Far From Consensual
The Politics of British Economic Policy 1950-55.

by

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Abstract

This thesis examines the conduct of economic policy from the moment Hugh Gaitskell joined the Treasury in 1950 as Stafford Cripps' deputy to Rab Butler's departure in December 1955. It shows that, contrary to the prevailing view of this period, there was no consensus about the ways in which the economy should be managed. There was a sustained argument over the use of physical controls, monetary policy and direct taxation. This thesis examines Gaitskell's economic thought and the underlying economic and political rationales for the positions taken by the Labour and Conservative Parties.

In examining the structure of economic policy-making, this thesis demonstrates that ministerial determination of policy is far more important than previous authors have assumed and that this is why a developing consensus among civil servants about the conduct of economic policy is not reflected in outputs. 'Set the People Free' was more than a political soundbite.

This thesis is based on extensive research in the Public Record Office, but it also makes use of private and Parliamentary papers as well as elite interviews to illuminate the various inputs into policy-making and the way policy developed over the period.

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Glossary

A.P.U.	Atlantic Payments Union (proposal).
C.E.P.S.	Central Economic Planning Staff.
E.C.A.	Economic Cooperation Administration.
E.E.C.	European Economic Community.
E.C.O.S.O.C.	Economic and Social Council of the United Nations.
E.E.A.	Exchange Equalisation Account.
E.I.U.	Economic Information Unit.
E.P.L.	Excess Profits Levy.
E.P.U.	European Payments Union.
F.B.I.	Federation of British Industries.
G.A.T.T.	General Agreement on Tariffs and Trade.
H.O.P.S.	Home and Overseas Finance Division.
I.M.F.	International Monetary Fund.
I.T.O.	International Trade Organisation.
M.E.W	Ministry of Economic Warfare.
N.A.T.O.	North Atlantic Treaty Organisation.
N.U.M.	National Union of Mineworkers.
N.U.R.	National Union of Railwaymen.
O.E.E.C.	Organisation for European Economic Co-operation.
O.F.	Overseas Finance Division.
O.N.C.	Overseas Negotiations Committee.
P.P.S.	Principal Private Secretary.
T.D.R.	Treasury Deposit Receipt.
T.U.C.	Trade Union Congress.

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Introduction

The Birth of Mr Butskell

November 13 1954 witnessed the birth of a new political figure. His arrival was heralded by Norman Macrae in *The Economist.* In an article entitled 'Mr Butskell's Dilemma.' Macrae wrote that 'Mr Butskell is already a well-known figure in dinner table conversations in both Westminister and Whitehall, and the time has come to introduce him to a wider audience. He is a composite of the present Chancellor and the previous one... Whenever there is a tendency to excess Conservatism within the Conservative party - such as a clamour for too much imperial preference, for a wild dash to convertibility, or even for a little more unemployment to teach the workers a lesson - Mr Butskell speaks up for the cause of moderation from the Government side of the House; when there is a clamour for even graver irresponsibilities from the Labour benches, Mr Butskell has hitherto spoken up from the other.'[1]

Mr Butskell was an amalgam of the names of Hugh Gaitskell, the Labour Chancellor of the Exchequer from October 1950 to October 1951 and his Conservative successor R.A.(commonly called Rab) Butler who was Chancellor until December 1955. The point of Macrae's article was to demonstrate the tactics the Labour front bench should use to oppose Churchill's Conservative Government.[2] Although Macrae under-estimated the differences between Gaitskell and Butler, particularly on convertibility policy where Butler had, in fact, favoured a 'wild dash to convertibility', it was not his intention to suggest that there were no policy differences. Macrae was conscious of the fact that 'they were not the same man' and wrote at length about some of the crucial differences in Sunshades in October published in 1963.[3] Mr Butskell might have become one of the forgotten men of British politics had he not been resurrected by historians and political scientists who used the character to personify a consensus over economic policy they argue persisted until the 1970s.

This thesis will show that rather than personifying consensus, Gaitskell and Butler held beliefs and followed polices that amounted to a fundamentally different approach to economic management. The disagreement centred on the use of economic controls on the economy. Gaitskell argued that physical controls such as building licencing and import controls were central to economic planning; to the maintenance of full employment; and to the fulfilment of the policy of providing 'fair shares' of what he classified as 'essential' goods. Gaitskell's belief in a controlled economy lead him to reject the idea that the establishment of convertibility of the pound and of a 'one-world' trading system should be the goals of British policy. He believed that such objectives would be incompatible with a continuation of a socialist economic policy at home.

Although Butler did not share Gaitskell's training as an economist, he also had a set of beliefs that supported a clear economic strategy. He believed that controls constrained economic activity and created artificial shortages which justified the imposition of even greater restrictions. He believed that if the realities of the world economy were not brought to bear on the British economy then economic policy would amount to little more than constant crisis management. He therefore favoured a policy of decontrol, the immediate restoration of convertibility at a floating rate and movement towards a 'one-world' economy. Butler believed that economic management should centre on indirect methods, in particular fiscal and interest rate policy. The divergence between the policies pursued by Gaitskell and Butler reflected differences between political as well as economic doctrines. In particular, it reflected a fundamentally different approach to the relationship between the individual and the state and to what constitutes individual freedom. This was not an esoteric debate confined to academic literature but an important part of political discourse at the time.

Given the fundamental differences that this thesis will argue existed in economic policy between 1950 and 1955 it is necessary to investigate how it is that the idea of consensus has come to dominate the historiography of the period and how the overwhelming evidence that no consensus existed has come to be ignored.

The Consensualists

The origins of the postwar consensus school of history lie in the second volume of Alan Bullock's biography of Ernest Bevin and Arthur Marwick's book Britain in the Century of Total War, both of which were published in the late 1960s.[4] Bullock and Marwick argue that what they saw as a continuing political consensus had its roots in the work of the wartime coalition government. The greatest landmark in the development of the postwar consensus thesis was the publication of Paul Addison's book The Road to 1945 in 1975; this greatly expanded upon Bullock's and Marwick's arguments.[5]

The central argument of Anthony Seldon's book on the postwar Churchill administration, published in 1981, is that the Conservatives programme represented continuity in policy. He concludes that 'one of the most remarkable features of the Government was the extent that Conservative policy followed on logically from Labour policy in the preceding six years.'[6] Seldon's account of the Churchill administration has yet to be challenged. Henry Pelling's book on Churchill's peacetime ministry complements Seldon's account with additional information from the Public Record Office and other archives that were previously unavailable but does not challenge his conclusions.[7] As a former participant in economic policy-making, Alec Cairncross has played a crucial role in providing the evidence that points to the existence of a consensus.

