action: essays on the implementation of policy* (London, 1981), p. 259, point out, without a mandate for change, central government lacks the authority to disrupt existing power relationships.

[99] Pemberton, 'Taxing', p. 375.

[100] See PRO, T 171/515-819, passim, for the annual budget committee records in this period.

contributing to higher growth. This incoherence flowed directly from Britain's adversarial (and thus fragmented) political culture, the fragmentation and interdependence of its institutions in the field of tax, and the contradiction between this fragmentation and the assumption of a powerful centre.

V

Policy change in each of these three dimensions of policy change flowed from the re-ordering of economic priorities during 1961–2 and the adoption of an ambitious growth target. Yet, in none of the specific policies examined here was an enduring policy change realized that enabled the achievement of higher growth. In none was the government able effectively to intervene in the economy and create the developmental state that appeared at the time to be so fundamental to the ending of Britain's relative decline.[101] What is true of these studies was also true of the growth project as a whole. Stymied by the fragmentation of and interdependence between both government and non-government institutions, the project failed to achieve the institutional change that seemed so fundamental to raising the trend rate of growth.[102] The result was that, faced with another sterling crisis in 1966, the government felt itself compelled to discard the growth objective, and its economic priorities reverted to their state prior to the adoption of that objective in 1961–2. Subsequently, planning for growth become 'the love that dare not speak its name'; the attempt to craft a permanent and voluntary incomes policy harnessed to the achievement of higher growth was abandoned; and tax reforms in the field of labour usage and corporate investment were rolled back.[103] Of the new policy instruments examined here, the only one that survived unscathed was the customs and excise regulator. More generally, the only policies to survive were those that were consistent with the overriding priority now attached to sterling.

There is a school of thought that the attempt to end Britain's relative decline via a policy for growth collapsed in July 1966 because the Treasury took its revenge on a policy designed to reduce its influence on the economy, and that it was able to do this because there was a failure of political will to oppose financial

[101] It is revealing that the 1961 'great reappraisal' referred to by Brittan in *Treasury* had by the end of the decade been downgraded by him to merely a 'reappraisal' – see Brittan, *Steering*, p. 204.

[102] Studies of the indicative planning era that note its failure to raise growth include S. Brittan, 'An inquest on planning', *Planning*, 33 (1967); J. Hayward and M. Watson, eds., *Planning, politics and public policy* (Cambridge, 1975); M. W. Kirby, 'Supply-side management', in N. F. R Crafts and N. Woodward, eds., *The British economy since 1945* (Oxford, 1991), pp. 236–60; Kirby, Institutional rigidities'; J. Leruez, *Economic planning and politics in Britain* (London, 1975); Meadows, 'Planning'; G. Polanyi, *Planning in Britain: the experience of the 1960s* (London, 1967); C. T. Sandford, *National economic planning* (London, 1976); M. Shanks, *Planning and politics: the British experience, 1960–1976* (London, 1977); Shonfield, *Modern*; R. Middleton, 'Economists and economic growth in Britain, c. 1955–65', in L. Black and H. Pemberton, eds., *An affluent society? Britain's post-war "golden age" revisited* (Aldershot, 2004).

[103] T. Smith, 'Britain' in Hayward and Watson, *Planning*, p. 67.

interests over sterling.[104] Superficially, this argument looks persuasive, since the 'planning' era is bracketed by sterling crises and the inception of the new policies did owe something to a *zeitgeist* in which the 'establishment' (and in particular the Treasury) was seen as part of the problem rather than the solution. However, the record suggests that modernizers on the economic side of the Treasury played an active part in the adoption of the new policies and that those who argue the Treasury was not serious about growth do it a disservice.[105] Certainly, some Treasury officials, particularly in its overseas finance section, remained sceptical, but Treasury 'modernizers' did succeed in changing its policy in 1961 and it subsequently made a genuine effort to break out of the 'stop–go' cycle via a policy for growth.

