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INFLATION, EXPECTATIONS, AND THE POLITICAL ECONOMY OF CONSERVATIVE BRITAIN, 1951–1964

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ABSTRACT. *Analysis of policy after 1945 has been profoundly shaped by the idea of a post-war settlement, which is increasingly viewed as inherently inflationary. For much of the period 1951–64, British economic policy was centrally focused on reducing inflation. The extension of sterling's convertibility in the mid-1950s forced British policy-makers to be sensitive to overseas perceptions of British policy and performance. At the beginning of the Conservative government's period in office, monetary policy was believed to be the most effective instrument to control inflation, but its limitations slowly became apparent and created enormous tension between the Treasury and Bank of England. In the literature stimulated by the Phillips curve, the formation of price expectations is the central element in inflationary dynamics, and it is argued that after 1955 Conservative policy was driven by the need to find alternatives to monetary policy to prevent and then limit inflationary expectations. A number of these initiatives – a steep rise in unemployment and confrontation in pay bargaining – sit uncomfortably with the idea of the post-war settlement and an alternative perspective on the Conservative years, emphasizing the Radcliffe committee and the investigations into incomes policy, is proposed.*

Our views on the political economy of Britain after 1945 have been much influenced by the idea of a post-war settlement or consensus, in which priority was given to domestic policy goals – the creation of a mixed economy and a welfare state, the pursuit of full employment – and implied the drawing into government of business leaders and trade union bosses.[1] This notion is not without its critics, but continues to hold a powerful grip on historical interpretation.[2] Belief in the existence of a post-war settlement has been strengthened by a conviction that it can explain some part of Britain's post-war relative economic decline. This belief operates at two distinct levels. On the one hand, there are those who believe that policy was biased towards placating organized labour and away from the needs of manufacturing industry.[3] At a more populist level, the Thatcherite critique of post-war policy for its fiscal laxity and tolerance of accelerating inflation appears to have taken firm root.

[1] See in particular Keith Middlemas, *Power, competition and the state* (3 vols., London, 1983–91).

[2] See the essays collected in Harriet Jones and Michael Kandiah, eds., *The myth of consensus* (London, 1996).

[3] See Correlli Barnett, *The audit of war* (London, 1986); S. N. Broadberry and N. F. R. Crafts, 'British economic policy and performance in the early post-war period', *Business History*, 38 (1996), pp. 65–91.

The Thatcherite image is, however, obviously an ideological construction. Clarke has shown that the British budget was balanced, by the normal conventions of public finance, throughout the Conservative years.[4] Britain's wage inflation was *not* unusually high nor was there any significant upward trend before 1964.[5] The central theme of this article is that British inflation was comparatively low in part because governments pushed hard to break inflationary expectations, especially after July 1955. Rather than favouring organized labour, government policy had periodically to discipline workers over pay claims when other methods of managing expectations had failed.

Inflation may not have risen dramatically but became an issue because of the difficulties, for which the government was basically unprepared, of managing the domestic economy within an extremely competitive international environment. Problems arose in part from uncertainties over policy instruments. It is customary to acknowledge that there were tensions within the Treasury over policy goals, notably the trade-off between the employment and balance of payments targets. The disputes over the Robot plan in 1951–2 and over the control of public spending in 1957, the latter leading to the resignation of the chancellor of the exchequer and his junior ministers, seem to indicate the existence of a 'proto-Thatcherite tendency' at the centre of government long before 1979.[6] There are, however, good grounds for believing both that significant aspects of the Robot and Thorneycroft episodes have been misunderstood and that during the Conservative years conflict at the centre of government was fundamentally more divisive over techniques than over goals of policy-making. In turn, this implies that the idea of a post-war settlement might be less helpful than is customarily imagined in assessing post-war economic policy and political economy.

I

The Attlee governments stumbled into an anti-inflationary policy that relied heavily upon substantial budget surpluses and a network of controls to ease some of the consequences on the balance of payments.[7] There were innovations in anti-inflationary monetary policy during 1950–1, but fiscal policy and high taxes remained the main bulwark against a general rise in prices.[8] In 1950–1,

[4] P. Clarke, *The Keynesian revolution and its economic consequences* (Cheltenham, 1998), pp. 210–11.

[5] S. N. Broadberry, 'Employment and unemployment', in R. Floud and D. N. McCloskey, eds., *The economic history of Britain since 1700* (3 vols., Cambridge, 1994 edn), III, pp. 211–14.

[6] Middlemas, *Power*, I, pp. 194–204, 290–4; J. C. R. Dow, *The management of the British economy, 1945–1960* (Cambridge, 1964), pp. 80–90, 98–103; Samuel Brittan, *Steering the economy* (Harmondsworth, 1970), pp. 195–200, 207–19.

[7] Alec Cairncross, *Years of recovery* (London, 1985), pp. 343–53, 409–26; Jim Tomlinson, *Democratic socialism and economic policy* (Cambridge, 1997), pp. 124–46, 211–36.

[8] On monetary policy, see Susan Howson, *British monetary policy, 1945–1951* (Cambridge, 1993), pp. 283–307. On price controls over individual items, see G. D. N. Worswick, 'Direct controls', in G. D. N. Worswick and P. H. Ady, eds., *The British economy, 1945–1950* (Oxford, 1952), pp. 288–9, 299–305.

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however, leading Conservatives were persuaded that inflation could be checked more effectively by changes in interest rates than by Labour's method, with the added advantage of allowing tax cuts and faster decontrol. Accordingly, when the governor of the Bank of England suggested to the new Conservative Treasury ministers the need for a more active monetary policy (in large part for technical financial policy reasons), he received a sympathetic response.[9] In November 1951, Butler introduced the first post-war rise in Bank rate, from 2 to $2\frac{1}{2}$ per cent, accompanied by a large funding operation to reduce the liquidity of the banks. He pushed interest rates to 4 per cent four months later as the Conservative government faced its first major trial by currency crisis. The drain on the reserves was substantial and induced the Bank and the Treasury's overseas finance division (OF) to devise an ingenious plan to re-establish sterling as an international currency despite the low reserves and the huge claims upon them (the sterling balances).[10] The debate over this 'Robot' plan was a critical episode in post-war political economy.[11] Robot was novel, superficially very attractive, but had drastic domestic implications (almost certainly a big rise in interest rates, big cuts in public spending, and a major rise in unemployment). In the terminology of the 1990s, it was 'shock therapy' to crush inflationary expectations and reinsert Britain into an international economy still massively dominated by US economic and financial power. Domestic policy goals (full employment, industrial re-equipment, and the welfare state) were to be made subservient to the re-establishment of sterling as an international currency.

The main opponents of Robot were highly placed, economically literate, 'wartime irregulars', most prominently Robert Hall, Donald MacDougall, and Edwin Plowden, who believed that the cabinet was being bounced into a decision that needed careful thought and that the Bank was hiding the true costs of the policy. In the Treasury's internal, departmental 'folk memory', the opponents of Robot emerged victorious and the 'deflationist' tendency in the Treasury and Bank was driven underground. This is Robert Hall's own interpretation, which profoundly shaped Cairncross's detailed account.[12] Brittan's brief survey and Middlemas's much fuller exploration, both of which appear to have been heavily influenced by interviews with Treasury officials, also contrast Hall and the 'expansionists' with 'orthodox' Treasury officials.[13]

[9] Susan Howson, 'Money and monetary policy in Britain, 1945–1990', in Floud and McCloskey, eds., *Economic history*, III, p. 235; 'Treasury historical memorandum, demand management, 1953–1958', para. 34, PRO, T267/12,

[10] See J. Fforde, *The Bank of England and public policy, 1941–1958* (Cambridge, 1992), pp. 431–67; Edwin Plowden, *An industrialist in the Treasury* (London, 1989), ch. 14.