That the view of consensualist historians came to dominate the literature in the 1980s is best explained by the prevailing political conditions of the time. It was in the interest of those on both sides of the political divide to accept a framework that emphasised the radicalism of the Thatcher government and therefore highlighted either its success or failure.

In the atmosphere of the 1980s it was difficult for voices dissenting from the consensus line to be heard. It is only recently that the arguments of the revisionists have found their way from the lecture theatres and into the literature. The case against consensus has tended to concentrate on a more detailed appraisal of specific policy areas. In the sphere of economic policy Neil Rollings has so far provided the most extensive argument against the existence of a consensus although Jim Tomlinson's studies have provided much evidence that points in the same direction.[8]

Although consensualist historians do not all agree about what exactly constituted the postwar consensus they all see economic policy as part of it. In his discussion of 'The Post-War Settlement' in Ruling Performance Paul Addison adopted the definition of consensus provided by Alan Bullock in the wartime volume of his life of Ernest Bevin. On the subject of economic policy Bullock defines the consensus as a commitment to 'First, a mixed economy, partly in public, partly in private ownership, with both sectors subject to constant intervention by Government, a managed as well as a mixed economy. Second, a commitment by all parties to the maintenance of full employment.'[9]

Like most definitions of consensus, Bullock's is more notable for what it does not include than for what it does. His principal object is to show the connection between Bevin's own beliefs and the features of the postwar settlement which he argues was still in place at the time of writing. However, there are several important items that Bullock himself lists as being central to Bevin's beliefs which he omits from his definition of the postwar settlement. Firstly, Bullock argues that Bevin believed in the maintenance of full employment, not only by the use of Keynesian economic policy and nationalisation, but also by 'control over the location of industry.'[10] He also includes amongst Bevin's core values the belief in 'action by the state to maintain the wartime policy of "Fair shares" wherever anything was in short supply - including physical controls (e.g. over building), rationing, food and housing subsidies.'[11] Therefore, although Bullock accepts that the use of physical controls to maintain full employment and 'fair shares' was central to the economic beliefs of senior Labour figures, this element has somehow been lost on the way to defining the postwar settlement.

More recently consensualist historians have qualified their definition of the postwar consensus in response to attacks by revisionist historians. In an article published in 1994 Seldon argues that the consensus over economic policy was that both main parties 'put the maintenance of a high and stable level of employment as their primary aim of economic policy, in marked contrast to the position before 1939.'[12] There are a number of problems with Seldon's definition, not least that is too broad to be of much use. He deals only with the ends of economic policy, not the means and does not say how the policy objective of full, or high and stable employment, was to be achieved. Clearly, Seldon views this as a detail of policy and not relevant to his definition. It is difficult to see how he can justify this omission. Government policy is, by definition, a means to an end. One cannot claim that a consensus exists between the leadership of two parties if they agree about final objectives when policy solutions are different.

A further problem with Seldon's omission of means from his definition is that the goals and means of economic policy are inextricably linked. It will be shown below, for example, that the 1945-51 Labour Government was committed to economic planning by the use of economic controls. This commitment says a lot about Labour ministers attitude towards the relationship between the individual and the state and the role that the state should play in the economy, as does the Conservative's counter-commitment to decontrol and the return to free markets. The willingness of ministers to use different policy devices has a fundamental effect on outcomes. For example, as will be shown below, Hugh Gaitskell's willingness to use price controls allowed him to avoid a trade off between inflation and unemployment and therefore run the economy with greater pressure of demand than would otherwise have been possible. Butler's rejection of price controls meant that he had to establish a balance between these factors.

Another problem with Seldon's definition is that full employment was virtually guaranteed in the 1950s by external factors. Global expansion meant that governments had to do little to maintain full employment. Given the favourable economic climate it becomes difficult to judge exactly how important full employment was in Conservative thinking.

It will be argued in this thesis that there was no agreement between the leadership of the two main parties, while in office, that high and stable employment should be the primary objective of economic policy between 1950-55. Although employment levels remained a major concern there is no evidence that it remained the primary concern of policy other than the fact that full employment continued to be maintained. That Butler gave greater priority to convertibility of the pound and decontrol can be seen in his advocacy of the ROBOT plan to make the pound convertible at a floating rate, which he supported in spite of the fact that greater fluctuations in employment levels were a recognised consequence of the proposals. The plan would have been adopted by the Conservative Cabinet if the Foreign Secretary, Anthony Eden, had not come out against it precisely because he accorded greater political priority to employment.[13] Further, it will be shown that even after the ROBOT plan was blocked its ideas continued to form the basis of the Government's external economic policy. It will also be seen that during the Butler Chancellorship the agenda of fiscal policy shifted from concern about employment to concern about the level of productive investment and economic growth. In fact, increasing economic growth became the primary objective of economic policy during the Butler Chancellorship.

The Whig View of History

It is necessary to look in greater detail at why Seldon and Addison think a consensus existed on economic policy and how they think it was constituted if a considered challenge is to be mounted. It is clear that they believe that by the time of the Gaitskell Chancellorship the Government had been converted to the use of Keynesian demand management to maintain a high level of employment. Addison describes this consensus in the revised edition of The Road to 1945 as 'a Whitehall consensus'. It did not mean that there was no divergence in the political rhetoric of the two parties.[14] What mattered was that policy continued to centre on Keynesian techniques to maintain high levels of employment whichever party was in power. Seldon shares this view and has written that 'by consensus is meant a broad parameter of agreement on many key areas of policy between the leaderships of both main parties when they are in office. Total agreement on all aspects of policy, ideological agreement, rhetorical agreement, agreement on detail, agreement between Government and Opposition front-benches, agreement between party activists or ideologies, and all the other straw men erected by the anti-consensualists, are all ruled out by this definition.'[15]