An alternative, and far stronger, thesis is that the project failed because its institutions proved to be inadequate. Leruez, for example, complained that the Conservatives did too little to increase the capacity of the state to intervene in the economy.[106] Although Ringe and Rollings are more generous, their finding that both ministers and officials were serious in their desire for fundamental reform but that their ability to achieve it was undermined by the fragmented yet interdependent nature of British economic policy institutions also points to institutional problems.[107] However, such institutional explanations still fail to explain why Britain's institutional fragmentation should have been such a barrier to progress in the 1960s given the high level of political and technocratic agreement on the need for higher growth, and substantial agreement on the sorts of policies needed to achieve it. This consensus transcended ideological divisions between parties (in marked contrast to the debate over economic policy in the 1970s and, one might argue, much of the 1950s). Such a high degree of agreement might have been expected to have made it easier to achieve an enduring policy shift in the 1960s. To a great degree, the reasons it did not lay in the tradition of political adversarialism and the assumptions of strong party government and a powerful state associated with the 'Westminster model' mindset. Britain's adversarial political culture meant that the major parties were prevented from acknowledging their broad agreement on economic policy in respect of growth.[108] Officials (under the Conservatives) and political advisers (under Labour) in the Treasury were therefore forced to attempt to institutionalize the new policy framework without a political mandate.

Despite the widespread assumption of a powerful centre in British administration, the Treasury initially recognized its weakness in the field of economic

[104] R. Opie, 'Economic planning and growth', in W. Beckerman, ed., *The Labour government's economic record, 1964–1970* (London, 1972), pp. 157–77; Shanks, *Planning*, pp. 89–91; 'The influences on economic policy: Andrew Graham interviewed by Anthony Seldon', *Contemporary British History*, 10 (1996), pp. 153–4; B. W. E. Alford, *Britain in the world economy since 1880* (Harlow, 1996), pp. 260–1.

[105] For example, Leruez, *Economic*, pp. 90–2; and Middlemas, *Power*, II, p. 458.

[106] Leruez, *Economic*, p. 126.

[107] Ringe and Rollings, 'Responding', pp. 349–50.

[108] See Smith, *Core*, for a recent location of the blame for Britain's relatively poor economic performance in its adversarial politics.

policy. It therefore chose the path of co-operation. Yet, in practice the Treasury's subsequent approach to other government departments tended to be conditioned by its historic role in controlling expenditure, even though in economic policy it lacked much of the veto power associated with expenditure control. Those ministries that must implement the new policies were thus able to resist or re-direct policy change. This was true even in the field of tax, normally seen as dominated by the Treasury.[109] The Treasury's approach was therefore shaped by a long-standing political and institutional culture ill-suited to translating the agreement that existed in 1961 on the need for new policies to raise growth into an agreement with the key players on the detail of what these policies should involve. Treasury modernizers found it particularly difficult to transcend historic Whitehall traditions of secrecy and executive prerogative to embrace the active involvement of others – both inside and outside government – in the formulation of policy. In Whitehall, the result was that the Treasury was able neither to mobilize the departments on which it depended for the success of the 'growth project', nor to force their compliance.

Outside Whitehall, fragmentation and interdependencies also proved problematic. There were obvious divisions: between City interests (notable by their absence from the new institutions); industrial interests (which were prepared to see a degree of government intervention but reluctant to cede control of production and pricing decisions); and the unions (which were initially coy about becoming involved in planning and reluctant to see radical intervention in the labour market).[110] Fragmentation went deeper than this, however, for there were also significant divisions between the elites and members of peak organizations. Resistance from below often forced the employers' associations to rein back their preparedness to co-operate with government after the 1961 'Brighton revolution', and it subverted agreements constructed by them bilaterally with the government or in the NEDC. Similarly, the support of the TUC for involvement in indicative planning and for co-operation on incomes policy rested on a limited consensus amongst senior trade unionists, mainly in its economic committee and bureaucracy. There were a number of dissenting unions, the opinion of which must be taken into account if revolt was to be avoided in the general council. This tended to mute TUC support for the new policy framework. Moreover, as we have seen, it was only too easy for employers and unions at plant level to co-operate to subvert national agreements.