[11] Robot was devised by Leslie Rowan (Treasury), George Bolton (Bank of England) and 'Otto' Clarke (Treasury). In addition to sources cited in the next two footnotes, see Alan Booth, 'Britain in the 1950s: a Keynesian managed economy?' *History of Political Economy* (*HOPE*), 33 (forthcoming).

[12] Alec Cairncross, ed., *The Robert Hall diaries* (2 vols., London, 1989–91); Cairncross, *Years*, ch. 9.

[13] Brittan, *Steering*, pp. 195–200; Middlemas, *Power*, I, pp. 196–204.

There are, however, alternative readings. The Treasury was split, but on personality rather than principle, as will be argued more fully below. The Robotics may have lost the battle, but they certainly did not lose the war. Cabinet twice rejected Robot (in large part because the reserves were eventually stabilized by the higher interest rates) but apparently resolved (in an 'uncirculated record') to move towards convertibility by other routes.[14] The notion of a 'big bang' to shock the country out of inflationary expectations certainly did not go away but, more importantly, even piecemeal convertibility meant that more account had to be taken of foreign opinion. Hall noted in his diary: 'The more I think about it, the more incredible it is that we have gone so far on a road [towards convertibility] wanted by neither political party, approved by no economist, and no other OEEC country. The sinister influence of the Bank of England behind this is more like reality than a myth.'[15] The claim in his diary to have defeated Robot was premature.[16] In part, the Bank and OF gained leverage by manipulating the reserve statistics to exaggerate the scale of external weakness.[17] The progress of sterling towards convertibility had immense consequences for macroeconomic policy and broader, domestic political economy.

With the benefit of Susan Strange's insights into the political economy of international finance, it is clear that in this period sterling made the transition from a 'master currency' (used in a closed imperial bloc) to a 'negotiated currency' (used more widely but requires the issuing state to give inducements to the users).[18] As a result, British policy had to 'preserve a specially intact reputation…for safety and stability' which implied 'a very strong reserve position' and 'a patent capacity to correct any disequilibriating tendencies in its domestic economy'. If policy could not inspire such confidence, any negotiated currency was 'destined to come under acute external pressure from the users'. The Bank ardently wanted to avoid convertibility in the conditions of 1951–2: at fixed (Bretton Woods) rates of exchange, with weak reserves, huge sterling balances, and a weak underlying current account.[19] After Robot interest rates remained high to dampen inflationary forces and rebuild the reserves. An unofficial target surplus of £300–£350 million in the current balance of payments was agreed to strengthen the reserves further.[20] The

[14] See Fforde, *Bank*, p. 443n, for an explanation.

[15] *Hall diary*, I, p. 258.

[16] Ibid., p. 260.

[17] After the failure of Robot, the British government sought US assistance with a 'collective approach' to convertibility. The US refusal, on the grounds that sterling was too weak, prompted the Bank to discover that invisible income for the previous year had been underestimated and that the overall balance of payments was in fact in surplus. Hall commented acerbically: '[The mistake] is said to be the result of about 20 different small errors all in the same direction. The chances of this happening are about 1 in 1048575 but I do not suppose they will admit to any systematic bias': ibid., p. 269.

[18] Susan Strange, *Sterling and British policy* (London, 1971), pp. 17, 21, 299–300 (quotation from p. 299).

[19] Fforde, *Bank*, p. 538.

[20] Committee on the working of the monetary system, *Principal memoranda of evidence* (London, 1960), Bank of England memo 9, paras. 23–4; Committee on the working of the monetary system,

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target, however, had no force and was not met.[21] Sterling remained vulnerable but strong enough to permit further moves towards convertibility with help from favourable shifts in the terms of trade.[22] Ministers interpreted the signs of growing economic strength as evidence of the effectiveness of monetary policy and dismantled most remaining controls after the Korean war inflation had subsided.[23] In the early 1950s at least policy-makers operated in a highly favourable climate, with a surge in private investment, buoyant international trade, and full employment.[24] But government became increasingly aware of the disappointing performance of British industry in international markets.[25]

The impact on Britain's trade of a revival of the German and Japanese competition had been foreseen in 1949, but became fully apparent only in the mid-1950s.[26] Apparently safe British markets were lost to German firms which were seen to be superior in absorbing rising labour costs through big increases in labour productivity, gained by major investment programmes.[27] Strong competitive performance was an essential requirement (and an implicit assumption) of Conservative policy, but in the ideological climate of 'setting private industry free', there were few levers of industrial policy for ministers to pull. Tiratsoo and Tomlinson have recently argued that the Conservatives merely tinkered with the problem of poor productivity performance.[28] This judgement is perhaps a little harsh; ministers viewed 'productivity' as a problem for industry, but they could and would act on 'competitiveness', especially as evidence accumulated that incomes were growing more rapidly than productivity.[29] Officials at the Treasury and Bank believed unequivocally that competitiveness depended primarily on the ability to control labour costs.[30] Ministers lectured both sides of industry on the need for wage and price restraint, pulled whatever labour market levers were available to depress the rate of wage increases, and sought to present inflation as a result of union greed

Minutes of evidence (London, 1960), qq. 1473–5, 2531. Hereafter these sources are referred to as *Radcliffe memoranda* and *Radcliffe minutes* respectively.

[21] At least according to statistics available at the time: see Committee on the working of the monetary system, *Report* (London 1959), Cmnd 827, p. 234, table 31.

[22] Alec Cairncross, *The British economy since 1945* (Oxford, 1992), p. 119; Catherine R. Schenk, *Britain and the sterling area* (London, 1994), ch. 5.

[23] Jim Tomlinson, *Employment policy* (Oxford, 1987), p. 146. P. D. Henderson, 'Government and industry', in G. D. N. Worswick and P. H. Ady, *The British economy in the 1950s* (Oxford, 1962), pp. 327–34; Jim Tomlinson, *Government and the enterprise since 1900* (Oxford, 1994), pp. 203–4, 221–3.

[24] Tomlinson, *Employment policy*, ch. 8.

[25] 'United Kingdom share of world trade in manufactures', 27 Jan. 1958, PRO, BT 190/10.

[26] See papers of the Economic Planning Board, EPB(49)5th meeting, PRO, T 229/443.

[27] 'West Germany's rising competition with British exports', sent to the EPB in Oct. 1956, PRO, BT 190/9.

[28] Nick Tiratsoo and Jim Tomlinson, *The Conservatives and industrial efficiency* (London, 1998).

[29] NJC 158 and NJC 153, PRO, LAB 10/1492.

[30] *Radcliffe memoranda*, Bank memo 9, paras. 1–2; Rowan to Bridges, 6 Sept. 1956, PRO, T234/92.

and aggression.[31] The government which had come to power emphasizing the need to divert resources from investment to consumption, now recognized the need for more investment to foster higher competitiveness, and the Treasury adjusted its macroeconomic bearings accordingly.

II

Butler's 1955 budget (subsequently described as a 'give-away' before the general election[32]) was designed to accelerate the growth of output and productivity.[33] Treasury officials eased fiscal policy in the expectation that rising consumption and a tightening labour market would push employers to raise labour productivity. At the same time, rising interest rates (announced before the budget, in part to curb demand and in part to support a further step towards convertibility) and a credit squeeze were designed to maintain confidence in sterling and restrain inflation.[34] Ministers had no reason to doubt the effectiveness of monetary policy.[35] However, the boom continued and sterling also came under intense speculative pressure. Monetary policy was not working as anticipated. It is now clear both that speculative pressures were exacerbated by the 'back-stairs convertibility of February 1955' and that the governor did not welcome all the implications of an active monetary policy.[36] He had no desire to participate in any 'Reaganomic' tension between an expansionary fiscal and a tight monetary policy. He made it very clear that all the levers of policy should pull in the same direction. In part, this reflected operational necessities; the Bank believed that interest rate policy worked best if it retained maximum flexibility. Interest rates should go up quickly, but then return equally rapidly.[37] In the governor's view there was no place for semi-permanent rises in interest rates to counter an expansionary fiscal policy. In part, the governor's position was also a coded attack on prevailing levels of public spending. The Bank believed that high interest rates were not an alternative to proper control of both public spending and wages.[38] This position owed much to the Bank's preference for informal monetary methods given the difficult structural conditions in money markets.[39] The Bank rejected

[31] NJAC 40th (special) meeting, PRO, LAB 10/652; NPACI 33rd meeting, PRO, BT 190/2; H. A. Clegg and R. Adams, *The employers' challenge* (Oxford, 1957), pp. 27–34; Justin Davis Smith, *The Attlee and Churchill administrations and industrial unrest, 1945–1955* (London, 1990), pp. 119–23.