Addison's explanation is that, 'whichever party was in office, the Whigs were in power. Party conflicts were compromised, and ideology relegated to the margins of government by countervailing factors which impelled all administrations towards the middle ground. Among these factors were the influence of the civil service, the electoral imperatives of a party system in which the two parties were evenly balanced, the pragmatism of party leaders, and the practical value of maintaining a large measure of continuity between one administration and the next.'[16]

Addison argues that in the specific context created by the war years, these countervailing factors operated with even greater force 'because of the existence of a Coalition Government and the prominence in postwar planning of two great Whitehall mandarins, Beveridge and Keynes. Beveridge was the founding father of the welfare state, and Keynes of the managed economy. Their, philosophies, significantly were neither conservative nor socialist, but liberal... Consensus, therefore, was an exercise in containment with an agenda derived in part from sources outside the two-party system... The Labour Left and the Conservative Right were excluded.'[17]

The conversion of British economic policy to Keynesian principles was therefore a central element of the 'Whig Ascendancy'. Although Addison has continued to argue that 'it may well be that in the long run the triumph of some form of Keynesian doctrine was indeed inevitable' in the epilogue to the revised edition of The Road to 1945, he accepts that the Labour Party's continued adherence to Socialist ideas of planning meant that it was not fully converted to Keynesianism by 1945.[18] Addison asserts 'that it was only after 1947, during the period described by Kenneth Morgan as "the retreat from collectivism" that Cripps and the Treasury led the Government towards Keynesianism.'[19]

Elsewhere, Addison has argued that by the time Gaitskell was promoted to the Chancellorship in 1950 the Labour leadership had been convinced that economic management should centre on Keynesian methods. He quotes Donald Winch's assessment that Dalton was the last 'pre-Keynesian Chancellor of the Exchequer', Cripps '"was more at home with Keynesian terminology and methods,"' while Gaitskell '"was perhaps the first entirely self-conscious Keynesian to occupy the chancellorship."The commitment to centralised economic planning had gradually faded away.'[20]

In his study of the 1951-55 Churchill Government, Seldon argues that Butler took over where Gaitskell left off and followed the policy lines indicated by Addison. He writes that 'Gaitskell was to the "right" of his Party, Butler to the "left" of his; both men believed in full employment and the necessity of managing the economy to secure this end.'[21]

Among the many questions raised by Addison's analysis two stand out and will be dealt with in detail. First, was the Treasury really converted to Keynesianism by the experience of the war years? Second, did the Gaitskell Chancellorship mark the end of the process by which the Labour Party moved from a policy of central planning to one of Keynesian demand management? The evidence suggests that Addison is mistaken in both propositions. It will be shown below that the Treasury incorporated the use of Keynesian methods of economic management only insofar as they did not contradict the primacy of financial control. In particular, the Treasury as a whole was not converted to the use of deficit financing as a legitimate economic weapon in peacetime. The Treasury's stance did not change in the years covered by the Gaitskell and Butler Chancellorships. Addison is also wrong to characterise Gaitskell as a Keynesian with a Socialist slant. This thesis will show that he was a Socialist economist with a Keynesian slant. This is an important distinction. Gaitskell believed that Keynesian methods could only be useful within a framework of physical controls. Indeed, during his Chancellorship Gaitskell reaffirmed the commitment of the Labour Party to physical planning of the economy. Seldon is wrong therefore to conclude that as Chancellor Butler picked up where Gaitskell had left off. The significance of the decontrol programme pursued by Butler becomes apparent when examined in the light of the Labour party's continued advocacy of physical planning.

Seldon stresses the importance of official opinion as part of the 'Whig Ascendency'. He argues that the longevity of the careers of civil servants, especially when compared with those of ministers, leads to continuity of government policy: 'Governments came and went. So do ministers, even more quickly. Individual civil servants provide continuity, and civil service culture, traditions and favoured policies endure long after individual civil servants move on. If one considers who have been the individuals who have shaped British policy since 1940, the names of Sir Edward Bridges, Sir Norman Brook, Sir Frank Lee, Sir Robert Hall, Sir Burke Trend and Sir William Armstrong bear comparison with the weight carried by most departmental ministers. The civil service dislikes change. It favours continuity of policy, advises against and tries to block radicalism, whether from left or right. The civil service was content to enact the Keynes-Beveridge inspired policies in the 1940s and cheerfully supported their continuation until the 1970s.'[22]

Seldon's emphasis on the importance of the civil service justifies his contention that what parties say in Opposition is irrelevant to the consensus debate. Politicians may say all sorts of things while out of office but once in government they come under the sway of experienced civil servants and continuity is assured. Seldon argues that 'differences in rhetoric have indeed been far more marked in the postwar period than differences in policy.'[23] Seldon's argument rests on unsustainable assumptions about the relationship between ministers and civil servants that will be examined more closely below. However, there is an obvious defect in his argument when applied to the immediate postwar period. Ministers in this period were nearly all very experienced, most had served in government under the pressure of war and many Labour ministers served an almost uninterrupted term in government from 1940 to 1951. Most of the minsters Churchill included in the Cabinet he formed in 1951 had also served long periods in government, Butler had already spent 13 years in office. Even Gaitskell who, comparatively speaking, had less experience than most of his senior colleagues, had been a temporary civil servant during the war and a minister since 1946. The argument that civil servants have an advantage over ministers in the policy-making process because of the longevity of their appointments and traditions is at its weakest when applied to the postwar period.

Another factor identified by Seldon that inclined policy towards consensus was the 'climate of ideas'. He argues that 'in the 1940s the intellectual and indeed popular mood favoured the innovations of the postwar settlement. The press also, including the right-wing variants, was largely benign.'[24] However the intellectual mood of the postwar period was far from being as benign as Seldon argues. Indeed, Seldon's argument that the 'climate of ideas' of the time was a constraint would appear to contradict his previous argument that differences of rhetoric were greater than differences in policy. If press and public favoured consensus as Seldon argues why did the parties exaggerate their differences? Real disagreements did exist about important issues and Butskellite historiography has failed to register the fact. Concentrating on the climate of ideas also encourages historians to write in vague terms about an intellectual climate which is unspecified rather than look in detail at what important participants in policy-making were saying on these subjects.