The attempt to co-opt employers and unions into the making of economic policy was therefore undermined both by the fragmentation of Britain's economic institutions and the fact that both the Treasury and other government departments found it difficult actively to involve non-governmental actors, on which the new policies' success would depend, in policy making. This reluctance to break open the policy process flowed from deeply embedded assumptions about the power of the British state to achieve change alone and from a history of excluding

109 Rose and Karran, *Inertia*, p. 73.

110 Kirby, 'Institutional rigidities', p. 653.

non-governmental interests from policy formulation which dated back to the nineteenth century.[111]

As Lowe and Rollings have remarked, in theory the NEDC had the potential to provide the missing institutional framework which Britain lacked for 'an equal and open relationship between government and non-government agencies'.[112] This is as true for each of the three case studies outlined here as it was for indicative planning. Yet, whilst it did help the various groups to understand the position of others, the NEDC proved to be of only limited use.[113] It may even have served to exacerbate the problem, by adding a layer between government and individual firms and unions and thus helping further to weaken already weak central control.[114] The problem was that the NEDC was a quasi-corporatist organization installed over the top of otherwise unchanged and highly fragmented institutions. The revolution in British economic policy proposed in the early 1960s required more than this. It needed either a strengthening of the centre (which did not at the time seem politically realistic, not least because of Westminster model assumptions about the power of British government) or a wide-ranging overhaul of Britain's economic, political, and administrative institutions to involve the various interests in the making, implementation, and administration of the new policy.

It is too easy, however, to blame this on a failure of government, for to do so implies that the problem lay solely in a failure of administration. The evidence of this study is that Ringe and Rollings's conclusions regarding the NEDC are applicable to the wider 'growth' project. The problem went much deeper than mere problems with administration; the roots of the project's failure lay in Britain's underlying system of governance. An apparently powerful centre found that it could not act alone but must rely on a range of other governmental and non-governmental institutions; institutions that were highly fragmented, highly interdependent, and relatively autonomous, yet imbued with deep-seated assumptions about the power of the British state to achieve change. Thus the problem lay in the very structure of Britain's polity and in assumptions about the role of its state. If these were to be addressed, the changes required were enormous. Yet, lacking a sufficient shock to the system – a feature of the changes associated with the later shift to 'monetarism' – elites saw little need for the fundamental overhaul of British institutions, political and economic, and of

[111] There is a marked contrast here with a number of other advanced economies; for example, with the experience of policy making in America, with its openly plural process of policy formulation conditioned by institutional structures created at Independence; or, at the other extreme, with the process of compromise and interest group involvement in corporatist Sweden, itself the consequence of Sweden's particular institutional and political development (see Daunton, *Just*, pp. 18–20; M. O. Furner and B. Supple, eds., *The state and economic knowledge: the American and British experience* (Cambridge, 1990), pp. 3–39; Steinmo, 'Political', passim).

[112] Lowe and Rollings, 'Modernising', pp. 113–16; Ringe and Rollings, 'Responding', p. 349.

[113] Also the conclusion of K. Middlemas, *Industry, unions and government: twenty one years of NEDC* (London, 1983); and of Ringe and Rollings, 'Responding'.

[114] Smith, *Core*, pp. 60–3.

British institutional practices that was implied by the adoption of a co-operative approach.[115] The result was that the aims of the reformers remained unrealized. Despite a high degree of support for radical change in the 1960s, Britain's fragmented polity proved unable constructively to address emerging problems with the Keynesian policy framework because it was not prepared to follow through the reforms to their logical conclusions.

[115] M. J. Oliver and H. Pemberton, 'Learning and change in 20th century British economic policy', *Governance*, 17 (2004), pp. 415–41.

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