[32] Brittan, *Steering*, pp. 200–2. [33] NPACI 42nd meeting, May 1954, PRO, BT 190/2.

[34] *House of Commons Debates*, 19 Apr. 1955; *Hall diary*, II, pp. 28–33; BC (55) 17, 19 Feb. 1955, PRO, T 171/459; Dow, *Management*, pp. 78, 85.

[35] Howson, 'Money and monetary policy', p. 236.

[36] Dow, *Management*, p. 86; *Radcliffe minutes*, q. 1817.

[37] *Radcliffe minutes*, qq. 2020, 2024; note by governor, 5 July 1955, PRO, T171/456.

[38] *Radcliffe minutes*, q. 2235. See also Alec Cairncross, 'Prelude to Radcliffe', *Revista di storia economica*, 4 (1987), pp. 1–20.

[39] As a result of wartime increases in liquidity, the banks' cash base had grown, giving them incentives to increase lending while reducing the Bank's ability to control the markets through open market operations. The monetary authorities could not fund this debt because they were

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as politically unacceptable interest rates high enough to affect market behaviour, and also found objections to cash ratios, liquidity ratios, and such wartime innovations as Treasury Deposit Receipts (quantitative controls on clearing banks' liquidity). The Bank feared that the clearing banks would quickly seek to evade any formal rules, and erode the existing system of *informal* control, which was essential as the banks could overwhelm official policy if they chose not to co-operate with the authorities.[40] The governor opposed *formal* control on ideological, ethical, and practical grounds.[41] Thus, the Bank believed that only informal systems would function, and then not very effectively, but it did comparatively little to keep the Treasury informed of the limitations of informality.

In this light, it is easy to see why the economic situation deteriorated rapidly in mid-1955. Treasury officials had proposed tax cuts in Butler's March budget in the belief that the Bank was enforcing the counterbalancing credit squeeze announced in February.[42] The Bank, clearly, had other ideas but kept the Treasury in the dark over its (in)action.[43] Significantly, the Bank opposed a further rise in Bank rate to accompany the budget. The governor insisted that the appropriate signals had been given in February and that further increases would not affect domestic conditions but appear to the currency markets as signs of crisis.[44] In July 1955, Butler (at the behest of Treasury officials who needed a much clearer monetary policy) called on the banks to reduce their advances by 10 per cent by the end of the year. The Bank appears (in retrospect) to have done little to encourage compliance but demanded cuts in public expenditure instead.[45] In August, the Bank persuaded ministers that devaluation was imminent but, pointedly, did not raise interest rates.[46] With expansion still largely unchecked and the move to convertibility threatened by a rapid outflow of reserves, the Treasury was forced to introduce a tough emergency budget in October.[47] In other words, the Bank's passiveness in monetary policy precipitated a crisis and brought the cuts in public spending which it so desired.[48]

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simultaneously renewing massive wartime borrowing and financing higher public expenditure. *Radcliffe memoranda*, Bank memo 8.

[40] Fforde, *Bank*, pp. 648–52.

[41] *Radcliffe minutes*, qq. 332–3.

[42] Budget meeting, 6 Apr. 1955, PRO, T171/450.

[43] Fforde argues that the governor told the chancellor of difficulties in making a restrictive monetary policy work: *Bank*, p. 631. However, Butler did not understand the coded messages and his officials believed the governor's public statements that the squeeze was working: *Hall diary*, II, p. 42–4.

[44] 'Treasury historical memo', para. 37, PRO, T267/12; *Radcliffe minutes*, q. 2235.

[45] 'Treasury historical memo', para. 38, PRO, T267/12; Cmnd 827, paras. 415–22; Fforde, *Bank*, pp. 539–40; note by Cobbold, 5 July 1955, PRO, T171/456.

[46] 'Note for the record', 15 Aug. 1955, PRO, T171/456. The Bank left rates because Butler's restrictions on Bank advances were reported to be working: *Radcliffe memoranda*, Bank memo 9, paras. 88–90.

[47] Bridges to Butler, 21 Sept. 1955, PRO, T171/456.

[48] To justify this interpretation of machiavellian motives, it is necessary to refer only to the views of Parsons, executive director (1957–66). He refused to accept sensible, readily available

Macmillan's arrival at the Treasury consolidated this tightening of macroeconomic policy. In his memoirs, Macmillan portrayed himself as a reluctant 'disinflationist', an expansionist at heart who grew increasingly impatient with Treasury caution and was driven ultimately by memories of the 1930s and the devastation of ordinary, decent lives by unemployment. Macmillan and 'the economics of Stockton-on-Tees' are indissolubly linked.[49] This picture omits Macmillan's own role in following Bank priorities in 1956–7. In his first months as chancellor he raised Bank rate to post-war record levels, rebuilt relations with the Bank, tightened the credit squeeze still further and presented cabinet with a list of substantial expenditure cuts – in effect, the Bank's programme.[50] His 'audit of empire' became dominated by a 'Treasury view' of the need to cut overseas aid to stabilize the sterling balances.[51] The loss of reserves during Suez forced Macmillan to borrow from the International Money Fund (IMF) in humiliating circumstances. In contrast to its later dealings with the British government, in December 1956 the IMF did *not* demand changes in Britain's macroeconomic stance, which indicates some satisfaction with the course of post-1955 fiscal and monetary policy.[52] On the day before he left the Treasury, Macmillan called for cuts of £200 million in defence expenditure and £80–£100 million from the social services. The tightening of fiscal policy and concern with the volume of bank advances, popularly associated with Thorneycroft, go back to 1955. The agenda was set by the demands of convertibility and the determination of the Bank to ensure that fiscal rather than monetary policy bore the burden of disinflation.

III

Thorneycroft, the loyal lieutenant, aimed to achieve Macmillan's economies in public expenditure.[53] He also inherited the preference for a tough monetary stance to support sterling. In spring 1957 the current balance of payments improved, but confidence in sterling remained weak and the budget of April 1957 was 'austere on any of the standards of the last 10 years'.[54] It was delivered shortly after a major defeat for the government in industrial relations (discussed below) and within weeks Thorneycroft warned cabinet of currency

improvements in techniques of managing sterling, preferring to exploit currency weaknesses to enforce greater fiscal discipline on the government: Fforde, *Bank*, p. 591.

[49] Harold Macmillan, *Riding the storm* (London, 1971), pp. 705–9; Brittan, *Steering*, pp. 203–7; F. T. Blackaby, 'Narrative 1960–74', in idem, ed., *British economic policy, 1960–1974* (London, 1978), pp. 12–17.

[50] CP(56)7, 6 Jan. 1956, and CP(56)32, 9 Feb. 1956, PRO, CAB 129/79; CP(56)55, 27 Feb. 1956, PRO, CAB 129/80; *Hall diary*, II, p. 57; *Radcliffe memoranda*, Bank memo 9, paras. 111–15.

[51] Tony Hopkins, 'Macmillan's audit of empire, 1957', in Peter Clarke and Clive Trebilcock, eds., *Understanding decline* (Cambridge, 1997), pp. 246–52. Schenk, *Sterling area*, pp. 88–93.