The Whig viewpoint of the consensualists is evident in much of literature dealing with the economic history of the postwar period. In particular, Alec Cairncross has emphasised the importance of civil servants and advisers in the economic policy-making process. This emphasis is reflected in the conclusions he draws about the direction economic policy was taking. For example, on economic controls he writes: 'The various 'bonfires' of controls that began in 1948 made it clear that the continuous use of controls after 1945 was essentially a *transitional* strategy. It was not intended to maintain controls indefinitely or to perpetuate the shortages with which they dealt. On the contrary, most of the controls would disappear as supply recovered to a more normal level without any change in price.' [emphasis in original][25]. It is no coincidence that what Cairncross sees as inevitable processes was viewed as such by official opinion. The official Treasury did not like economic controls and saw their abolition as desirable. However, that controls were abolished as the civil servants wished does not in itself indicate that the process was inevitable. In fact it took a change of government and therefore of party ideology. As will be shown, not only has the extent of decontrol during the Labour government been exaggerated but there is clear evidence that ministers intended to perpetuate many controls as part of their Full Employment Bill.

Cairncross' writing can be characterised as the 'Treasury view' of history because policy is always seen as gravitating towards an end goal which the official Treasury favoured. Cairncross himself was Economic Adviser to the Board of Trade and subsequently Chief Economic Adviser to the Government and his writing often reflects his official background.

The impact of the institutional perspective on Cairncross can be seen more clearly if his writing is compared with that of John Fforde, whose official history of the Bank of England is written from the viewpoint of the Bank.[26] It is significant that the one area in which Cairncross concedes there was a discontinuity of policy, namely monetary policy, is an area in which Fforde argues the contrary. Fforde sees the restoration of a flexible monetary policy when Butler became Chancellor in October 1951 as 'the overdue removal of an absurd anomaly within the existing framework of monetary policy rather than as the inauguration of an entirely new approach.' [27] The reason for their disagreement is clear. The Treasury had not been convinced by the case for the abandonment of a cheap money policy until 1950. On the other hand, the Bank had been pushing for the restoration of a flexible Bank Rate policy since the end of the war and had blocked Gaitskell's plans for the extension of monetary controls. When Bank Rate flexibility was restored the Bank of England saw it as an inevitable outcome. The Treasury did not. Hence, according to the Bank of England view of history this change did not mark a significant change in policy while for the Treasury view of history it did.

Another example of the impact of the institutional perspective on Cairncross' work is the account he gives of the ROBOT crisis.[28] He credits officials with the key actions, both in initiating the project and in providing the arguments for Cherwell, the Paymaster General, to stifle the plan. The role of ministers is seen as primarily reactive. This view has been challenged in part by Edmund Dell in The Chancellors.[29] Arguably their different perspectives have been shaped by their experience of government. Dell was Paymaster General in the Treasury from 1974 to 1976 and afterwards was briefly in the Cabinet as Secretary of State for Trade. Cairncross puts much more stress than Dell on the importance of officials in the crisis, more particularly Robert Hall, in the campaign to block the scheme. Dell places more emphasis on the motivation of ministers even though his assessment of Butler's part in the episode is badly mistaken.

Some of the fallacies of the Butskellite approach to history are most glaring in Susan Howson's otherwise excellent study of British Monetary Policy 1945-51. In order to support her proposition that the return to a flexible monetary policy would have occurred whichever party had won the 1951 election, she writes that 'by the time Gaitskell became Chancellor of the Exchequer outside opinion on the utility of monetary policy in Britain as in many other countries on both sides of the Atlantic, had swung away from the attachment to cheap money of the immediate postwar years. Several other countries made major changes in the conduct of monetary policy at the beginning of the 1950s. Gaitskell was a professional economist... One wonders whether and to what extent his views on macroeconomic policy in an inflationary world would have changed in the same direction as those of other British economists including his friends and colleagues in the Labour party. Since the return to a "flexible" monetary policy took place immediately after the 1951 general election would it have taken place anyway if Labour had been re-elected?[30]

Detailed analysis of Gaitskell's views indicates that the clear answer to this question is no. All the evidence suggests that he did not change his mind on monetary policy during his time as Chancellor. In fact, he carried his arguments against a flexible monetary policy into Opposition. This fact is clear from his speeches recorded in *Hansard* and it is a pity that few historians of economic policy look on *Hansard* as a useful source for research.[31] To argue, as Howson does, that in general the intellectual climate over monetary policy had changed says nothing about Gaitskell in particular. In this instance and in all others it is far more appropriate to examine Gaitskell's own views and proposals.

A Keynesian Revolution?

In the last few years the critique of consensus has developed and it is necessary to indicate where this overlaps or anticipates what is argued below. The main challenge to the consensualist approach over economic policy comes from economic historians who have studied the Treasury after the War looking to discover whether or not a Keynesian revolution took place in economic policy-making. By this they mean the conversion of the Treasury to what Booth has called 'liberal Keynesianism', a commitment to deficit financing to combat a recession.[32] In particular Tomlinson questions the extent to which the Treasury had really been converted to Keynesianism even as late as the 1950s. He argues that the Second World War did not legitimate budget deficits in times of recession. It was accepted that fighting wars justified large-scale borrowing, but that did not mean that it had been accepted as normal. In fact, postwar, the Treasury still viewed economic management as being subordinate to the traditional role of Budgetary policy.[33]

Tomlinson also challenges the view that the emergency Budget of

November 1947 was a 'turning point in postwar fiscal policy' as Cairncross has argued, or 'a major milestone when the Treasury finally turned in peacetime and out of choice to Keynesian analysis to help control inflation' as Booth has claimed.[34] Tomlinson points out that Treasury officials turned to the policy solutions offered by the Keynesian Economic Section, situated in the Cabinet Office, in the summer of 1947 because the political context changed. Because the Government wanted to demonstrate its financial responsibility, cuts in the cost-of-living subsidies advocated by the Economic Section to tackle inflation suddenly became a plausible option. As Tomlinson rightly notes, 'civil servants are above all gaugers of the politically possible, and this is paramount in the shift in policies pressed on the Chancellor between the two Budgets of 1947.'[35]

Tomlinson also shows that the Treasury's concern about inflation and the level of cost-of-living subsidies is explicable in terms of its preexisting concern about the level of public expenditure. The Treasury wanted to avoid having to impose higher interest rates in order to deal with inflation because this would have meant higher government debt payments. He echoes Rollings' argument that 'the pursuit of surpluses especially via cuts in food subsidies, chimed in with the traditional Treasury concern to control public expenditure.'[36]

It will be shown below that agreement between the official Treasury and the Economic Section is best explained in terms of the Treasury's traditional concern with the control of public expenditure in the period 1950-55. In particular, the Treasury continued its attack on cost-of-living subsidies and tried, unsuccessfully, to persuade Gaitskell to cut food subsidies during discussion of the 1951 Budget.