[52] IMF, *Annual report, 1957* (Washington DC, 1957), pp. 26, 53–4, 87–8.

[53] *Hall diary*, II, p. 91.

[54] BC(56)8th and 10th meetings, PRO, T171/479; *Hall diary*, II, p. 106.

collapse if wage inflation were not conquered: 'On the path we are at present following we are moving down towards an economic and political disaster.'[55] Ministers began to prepare public opinion for higher unemployment and tougher government interference in the labour market.[56] Even the austere budget failed to reassure the money markets.[57]

The next foreign exchange crisis began to unfold in August 1957, following devaluation of the French franc. Thorneycroft and Macmillan prepared cabinet for an austere macroeconomic policy with a tough monetary stance at its centre.[58] Both Hall and the governor supported a vigorous defence of sterling, Cobbold judging that on this occasion record interest rates would signal determination rather than panic.[59] The main novelty was Thorneycroft's use of 'proto-monetarist' language, arguing that money supply should not accommodate rising wages and costs, even if the result were rising unemployment. Such hardships were the tolerable and inevitable cost of fighting inflation.[60] There could hardly be a clearer statement of the extent to which the conduct of economic policy had become dominated by sterling. Of course, cabinet ultimately rejected this Macmillan–Thorneycroft strategy allegedly because ministers could not stomach real cuts in departmental expenditure.

The temptation to read into the 'Thorneycroft episode' deep conflicts over principle has been irresistible. Middlemas's account, for example, emphasizes divisions; between an expansionist prime minister and an austere chancellor, and between the 'inflationist' and 'deflationist' wings of the Treasury, which had been split since Robot in 1952.[61] This contains an element of truth but is exaggerated. Macmillan had instigated the demand for real cuts in departmental expenditure, to reassure the markets about the government's determination to defend sterling. The measures which cabinet did accept from Thorneycroft's September 1957 emergency statement (a 2 per cent rise in Bank rate and a ceiling on bank advances) appeared to work, sterling regained its strength, the reserves began to rise, and large current account surpluses were forecast.[62] Substantial cuts in planned public expenditure were agreed and enforced.[63] There was no real need to push harder. Furthermore, Lowe has pointed out that cabinet was extremely sensitive about social welfare expenditure.[64] Macmillan's own efforts when chancellor to press the Treasury

[55] C(57)103, PRO, CAB 129/87.

[56] The issue of wage policy was at the top of the agenda, but, as part of its preparations, cabinet reviewed its machinery to maintain essential supplies and services during a strike: CC36(57), PRO, CAB 128/31.

[57] IMF, *Annual report, 1958* (Washington DC, 1958), p. 48.

[58] C(57)194 and C(57)195, PRO, CAB 129/88.

[59] Macmillan, *Riding the storm*, p. 354. *Hall diary*, II, p. 126; Fforde, *Bank*, pp. 677–8.

[60] C(57)195, PRO, CAB 129/88.

[61] Middlemas, *Power*, I, pp. 283–94.

[62] These were the assessments made at the time: *Hall diary*, II, p. 137; BC(57)26 and BC(58)15, PRO, T171/487. Subsequent commentators have doubted the impact of the 'September measures' and have emphasized instead the favourable shift in the terms of trade: Dow, *Management*, pp. 103, 386.

[63] Treasury historical memo, p. 23, PRO, T267/12.

[64] Rodney Lowe, 'Resignation at the Treasury', *Journal of Social Policy*, 18 (1989), pp. 515–18.

case against rising social expenditure had failed spectacularly in cabinet. Thorneycroft was doomed to failure on cuts in social service expenditure, and managed to reignite the turf war between the Treasury and Bank over responsibility for communicating with the clearing banks, which Macmillan had done much to defuse.[65] In this episode, tactics were more important than strategy, in part because Thorneycroft appears not to have understood the strategic, theoretical issues.[66] In short, Thorneycroft was clumsy and inept, and lost the confidence of a prime minister who shared most of his strategic goals.[67]

There are also grounds for believing that the idea, so central to the image of a post-war settlement that elevated full employment above price stability, of a divided Treasury is also over-simplified. There were certainly personality clashes from the time of Robot, which persisted well into the late 1950s.[68] The stand taken during Robot in 1952 did not, however, determine subsequent dispositions. Hall, who is clearly designated an 'expansionist' by both Middlemas and Brittan (on whose account Middlemas clearly relied) became the leading Treasury proponent of running the economy with higher average unemployment to ease wage inflation.[69] Hall gave very positive support to Otto Clarke, one of the authors of Robot, in his efforts in 1953 to curb social welfare spending.[70] Rowan, another of the authors of Robot, was one of the strongest supporters of big tax cuts in the over-expansionist budget of April 1955.[71] Treasury officials may have been split in 1952, but in September 1957 they were impressively united and the most spectacular arguments were between the chancellor and the governor, both deflationists and fiscal hawks, about ultimate authority to implement monetary policy. The Bank demonstrated consummate political skills in steering currency convertibility through cabinet, but its machiavellian tactics created suspicions within the Treasury. Furthermore, the governor's promises to ministers of cleaner, more incisive macroeconomic control from an active monetary policy were unfulfilled. The biggest obstacle to an effective monetary policy was shown time and again to be the Bank's unwillingness to implement ministers' decisions. Cobbold was afraid of upsetting the consensual relations with the clearing banks. He was convinced that any alternative regulatory system implied greater state control and erosion of the clearing bankers' commercial spirit.[72] The Treasury established the Radcliffe committee to bring the Bank's evasive and secretive

[65] Fforde, *Bank*, pp. 679–82.

[66] *Hall diary*, II, pp. 124–5, 143–9.

[67] Neil Rollings has a similar view, but concentrates on fiscal rather than monetary policy: 'Butskellism, consensus and the managed economy', in Jones and Kandiah, eds., *The myth*, pp. 104–9.

[68] On the severity and durability of these personality conflicts, see *Hall diary*, II, pp. 166–7.

[69] Brittan, *Steering*, p. 199. Middlemas portrays Hall as a 'late convert to the view that full employment had been set at too high a figure' (*Power*, I, p. 294) but this is crude, as is evident in Hall's efforts to curb the tax-cutting preference of the official Treasury in 1955: *Hall diary*, II, pp. 31–5, 43.

[70] *Hall diary*, I, p. 281.

[71] 'Note of a meeting', 19 Jan. 1955, PRO, T171/450.

[72] *Radcliffe memoranda*, Bank memo 13, esp. para. 39; *Radcliffe minutes*, qq. 332–3, 1817–8.

ways into the open.[73] Though he fared better than Norman before the Macmillan committee, the governor was given a rough ride in his Radcliffe appearances. Many of the principles with which he was particularly associated were criticized in the final report and the Bank emerged rather damaged from its spell at the centre of public attention.[74] The Radcliffe committee is as important to an analysis of power, competition, and the role of the British state in the post-war period as is incomes policy, planning, or any other aspect of economic policy.

IV

This idea that the post-war settlement is an unduly restrictive window through which to observe Conservative policy can be underlined by reference to a simple but powerful tool of economic analysis, the Phillips curve. As first developed by Phillips and Lipsey, it seemed to show that there was a stable inverse relationship between levels of unemployment and inflation.[75] Phillips derived his curve from observations from the period 1861–1913, and applied it to later periods. The relationship remained statistically significant for 1947–57, after minor changes to his unemployment series.[76] Lipsey agreed, but suggested that the curve had been displaced outwards since the war.[77] To those operating in a different analytical tradition, it seemed improbable that inflation could remain low and stable when governments were pursuing the sort of 'soft' full employment policy that is generally associated with the post-war settlement. Phelps and Friedman argued that when governments held unemployment below the level set by economic fundamentals, economic agents would learn to expect inflation and in consequence the Phillips curve would gradually shift upward by the full amount of the newly expected and previously actual rate of inflation.[78] Inflation would accelerate until governments were prepared to accept the level of unemployment at the 'equilibrium' or 'natural' rate (defined as that at which actual and anticipated inflation are equal), where the inflation rate remains stable in the longer term. In this context, the long-run

[73] The Bank formally proposed the setting up of the Radcliffe committee, but only after Treasury attempts to analyse the failure of monetary policy had produced no real results. *Hall diary*, II, pp. 33, 65–9, 99.

[74] Among the casualties of the Radcliffe report were the Bank's views on the importance of the money stock, the importance of prescribed cash and reserve ratios for the clearing banks, the Bank's views on funding operations and the governor's personal opposition to special deposits as a quantitative restriction on clearing banks: Cmnd 827, paras. 381–98.

[75] A. W. Phillips, 'The relationship between unemployment and the rate of change of money wage rates in the United Kingdom, 1861–1957', *Economica*, 25 (1958), pp. 283–99; R. G. Lipsey, 'The relation between unemployment and the rate of change of money wage rates in the United Kingdom, 1862–1957: a further analysis', *Economica*, 27 (1960), pp. 1–31.

[76] For detailed examination of the methodology of both Phillips and Lipsey, see Nancy J. Wulwick, 'Two econometric replications: the historic Phillips and Lipsey-Phillips curves', *HOPE*, 28 (1996), pp. 391–439.

[77] Lipsey, 'The relation', pp. 29–30.

[78] Milton Friedman, 'The role of monetary policy', *American Economic Review*, 58 (1968), pp. 1–17; E. S. Phelps, 'Phillips curves, expectations of inflation and optimal unemployment over time', *Economica*, 39 (1967), pp. 254–81.

Phillips curve is vertical, but in the short run, in the period in which wage bargainers learn about the expected inflation rate and their expectations adapt, there is the possibility of a trade-off between inflation and unemployment.[79] Thus the movement of the Phillips curve is a simple, but powerful, test of the government's policy stance and expectations in the labour market. The results are striking. Figure 1 takes Phillips's curve and raw, unadjusted data for the period 1951–64. It suggests that British labour remained on its short-run Phillips curve until 1960, but that the relationship began to break down in the trade cycle 1960–4. In the 1950s, there is no tendency, as Friedman and Phelps predicted, for the curve to move upwards. The logical, indeed inescapable, conclusion is that governments did not, on balance, adopt a soft macroeconomic stance to hold unemployment below its equilibrium rate. Whatever produced full employment, and economic historians continue to disagree on this point, there is not much doubt that short-run macroeconomic expansion had almost no role.[80]

The breakdown after 1960 seems to indicate that inflationary expectations had begun to develop in the labour market, but to explore further it is helpful to return to basic economic theory. The behavioural foundations of Friedmanite 'adaptive expectations' assume that individuals use information on *past* mistakes to revise *current* expectations. But such mechanistic extrapolation allows individuals to make the same mistakes over and over again.[81] Dissatisfaction with this implication resulted in the development of the 'rational expectations' approach, which holds that individuals form their expectations of the future from all the information available to them, and not just from past values of the variable they are trying to forecast. They will make forecasting errors, but these will be randomly distributed around actual values; they will not make systematic mistakes.[82] However, the acquisition and processing of economic information is costly, and so there are differential incentives to increase economic knowledge and understanding.[83] In this light, we might expect evidence of rational expectations first in financial markets, where forecasting errors can be very costly.[84] The governor told the Radcliffe committee that City markets first became concerned about underlying inflation

[79] Phelps, 'Phillips curves', pp. 255–7.

[80] Compare the 'national income' approach of R. C. O. Matthews, 'Why has Britain had full employment since the war?', *Economic Journal*, 78 (1968), pp. 555–69, with the 'labour market' approach of Broadberry, 'Employment and unemployment', pp. 195–220. Middleton argues that macroeconomic policy had an indirect role: *Government versus the market* (Cheltenham, 1996), p. 578.

[81] T. J. Sargent and N. Wallace, 'Rational expectations and the dynamics of hyperinflation', *International Economic Review*, 14 (1973), p. 328.

[82] D. K. H. Begg, *The rational expectations revolution in macroeconomics* (Oxford, 1982), pp. 28–70.

[83] Ibid., pp. 65–9.

[84] Much of the early empirical work on rational expectations was focused on money and asset markets: see T. J. Sargent, 'Rational expectations and the term structure of interest rates', *Journal of Money, Credit and Banking*, 4 (1972), pp. 74–97; Rudiger Dornbusch, 'Expectations and exchange rate dynamics', *Journal of Political Economy*, 84 (1976), pp. 1161–76.

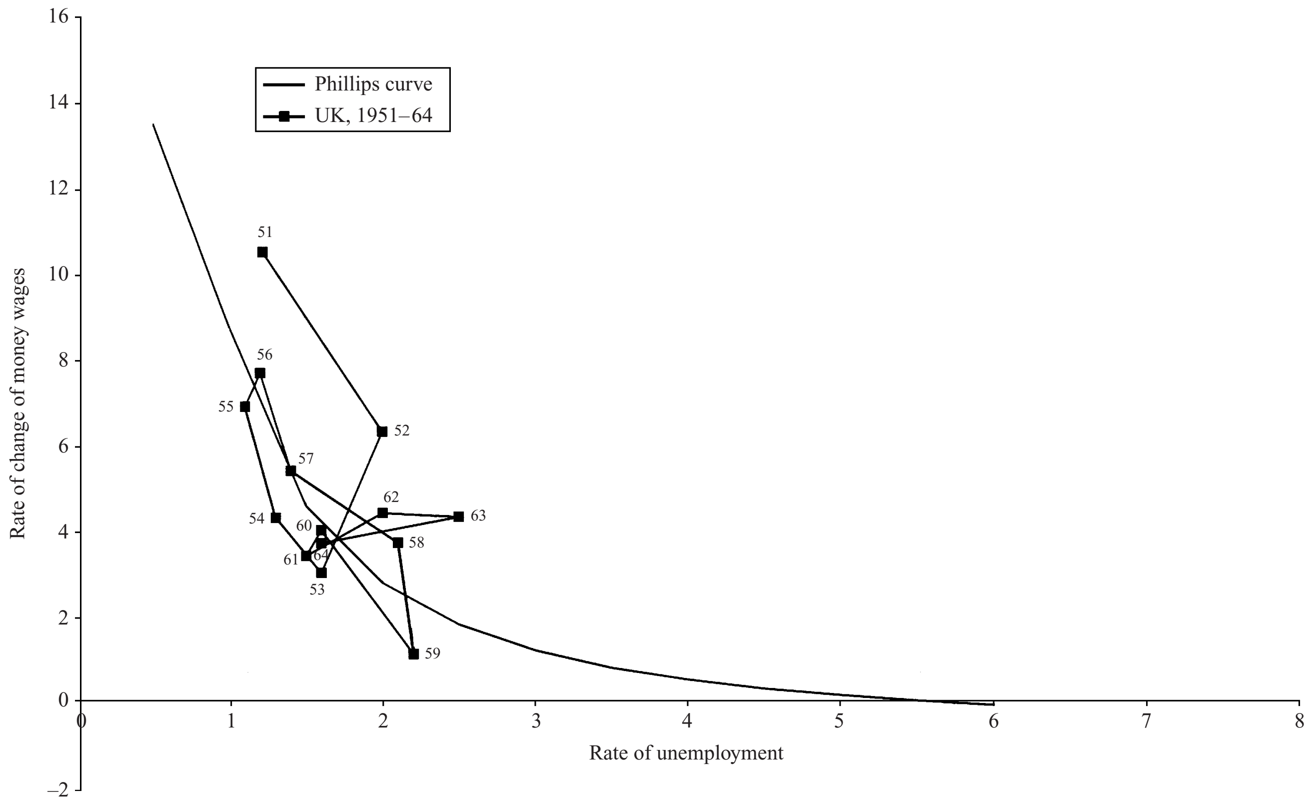

Fig. 1. A Phillips curve for the UK, 1951–1964. *Note*: The Phillips curve is that defined in Phillip's original article (see text for details). Data on unemployment and wages are taken from *The Ministry of Labour Gazette*.

in 1955, but he also noted that investors had shifted into equities rather earlier.[85] Given the huge volume of Treasury bills outstanding, any switch from government paper into industrial equities was bound to make the Bank of England nervous about continuing inflation and vociferous in its efforts to cut public expenditure.[86] In this sense, City investors formed rational expectations of inflationary prospects. It took a little longer for inflationary expectations to develop in the labour market, but it hardly matters much to the argument whether this delay is better explained by Friedmanite adaptive expectations or the Lucas method of rational expectations forming slowly because of the cost of acquiring knowledge. The critical point is that policy-making under the Conservatives can be interpreted as heavily concerned with managing competing, incompatible expectations of price trends.