More recently, Tomlinson has followed Rollings in focussing attention on the exaggeration historians have perpetuated about the scale of the decontrol pursued by the Labour Government. He is able to show that the importance assigned to the various bonfires of controls that Harold Wilson conducted while President of the Board of Trade has been blown out of proportion to their actual affect on the structure of the controlled economy.[37]

Rollings has drawn on his own and Tomlinson's research to question the existence of a consensus between the Conservative and Labour parties in the postwar period over economic policy. The main basis of his argument is that the

Labour Party continued to advocate the use of physical controls on the economy and that the Conservative Party continued to advocate a return to financial orthodoxy. Rollings also agrees with the point made above that a consensus over the maintenance of full employment cannot be inferred simply because it continued. The Conservative Government was never forced to make a choice between full employment and other objectives such as decontrol and convertibility of sterling: 'The argument that had there been mass unemployment in the 1950s then the Conservative Government would undoubtedly have taken steps to reduce it is the sort of counterfactual statement of which historians are usually so critical. Conservatives in this period were never faced with that dilemma: it is uncertain how they would have reacted if placed in this situation.'[38]

Unlike the consensualists, Rollings and above all Tomlinson have a firm grasp of the complexity of institutional influences on policy-making and provide a good deal of evidence about the thinking of the civil service in the economic policy sector. They are not without appreciation of the fact that ministers are also actors and that ideas matter. But their central concern is with the Treasury mind and they are not particularly concerned with the way in which political ideas develop and impact on policy. Rollings, for example, when looking at Operation ROBOT notes that Oliver Lyttelton had proposed a very similar scheme as early as 1947. But it does not seem to occur to him that this may have more to do with the genesis of ROBOT than his observation that 'officials in the Overseas Finance Division of the Treasury and the Bank of England made the running.'[39] Clearly, much more consideration needs to be given to what Conservatives were saying in Opposition about convertibility policy and how that impacted on what they did in Government. Rollings appears not to have taken this apparent connection between Government policy and Conservative thinking as the cue for further investigation.[40]

Another problem with Rollings' and Tomlinson's work is that their analysis of economic policy in the postwar period is confined by a framework as artificial as consensus. Policy is always looked at in terms of its approximation to liberal Keynesianism. Indeed, Rolling's definition of Butskellism is of a 'similarity in policy and beliefs based around the use of Keynesian demand management to maintain full employment.' One result of this definition is that policy is never understood in its own terms. Gaitskell developed the basic structure of his economic ideas before the publication of Keynes' General Theory in 1936. However, the framework of Rolling's article 'Poor Mr Butskell' leads him to view Gaitskell's support for permanent economic controls as a supplement to Keynesian demand management. Although he quotes with approval Stephen Brooke's conclusion that during the war Keynesian techniques 'were perceived simply as adjuncts to physical planning'[41] by Gaitskell and others, he still argues that 'the Labour Governments did try to manage the economy, but remained wedded to the permanent use of direct controls to complement budgetary policy.'[42] This is almost the reverse of the truth. The problem with Rollings' analysis is that he is looking at economic policy from a perspective in which Keynesian policy would be the norm. This leads him to underestimate the impact of physical controls on the thinking of Labour minsters and Hayekian ideas on that of Conservative ministers, these ideas are of interest to Rollings only as deviations from the Keynesian paradigm and are consequently undervalued.

Ministers Matter

The above discussion has shown that there are many problems with the way the existing literature looks at economic policy in the period under discussion which this thesis will address. The principal fault is that the role of ministers in policy-making is under-estimated. In his conclusion to Churchill's Indian Summer Seldon writes that 'most books about the political history of this century... consign civil servants to a mere passing reference, if they are mentioned at all. This omission appears all the odder when one considers ... that senior officials are often far more capable and even more creative than the Ministers they served,... Can one fairly assess the performance of Rab Butler at the Treasury without looking at the influence on him of Sir Leslie Rowan, Sir Robert Hall or Lord Plowden?'[43] Seldon was writing before the official documents for this period were open to the public. The role officials played was easily overlooked by historians. However, now that most of these documents are open historians are in danger of making the opposite mistake. Reliance on Government records can lead historians to over-estimate the importance of officials in policy making. Most of the files in the

Public Record Offices are full of papers written by and passed between officials. They are far more likely to have recorded their views in detail than ministers. However, the role that officials and advisers play can only be properly understood if it is put into the wider context of what was required from them by their political masters and how they used this advice. To respond to Seldon's point, can we really understand the influence of Rowan, Hall or Plowden unless we have an understanding of how Rab Butler used their advice and incorporated it into his own thinking on economic policy? If we do not have this knowledge we will fail to understand the true nature of the relationship between ministers and their officials and how the policy-making process really works in practice.

One resource that could be utilised more effectively by historians is *Hansard*. Not only can examining parliamentary speeches help redress some of the problems of the relative paucity of information about ministers available from the Public Record Office but it can also throw new light on ministerial actions. For example, an examination of what Conservatives were saying in Opposition on the issue of convertibility policy throws new light on the role of Conservative ideas in the development of Operation ROBOT.

Another reason why the existing literature has underestimated the importance of ministers in policy-making is that it is based on an inadequate understanding of the relationship between ministers and civil servants. In the end it is the ministers who are the final decision-makers in the policy process. The role of civil servants and advisers can only be properly understood if what they say is looked at in the context of their desire to retain their influence with ministers.