V

The foreign exchange and domestic money markets needed price stability. Trade unions, on the other hand, believed that some inflation was a worthwhile price to pay for full employment.[87] Employers appeared to welcome the brisk trading conditions provided by the boom, but objected to the inflation which accompanied it.[88] Policy-makers accepted also that expectations, especially in money markets, could be extremely fragile and unstable and trimmed their policies accordingly. Bank officials, for example, believed themselves particularly constrained by the volatility of the markets and came to rely on comparatively small changes in Bank rate with more forceful guidance to the markets on interpretation.[89] The labour market was rather easier to manage because of underlying expansionist tendencies, and before 1960 policy-makers could concentrate on controlling inflation. The Phillips curve suggested that unemployment in the region of 5–6 per cent would have brought price stability, but this would have been electoral suicide. The Treasury quickly resolved that the economy needed higher unemployment than had prevailed before 1955, cabinet guidance on the acceptable level of wage increases, and tougher rules to make the nationalized industries fund pay increases only from revenue.[90] Ministers accepted the broad thrust of this argument but remained extremely suspicious of an explicit incomes policy. They knew that some unions were anxious to take on and defeat any government-set 'pay norm'.[91] Beneath the

[85] *Radcliffe minutes*, qq. 1831, 2097. [86] Note by Cobbold, 5 July 1955, PRO, T171/456.

[87] Trades Union Congress (TUC) archive at the Modern Records Centre (MRC), Warwick University; Econ. Ctee. 1/6, 9 Oct. 1957, Econ. Ctee. 2/4, 13 Nov. 1957, MRC MSS 292/560.1/15.

[88] Confederation of British Industry archive at the MRC: Federation of British industries, economic policy committee, 13 Mar. 1956, MSS 200/F/3/E3/2/8; *Britain's industrial future*, MSS 200/B/4/3/6.

[89] *Radcliffe memoranda*, Bank memo 9, paras. 57–9, 119–21; Fforde, *Bank*, pp. 621–3, 671–2.

[90] There is an excellent summary in 'Treasury historical memorandum, the government and wages, 1945–1960', paras. 109–55, PRO, T267/10.

[91] See the discussions 1958; WP(58)3rd meeting, PRO, CAB 134/1229.

surface of the affluent 1950s, policy-makers were engaged in something much more than simply fine-tuning the balance between employment and the rate of inflation. They were attempting to mould behaviour and attitudes, both within the policy-making community and within the wider public. Thompson-McCausland of the Bank put the issues very clearly in the first weeks of the Eden government: 'At the time of the last election the outstanding need was to persuade the new Government of the inevitable convertibility of sterling. The need now is to disabuse them of a belief in the inevitable rise in prices. The new task is the more difficult.'[92] The Bank's success is evident in the successive tightening of macroeconomic management after 1955.

Following Macmillan's move to the Treasury, anti-inflationary policy extended far beyond the monetary and fiscal stance. He wanted to stiffen the resolve of employers in both the public and private sectors to resist wage claims. Up to 1955, government involvement in pay determination had been sporadic and indecisive. Ministers had encouraged employers to make low wage offers, but would refer disputes to arbitration whenever strikes threatened to undermine confidence in sterling.[93] Before 1955, Monckton's brief at the ministry of labour had been to avoid industrial disputes.[94] Macmillan was more confrontational. He published a much-delayed white paper, which outlined the responsibilities of price-setters under continuing full employment.[95] It emphasized the arguments for price stability and international competitiveness and signalled that price stability might need to come before full employment.[96] Macmillan next presented a cabinet paper arguing that a 'price plateau' in the public sector might create the conditions for a long-term commitment to wage restraint.[97] There are also good grounds for believing that Macmillan led government into a secret bargain with the engineering employers federation (EEF) to co-ordinate resistance to union pay demands in another attempt to prevent inflationary expectations from forming.[98] It is easy to see how this stance might have impressed the foreign exchange markets, but the initiative went spectacularly wrong. The EEF stood firm with effective government support until ministers took fright in the face of a post-Suez sterling crisis.

[92] Thompson-McCausland to governor, 2 June 1955, PRO, T171/456.

[93] For the disenchantment of engineering employers, see Steven Tolliday, 'Government, employers and shop floor organisation in the British motor industry, 1939–1969', in Steven Tolliday and Jonathan Zeitlin, eds., *Shop floor bargaining and the state* (Cambridge, 1985), p. 123. But the employers (and Tolliday) overlooked the efforts of ministers to hold public sector pay and give a lead to private sector employers and unions: CC51(52), PRO, CAB 128/25; EP(56)17th meeting, PRO, CAB 134/1229.

[94] Davis Smith, *The Attlee and Churchill administrations*, p. 111.

[95] The white paper had originally been scheduled for 1952, but a variety of short-term problems (notably fears that publication would produce an adverse response on the foreign exchanges) had postponed publication on at least three occasions: 'The government and wages', paras. 93–106, PRO, T267/7. [96] Ibid., pp. 10–11. [97] C(56)118, PRO, CAB 129/81.

[98] Macmillan held a dinner party for senior advisers, at least one of whom had good links to the engineering employers, to discuss current economic problems. The engineering pay claim was a major topic of discussion: *Hall diary*, II, pp. 58–60.

Cabinet then settled the outstanding public sector pay claims at levels that left the EEF with no choice but to back down.[99] Middlemas regards this painful farce as an isolated attempt to discipline the labour market under full employment.[100] However, recently released state papers record very clearly that ministers actively intervened in *public* sector pay bargaining and sought to win exemplary pay disputes as a way of disciplining the labour market under full employment.[101] To study this episode the lens of consensus and the post-war settlement is self-limiting. Government was attempting to impose on the domestic economy the vision of low, stable inflation that its external policy demanded. Progress towards full convertibility was a decisive step in the full politicization of industrial relations.

Rollings's careful assessment of macroeconomic policy after 1958 has emphasized the continuing preoccupation with inflationary expectations. Rising unemployment inclined ministers towards reflation but the new course began hesitantly for fear of compromising anti-inflationary policy.[102] Not surprisingly, the unemployment rate responded slowly to this indecisive expansion, and ministerial doubts about official statistics and forecasts were strengthened. Ministers had no confidence that Treasury economists had any real idea of what was happening in the economy. More importantly, they doubted whether their political need for low unemployment could be achieved within the electoral timetable. What began as a measured reflation, beginning significantly with relaxation of monetary policy, shifted gear towards more populist measures, and a tax-cutting budget, when unemployment continued at relatively high levels.[103] Macmillan was among the most inclined to press the Treasury for new reflationary measures, but his calculations were at least as much electoral as economic.[104] He had decided in early 1958 that he would need to hold a general election within eighteen months and that success depended on a substantial respite from disinflation.[105] His political judgement appears in turn to have rested on the likelihood of favourable economic conditions, the level of unemployment excepted, for much of 1959.[106] Unfortunately, with political considerations uppermost, reflation was over-done, poorly timed and largely out of control.[107] Once again, the Conservative

[99] E. Wigham, *The power to manage* (London, 1973), pp. 180–2; Tolliday, 'Government, employers and shop floor organisation', pp. 123–31; Clegg and Adams, *The employers' challenge*, pp. 48–156.