A more sophisticated approach to how the policy-making process works is required if a greater understanding of economic policy is to be achieved. British political scientists have tended to confine their analysis to institutions in their present form. American political scientists have been more willing to examine the impact of institutional structure on historical development. Indeed, there is no good reason why a line should be drawn between political history and political science, both disciplines are essentially dealing with the same thing albeit within different time frames. Institutional theorists such as Peter Hall, Graham Allison and John Steinbruner provide the tools with which historical events can be analysed. An understanding of how institutions develop and operate is just as relevant to a study of the Treasury in the 1950s as it is to one of the Treasury in the 1990s.

The other major deficiency of the existing literature which this thesis will address is that the economic policies of Hugh Gaitskell and Rab Butler have only ever been examined within a framework which assumes the primacy of Keynesian policy. As a result our appreciation of postwar economic policy has been impoverished by the disregard of anything that does not fit this artificial perspective. The real scale of the division between Gaitskell and Butler can only be appreciated if one looks at how they understood and explained their own policies, and how they fitted them into a wider ideological perspective. Both consensualist and Keynesian historians have underestimated the importance of ideology in the postwar period. Addison has written that 'Mrs Thatcher has taught us to think of government as an instrument of party, and party as an instrument of ideology.'[44] However, ideology played an important part in the politics of the postwar period also and to ignore it is to ignore an important factor in the development of policy. This thesis will show that if the policies of Gaitskell and Butler are understood in their own terms it becomes clear that Mr Butskell is a character of political myth rather than historical fact.

Objectives of Study

To sum up, the aim of this thesis is two-fold:

a) To demonstrate that no consensus existed on the aims and methods of economic policy in the period covered by the Gaitskell and Butler Chancellorships.

b) To show that ministers played a more important role in the policy-making process than previous authors have assumed.

It is not the objective of this thesis to analyse the actual impact of policy on the British economy or to draw conclusions about the success or failure of policy. Rather it is the object to look at policy in terms of continuity and its approximation to a coherent programme and ideology.

The thesis is divided into nine substantive chapters. The next chapter examines the organisation of economic-policy making within the Treasury while chapter three examines the development of the values held by the Treasury and how they impacted upon policy advice. The fourth chapter examines the wider context of economic policy-making. The role of the Bank of England, the Board of Trade and the Ministry of Supply is examined, particularly in providing the Treasury with information about the external environment. Taken together these three chapters reveal that the framework of policy advice was less Keynesian and more pluralistic than has previously been argued although it still provided a major constraint on the ability of ministers to initiate policy. The fifth chapter examines how Gaitskell and Butler were both able to operate effectively as policy initiators within this framework. It is shown that while Gaitskell's views were so divergent from those of his advisors he had to impose his own framework of values and objectives; Butler was able to take the lead by manipulating the existing framework.

The next five chapters deal in turn with the main areas of economic policy. Each reveals the enormous divergence that existed between the methods and objectives of the Gaitskell and Butler Chancellorships. The sixth chapter looks at general controls policy. It is shown that Gaitskell was the leading intellectual force behind the Full Employment Bill which would have put those physical controls the Labour government considered essential to economic planning and to maintaining full employment on the statute book on the permanent basis. In contrast Butler is shown to have been the driving force behind the decontrol programme which was central to the agenda of the Churchill administration. The divergence in Labour and Conservative views had its basis in political as well as economic beliefs. Hayekian ideas about the relationship between the individual and the state informed the Conservatives critique of Labour's controls policy.

Chapters seven and eight deal with the two main aspects of external economic policy: convertibility of the pound and international trade. Gaitskell and his colleagues in the Labour Government came to reject the establishment of a 'one world' economy based on free trade and convertibility as fundamental policy objectives. Gaitskell saw these objectives as incompatible with the maintenance of a socialist economy at home and thought that policy should concentrate on strengthening the sterling area through bilateral trade agreements and import controls. While Gaitskell favoured moves to cement a 'two world' economy Butler and Peter Thorneycroft with the support of Churchill transformed the Conservatives into the party of free trade by committing the Government to the objectives of the GATT agreement. It is also shown that Butler played a far more prominent role in the ROBOT plan to make the pound convertible at a floating rate than has previously been argued and that Butler remained committed to the objectives of the plan throughout his Chancellorship.

Chapter nine examines the development of fiscal policy. It is shown that the Budget played a smaller role in general economic policy under Gaitskell than has been previously suggested. Indeed, Gaitskell emphasised the limited role of Budgetary policy during his Chancellorship. Under Butler the process of decontrol meant that Budgetary policy came to play a central role. Butler's most important Budgetary policy objectives were to reduce the burden of taxation on the economy and to encourage economic growth. The increasing importance of Budgetary policy also highlighted the divisions between his principal advisers concerning the role of the Budget.

Finally, chapter ten is concerned with the content of monetary policy. Butler's decision to reactivate the Bank Rate represented a fundamental change in the direction of policy. Not only did Gaitskell remain committed to a policy of cheap money, he also fought to impose direct forms of credit control against the resistance of the Bank of England. Butler's decision to conduct an active monetary policy exposed great uncertainty amongst his advisers over its likely effects.

Some of the aforementioned chapters deal with episodes that have already been extensively covered in the literature, such as Operation ROBOT and the reactivation of the Bank Rate. Other chapters deal with policy areas that have been previously neglected, such as trade policy after 1951 and policy towards agricultural pricing. Regardless of the state of the existing literature all of these areas are looked at in detail so that the central hypothesises of this thesis, that ministerial involvement was central to policy formulation and lead to a fundamental discontinuity in policy, can be elucidated.

Notes:

1. 'Mr Butskell's Dilemma', *The Economist*, 13/2/54.

2. Ibid.

3. Interview with Norman Macrae 17/10/97. Norman Macrae: Sunshades in October: British Economic Policy since the mid 1950's, George Allen and Unwin Ltd, London, 1963.

4. Alan Bullock: The Life and Times of Ernest Bevin. Volume Two: Minister of Labour 1940-45. Heinemann, London, 1967. Arthur Marwick: Britain in the Century of Total War: War, Peace and Social Change 1900-1967, Little, Brown and Company, Boston, 1968.

5. Paul Addison: The Road to 1945: British Politics and the Second World War, Jonathan Cape, London, 1975.

6. Anthony Seldon: Churchill's Indian Summer, Hodder and Stoughton, London, 1981, p.421.

7. Henry Pelling: Churchill's Peacetime Ministry, 1951-55. Macmillan Press, Basingstoke, 1997.

8. Neil Rollings: 'Poor Mr Butskell: A short life wrecked by schizophrenia', *Twentieth Century British History*, Vol.5, No.2, 1994. J. Tomlinson: British Macroeconomic Policy Since 1940, Croom Helm, London, 1985. J. Tomlinson: Employment Policy: The Crucial Years 1949-1955, Clarendon Press, Oxford. 1987. J. Tomlinson: Democratic Socialism and Economic Policy: The Attlee Years, 1945-51, Cambridge University Press, 1997.

9. Alan Bullock quoted in, Addison 'The Road from 1945' in Hennessy and Seldon(eds.): Ruling Performance, Basil Blackwell, Oxford, 1987, p.6.

10. Alan Bullock, Op Cit. p.190.

11. Ibid.

12. Anthony Seldon: 'Consensus: A Debate too Long', *Parliamentary Affairs*, No.4, Vol.47, 1994, p.509.

13. For a full discussion of the ROBOT scheme see chapter 7 pp. 196-215.

14. Paul Addison: The Road To 1945: British Politics and the Second World War, revised edition, Pimlico, London, 1994, p.281.

15. Seldon, Op Cit. p.508.

16. Addison: The Road to 1945, revised edition, Op Cit. p.283.

17. Ibid. p.283.

18. Ibid. p.289.

19. Ibid. p.290.

20. Ibid. p.274.

21. Seldon: Churchill's Indian Summer, Op Cit. p.170

22. Ibid. pp.509-10.

23. Ibid. p.506.

24. Ibid. p.511.

25. Alec Cairncross: The British Economy since 1945: Economic Policy and Performance, 1945-1990, Blackwell, Oxford, 1992, p.66.

26. John Fforde: The Bank of England and Public Policy, 1941-1958, Cambridge University Press, Cambridge, 1992.

27. Ibid. p.94.

28. Alec Cairncross: Years of Recovery: British Economic Policy 1945-51, Methuen, London, 1985.

29. Edmund Dell: The Chancellors: A History of the Chancellors of the Exchequer, 1945-90, HarperCollins, London, 1997.

30. Susan Howson: British Monetary Policy 1945-5, Oxford University Press, Oxford, 1993, pp.11-12.

31. For Gaitskell's continued opposition to the use of the Bank Rate see, for example, House of Commons Debates, 7/11/51, vol.493, col.227 and House of Commons Debates, 12/3/52, vol.497, col.1391.

32. Alan Booth: British Economic Policy, 1931-49: was there a Keynesian revolution?, Harvester Wheatsheaf, London, 1989.

33. J. Tomlinson: British Macroeconomic Policy Since 1940, Op Cit.

34. A. Cairncross: Years of Recovery: British Economic Policy 1945-51, London, 1985; A. Booth, 'The "Keynesian Revolution" in Economic Policy-making', *Economic History Review*, 36, 1983, p.122.

35. J. Tomlinson: Employment Policy: The Crucial Years 1949-1955, Op Cit. p.113.

36. Ibid.

37. J. Tomlinson: Democratic Socialism and Economic Policy: The Attlee Years, 1945-51, Op Cit.

38. N. Rollings: 'Poor Mr Butskell: A Short Life, Wrecked by Schizophrenia', *Twentieth Century British History*, Vol.5, No.2, 1994, pp.204-5.

39. Ibid. p.196.

40. Rollings adds nothing to his original account of ROBOT in Neil Rollings: 'Butskellism, the Postwar Consensus and the Managed Economy' in Harriet Jones and Michael Kandiah(eds.): The Myth of Consensus: New Views on British History, 1945-64, Macmillan Press, Basingstoke, 1996, pp.97-119.

41. Stephen Brooke: Labour's War: The Labour Party during the Second World War, Clarendon Press, Oxford, 1992, pp.9-10

42. Rollings: Op Cit. p.203.

43. Seldon: Churchill's Indian Summer, Op Cit. p.431.

44. Addison: The Road to 1945, revised edition, Op Cit. p.283.

Chapter 2

The Changing Structure of Economic Policy-Making

Although ministers matter in the making of economic policy, they operate within an institutional framework and to some extent, like the civil servants who serve them, they take their cue from the economic, political and intellectual climate in which they operate. However they have more marked ideological preconceptions and in the case of powerful ministers some ability at least to impose their own framework of ideas. The conventions of the British system place the entire responsibility for policy on ministers and more particularly upon the minister who heads the department concerned. In practice it cannot be so. To paraphrase Simon James's graphic analogy, minister's are 'parachuted' into the summit of these organisations, often 'largely unversed' in their subject matter, but given ultimate command and responsibility for an important slice of public policy.[1] In the case of the Chancellor as the 1940s turned into the 1950s, that included responsibility for not merely managing the economy but planning its overall shape and development, controlling both public and private investment, and setting limits to public expenditure department by department.

To help him the Chancellor had a small ministerial team. Gaitskell 'managed to delegate a very substantial amount of work on to the two junior ministers.'[2] Douglas Jay has provided an instructive review of his own role, not least in relation to the Central Economic Planning Staff (C.E.P.S.), which fell within his remit as Economic Secretary. When Butler took over, he was given, as his deputy, Arthur Salter, who had turned down the chance of a separate Ministry of Economic Affairs, but was given the title Minister of State for Economic affairs. Although he wrote later of their happy relationship, in practice Butler found working with Salter 'very trying, because he didn't really agree with very much I did.'[3] When after a year Salter was moved to the Ministry of Materials, Reginald Maudling replaced him, but at the rank of Economic Secretary. John Boyd-Carpenter and, from 1954, Henry Brooke served as Financial Secretary, a job with a major part to play in the control of public expenditure.