[100] Middlemas, *Power*, II, pp. 6–7.

[101] In 1960, for example, ministers resolved to resist a railway pay claim 'even if that meant that there would be strikes': W(60)4th meeting, PRO, CAB 134/2559. For a more systematic attempt by cabinet to discipline industrial labour, see CC32(61), PRO, CAB 128/35.

[102] Rollings, 'Butskellism, consensus and the managed economy', pp. 109–12.

[103] For details, see Howson, 'Money and monetary policy', p. 237; *Hall diary*, II, p. 280; BC(58)6th meeting, PRO, T171/496; BC(M)(59)1, PRO, T171/496.

[104] Rollings notes that Macmillan put himself in the chair of a new ministerial employment committee: 'Butskellism, consensus, and the managed economy', p. 111.

[105] Macmillan to Bishop, 16 Mar. 1958, PRO, PREM11/2305; C(58)227, PRO, CAB 129/95.

[106] BC(57)8th meeting, PRO, T171/487; BC(58)7th meeting, PRO, T171/496; BC(58)38, PRO, T171/497.

[107] Dow, *Management*, pp. 384, 142.

general election victory was followed by a progressive tightening of monetary policy as foreign confidence began to crumble throughout 1960 and finally evaporated in mid-summer 1961.[108] The crisis of 1961 has been seen by Middlemas, the leading interpreter of the post-war settlement, as the catalyst towards a *rassemblement* of the system of tripartism, which had effectively lain dormant since the 1940s. From this *rassemblement* came a new policy emphasis on economic growth and the creation of the national economic development council (NEDC).[109] Perhaps it was the discourse of expansion and growth that helped convince wage bargainers to build inflationary expectations into their pay demands and unhitched the British labour movement from its short-run Phillips curve as noted in Figure 1.

VI

The case is, however, not strong. The evidence points to powerful continuities from the Thorneycroft agenda and even more tenacious effort to break inflationary expectations. The chancellor of the exchequer in 1961, Selwyn Lloyd, was, like Thorneycroft, an orthodox monetary and fiscal conservative who was not afraid to deflate to strengthen sterling.[110] Indeed, the vocabulary of Lloyd's main cabinet paper in late June 1961 bears striking similarities with that of Thorneycroft in September 1957.[111] Once again, the cabinet was told that it faced the worst external crisis for a decade and that devaluation was certain unless severe remedial measures were taken. The consequences of the two policies in the labour market were also strikingly similar. UK unemployment doubled from September 1957 (298,000) to the next peak (667,000 in January 1959). The rise after Lloyd's crisis package was even more substantial and rapid (from 293,000 in July 1961 to 933,000 in February 1963). The goal of the July 1961 measures was exactly that of September 1957, to squeeze inflation to the lowest possible levels and to restore confidence in sterling. On this occasion higher unemployment was needed because inflationary expectations were building. The vulnerabilities of sterling permitted no alternative. Indeed, Whitehall's thinking on growth, which had not progressed beyond the preliminary stage before the crisis, had been premised upon strengthening the balance of payments and holding inflationary pressures.[112]

[108] The course of macroeconomic policy can be followed in Howson, 'Money and monetary policy', p. 237, and Brittan, *Steering*, pp. 172–3.

[109] Middlemas's careful, tempered account accepts the frailty of the 'consensus' and differences within and between organizations. Nevertheless, he is adamant that momentum in policy-making lay with the planners and the growth-minded: *Power*, II, pp. 23–92.

[110] D. R. Thorpe, *Selwyn Lloyd* (London, 1989), pp. 311, 321, 326–7.

[111] C(61)89, PRO, CAB 129/106.

[112] Frank Lee's group of permanent secretaries commissioned 'a submission to ministers on economic growth, with particular reference to the balance of payments' in March 1961: Vinter to Atkinson, 23 Mar. 1961, PRO, T230/523. The report presented to them concluded that 'consideration of increasing the long-term rate of growth must start from the fact that the external

In the historiography of the post-war settlement, the NEDC and growth are the central elements in a broad policy reappraisal of the early 1960s. It emerged from the growth-mindedness of big business, the determination of the new Treasury permanent secretary to modernize economic policy-making, and the first stinging awareness of relative decline.[113] However, the IMF also made a major contribution, which has been generally overlooked. A powerful IMF delegation visited London in May–June 1961 as part of a review and fact finding mission.[114] The visit was not precipitated by a financial crisis, but Treasury officials anticipated drawing on the Fund before the end of the year.[115] The IMF's agenda indicated strong interest not only in obvious issues like the balance of payments, the reserves and discrimination in monetary and trade policy, but also on the prospects for growth, the impact on growth of stop-go macroeconomic policies, and trends in productivity, wages and unit costs.[116] The IMF advocated both industrial modernization and a tougher macroeconomic stance; Britain needed export-led growth.[117] Internal Treasury histories suggest that these discussions influenced the policy agenda when the sterling crisis broke, only weeks after the delegation's departure.[118] In August Britain received a substantial credit from the IMF in return for cuts in public expenditure, measures to make industry more competitive, a long-term wages policy to tie wages to productivity growth, a wage freeze, unilateral reductions in tariffs, and a thorough economic overhaul.[119] Sterling's continuing weakness ensured that the macroeconomic stance remained tight and that expansion had to begin with exports just as the IMF had suggested.[120] Indeed, Selwyn Lloyd, the creator of the NEDC, saw its role as a traditional tripartite, psychological safety valve rather than the embodiment of a new, dynamic forum for policy-making.[121]

The squeeze continued. Maudling's 'dash for growth' in 1963–4 was little more than a measured trot, in the judgement of many neutral, balanced, and

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position is weak and the immediate prospects for it poor': 'Economic growth: report of a working party of officials', May 1961, PRO, T230/584.

[113] Brittan, *Steering*, pp. 217–69, remains a highly influential account, as is Middlemas, *Power*, II, pp. 1–92.

[114] Rickett to Hubback and Allen, 'IMF consultations', 26 May 1961, PRO, T236/6254.

[115] Rickett to Hubback, Towers and Allen, 'IMF consultations', 26 May 1961, PRO, T236/6254.

[116] A copy of the agenda can be found in PRO, T236/6253.

[117] Minutes of the fourth meeting, 1 June 1961; minutes of the fifth meeting, 2 June 1961, both in PRO T236/6254.

[118] Treasury historical memorandum, incomes policy, 1961–4, para. 125, PRO, T267/24.

[119] IMF, *Annual report*, 1962 (Washington DC, 1962), pp. 16, 97–9, 120–5; Treasury historical memo, para. 125, PRO, T267/24.

[120] The 1962 budget strategy held back internal expansion to switch resources into production to meet an anticipated growth of demand in north America. As cabinet decisions were taken, the Bank offered yet more dire warnings of the threat of devaluation: 'The economic outlook', 5 Dec. 1961; Cromer to Lloyd, 22 Jan. 1962, both in PRO, T171/592; BC(62)17 and BC(62)19, both in PRO, T171/604.

[121] Thorpe, *Selwyn Lloyd*, p. 332.

well-informed contemporary observers.[122] Indeed, Treasury papers continually urged the same sort of margin of unused capacity that Lloyd had fought for in 1957.[123] Much has been made of British interest in French growth planning, but British ministerial enthusiasm was tempered by the knowledge that more than one French plan had been launched with a substantial devaluation.[124] Ministers were inclined to talk at length about growth while pursuing an austere macroeconomic policy and watching unemployment rise rapidly.[125] Their anti-inflationary stance was tougher than in 1957–8; unemployment was allowed to rise to higher levels in an increasingly nervous, and frustrated, wait for a surge of exports; new methods of setting an incomes policy were explored; intervention in public sector pay determination became routine; and ministers looked for sanctions on private employers who simply passed on wage increases.[126] Indeed, ministerial disenchantment with spineless employers grew significantly in the early 1960s. The inflationary expectations of yet another group had begun to cause concern. Significantly, growth was also viewed as a problem of attitudes and the general climate of opinion, but little was done to create a macroeconomic climate conducive to expansionist sentiments until the electoral timetable again intervened.[127] In short, sterling remained an exposed currency and required the most careful management by domestic policy-makers and that increasingly implied measures to curb signs of adaptation to underlying, albeit gentle, inflationary pressures.

VII

The most basic conclusion of this study is that important parts of the evidence are unreliable. Macmillan's memoirs have been a central resource for historians of Conservative economic policy. Samuel Brittan relied on them extensively for his insights into the Treasury after 1955, and Brittan has, in turn, been extremely influential for subsequent historians, particularly for Middlemas. Unfortunately, there are two Macmillans. The first is the shrewd and ruthless political operator, 'Harold of the long knives', with both eyes on the main chance and with no fixed ethical or ideological position. The second is

[122] See *Financial Times*, 4 Apr. 1963; *The Economist*, 6 Apr. 1963.

[123] C(61)110, PRO, CAB 129/106. [124] EA(61)9th meeting, PRO, CAB 134/1689.

[125] Thus Lloyd, who presided over an extremely tight monetary and fiscal regime, seems to have seen no inconsistency between this macroeconomic stance and the intention to achieve a 5 per cent growth rate: Thorpe, *Selwyn Lloyd*, pp. 318, 331, 333.

[126] On the wait for exports and the slow start to reflation, see BC(62)19, BC(62)31, and BC(62)43, PRO, T171/604. Intervention in public sector pay can be followed in the papers of the cabinet wages committee of 1962–3; WN(62) series, PRO, CAB 134/2568; WN(63) series, PRO CAB 134/2571. Sanctions against employers are discussed in CAB(62)36th meeting, PRO, CAB 128/36.

[127] 'Economic growth: report of a working party', paras. 35–6, PRO, T230/584. In early 1960 Macmillan was particularly keen to avoid repeating the 1955 dose of reflation and disinflation before and after a general election: Macmillan to Amory, 27 Feb. 1960, PRO, T171/506. In mid-1964, Maudling resisted strong advice from his officials for a check to expansion to support sterling before the election, Bancroft, 'Note for the record', 18 June 1964, PRO, T171/755.

'supermac of Stockton-on-Tees', the expansionist, one nation tory who was determined to extend prosperity down the social scale. The latter is the Macmillan of the memoirs, the former the character who emerges from the public records. His expansionist tendencies usually came to the fore when his or his government's position was in jeopardy.[128] His disinflationary side, about which he wrote so little, was equally strong, inventive, and adaptable. Macmillan was highly 'political', in the sense that he considered the political impact of any proposal before the economic, an essential trait in a successful politician. The governor of the Bank was equally political. To some extent, the ability to say different things to different groups is a requirement of the position, but Cobbold seems to have gone beyond the requirements of the 'traditional role of Janus'.[129] He strategically exaggerated the weakness of sterling to ministers, but he also had an unerring ability wherever he went to create misunderstandings about the scale and effectiveness of monetary policy.[130] In part, misapprehensions were an inevitable result of his preference for spoken rather than written communication and his pragmatic rather than theoretical approach.[131] But the Bank clearly saw itself in a struggle for political influence in which machiavellian tactics were legitimate. The ability to economize with the truth was almost a prerequisite for involvement in economic policy-making in the 1950s. Hall complained of the 'contempt for facts' and intellectual dishonesty of Otto Clarke, the 'evil genius' of OF.[132] Hall's suspicions, noted above, that current account statistics were doctored to meet the immediate needs of OF and the Bank were undoubtedly well founded. Key parts of the evidence cannot be trusted.

Simple social scientific theory has been used to identify the main issues and significant relationships from these unreliable images. Susan Strange has demonstrated that currencies not belonging to dominant economic or geopolitical powers will be acceptable in international use only if backed by cautious, confidence-building domestic policies. The shape of the Phillips curve suggests that full employment came easily before 1960, leaving the authorities considerable economic freedom, as far as electoral calculations permitted, to pursue cautious, confidence-boosting, anti-inflationary measures. After 1960, the difficulties in sustaining external confidence multiplied as wage bargainers belatedly adjusted to underlying inflation. Moreover, the literature flowing from the Phillips curve has identified the formation of expectations as central

[128] The classic Macmillan interventions were to boost the economy for the 1959 general election (see above) and to avoid a second post-general-election 'stop' in the stop-go cycle and during the string of by-election defeats in 1962 when his own opinion ratings were dire: Macmillan to Amory, 27 Feb. 1960, and Amory to Macmillan, 29 Feb. 1960, PRO, T171/506; Treasury historical memo, PRO, T267/24; Thorpe, *Selwyn Lloyd*, pp. 337–42.

[129] Described by Fforde as: 'leaning on the banks where [he] could, while protecting them from a Draconian directive and persuading the Treasury that so drastic a move would be dangerous'. *Bank*, p. 364.

[130] *Hall diary*, II, pp. 29, 33, 43, 65, 96–8, 116.

[131] For a sympathetic account of Cobbold's methods, see Fforde, *Bank*, pp. 611–13, 783–4.

[132] *Hall diary*, I, p. 214; II, p. 167.

to the success of economic management. Conservative ministers initially hoped that a more active monetary policy would control inflation and sustain confidence in sterling, but they found that constraints, real and imagined, rendered interest rate policy and open market operations much less effective than originally anticipated. Having promised better control of inflation, they could not deliver. Accordingly, they were driven to manage expectations and were led into policy areas from which they had deliberately remained aloof before 1955. The failure of monetary control had substantial consequences for the evolution of both economic policy and wider political objectives.

These problems have left their mark on the specialist literature, both economic and historical, of monetary policy, but the wider implications have failed to register in the analysis of the political economy of Conservative Britain. Studies in the dominant tradition of the post-war settlement find it difficult to accommodate issues that were definitely of the 1950s, were initially confined to the technical operation of monetary policy, and created disputes within the core executive rather than between 'broad' government and 'producer' interests. The post-war settlement may explain ministerial determination to return to full employment before the general elections of 1959 and 1964. It is, however, unhelpful in clarifying why sharply rising unemployment and a successful confrontation with the unions over pay were anathema before 1955 and extremely desirable thereafter. The dominant historiographical tradition suggests that 'planning' and the creation of NEDC mark a turning point in Conservative policy. However, the impact of a new growth consciousness on wider economic policy is difficult to detect. The continuities in policy from the middle 1950s are more obvious. This might suggest that the reappraisal of British economic policy began not in 1961 but in 1956, with Treasury–Bank investigations into monetary policy, continued in the search for a workable incomes policy, and reached its high point with the Radcliffe committee. The immediate concerns were inflation, pay, and competitiveness rather than growth. The evidence before the Radcliffe committee has been under-utilized. It reveals that the celebrated or notorious 'Treasury–Bank axis' was riven over the techniques to control inflation rather than the amount of inflation that was tolerable. With this nagging conflict at the centre of government, macroeconomic policy was less effective than it could have been, leaving a bigger anti-inflationary burden to be borne by more confrontational measures to deflate expectations, especially in the labour market. From this perspective, the NEDC was a recognition that confrontation alone was not enough, but it amounts to little more than a sticking plaster over the consequences of sterling convertibility.