If the ministerial team was small, the Treasury itself was not a large department, just over 1,200 persons in all, a great many of whom were located in the joint Supply and Establishment Divisions. The Chancellor also took ministerial responsibility for the Inland Revenue and Customs and Excise and in addition to their normal duties, they also had some part to play when the Chancellor was considering his tax proposals. However, the number of officials with whom the Chancellor would have to deal when making economic policy was very small indeed. In his memoirs, Butler mentions eight only by name, while the only names that recur in Gaitskell's admittedly sporadic diary are those of the Permanent Secretary, Sir Edward Bridges, and Edwin Plowden, who headed the CEPS. Gaitskell was conscious, however, of what he characterised as Treasury officials' 'keen sense of their own independent, departmental positions as apart from serving me... they are continually using phrases, "It is the Treasury view", or "We think" etc. This is buttressed up by such institutions as the Budget Committee, which is purely official and on its status they lay much emphasis; the Second Secretaries' meetings which Bridges runs, and various other similar bodies.'[4]

The sectorial fragmentation of policy-making has often been noted and in terms of economic policy it would be possible to speak of a policy network linking a number of actors, which would include government departments like to Board of Trade, the Ministry of Supply and the Bank of England with its key links with the City. Other departments also had their part to play and inside the government machine they would be represented on the Economic Policy Committee of the Cabinet and the maze of interdepartmental committees, which, particularly under the Labour Government, had the task of delivering its economic programme. Jay describes the structure as it functioned under Gaitskell's predecessor Stafford Cripps, but the key committees identified operated also in Gaitskell's time and themselves provide an interesting commentary on the change of approach which took place in 1951.[5] Leslie Rowan presided over the Overseas Negotiations Committee, Plowden presided over the Investments Programme Committee, 'Otto' Clarke the Import Programme Committee and Jay himself the Raw Materials

Committee until relieved of that duty by transfer to the Financial Secretaryship in February 1951.

But at the heart of the Treasury itself there were a series of policy networks, better characterised perhaps through their relationships of mutual dependence and trust as policy communities, which suggest the very considerable fragmentation of policy that existed in this period. Although there was some overlap between these policy communities, particularly in the making of Budgetary policy, which brought all of the important figures in the Treasury together, they can clearly be delineated as the paths by which information and policy advice reached the Chancellor. The most important of these so far as economic policy-making is concerned were the communities dealing with economic planning, Budgetary policy, external economic policy and monetary policy.

The Principal Private Secretary (PPS)

The Permanent Secretary to the Treasury is to be found at the apex of these economic policy communities, assisted, from 1953, by the Deputy Permanent Secretary, Sir Bernard Gilbert. But the Chancellor is linked to them also through a small private office, managing the flow of paper and meetings, and the head of the private office, although relatively junior, is likely to exercise considerable influence and is often on surprisingly intimate terms with the Permanent Secretary. The latter is likely to have held the job himself, recognises in his junior a man likely to follow him to the top, and knows that if he is doing his job, he will be privy to the Chancellors' mind.

The Principal Private Secretary, although the most junior official to play a significant role in policy-making, is also potentially one of the most influential. As one of his counterparts in the Foreign Office, Nicholas Henderson, noted, 'His sheer physical proximity will ensure his influence provided he is a paragon of tact. He must not excite envy, nor must he appear to usurp the authority of the Permanent Under Secretary in giving advice on policy or appointments.'[6] Although Henderson vividly describes the role as one 'of the impresarios of Whitehall; and in their Private Offices the drama and friction between politics and the machine are theatrically audible', their exceptional influence derives from their role as double agent, loyal to both the department and minister.[7] He 'represents to the minister the opinion of the Office and to the latter the will of the minister. Neither commission would carry the same weight if it were not balanced by the other.'[8] His office is therefore something more than a gateway to the Chancellor and while he is the principal gatekeeper, his role goes beyond that to explain to the Chancellor what is in the Treasury's mind and why, and to communicate in turn the Chancellor's thinking to his fellow civil servants. At best he supplies a powerful and serviceable bridge over the gap that might otherwise open up between the political considerations of his master and the more technical concerns of the Treasury.

William Armstrong played the role to perfection. He held the post from 1949 to 1953 and went on to exert his mediating influence on the deteriorating relationship between Bridges and Sir Norman Brook, the Cabinet Secretary.[9] Product of a Salvation Army household, grammar school and Greats at Oxford, he had nevertheless a better conceptual grasp of modern economics than most of his contemporaries and all his seniors. Clarity of mind and ability to develop his arguments lucidly and persuasively, when coupled with very considerable charm, made him a formidable operator in the corridors of power.

Armstrong was a more influential figure under Butler than under Gaitskell, largely because Gaitskell delegated fewer responsibilities to him and confided in him less than Butler did. On one occasion Armstrong spoke to Robert Hall about the frustrations he experienced in working for Gaitskell, particularly on the preparation of speeches. Armstrong said that Gaitskell could not leave this to others, 'he won't start until it is too late, and he cannot make it plain what he wants done in a draft.'[10] By contrast, Butler had great confidence in Armstrong and relied on him far more. He delegated the responsibility for drafting of speeches, including the Budget speech, to Armstrong and he became an important source of policy advice. It is clear from Robert Hall's diaries that Armstrong became the main source through which officials could discover the Chancellor's state of mind at any given time. It is undoubtedly the case that this was a two-way process and that Armstrong provided the Chancellor with similar information about the thoughts of his officials.[11] Armstrong's influence over Butler had the effect of increasing his influence within the Treasury as whole. In particular, his influence on the Budget

Committee grew. It was Armstrong who first suggested the Committee's recommendation of a small surplus above the line in 1953. Hall described this as 'the Armstrong formula.'[12]

In 1953 Louis Petch replaced Armstrong as Principal Private Secretary. Butler did not display the same confidence in Petch as he had in Armstrong. Burke Trend became the principal drafter of his Budget speeches. Robert Hall noted that Petch was 'not altogether at one with the Chancellor in his feeling for words, and for the balance of emphasis.'[13] Armstrong's replacement by Petch had a negative effect on Butler's relations with his senior advisers and the quality of their advice. There are no instances recorded in Robert Hall's diary of him receiving information about Butler's state of mind via Petch. Without the serves of Armstrong Butler had to do more himself to bring harmony to the Treasury. Hall recorded in his diary that 'more and more as time went on he [Butler] had big meetings where the need to keep the office together tended to blur the issues.'[14]

The Permanent Secretary to the Treasury

Edward Bridges, who was Permanent Secretary to the Treasury from 1945 to 1956 and head of the Civil Service, was an old-style mandarin. Ten years older than Butler and fourteen years older than Gaitskell, he had served in the trenches during the First World War, something that he had in common with Churchill and some of the Cabinet, but with neither of the two Chancellors under study. He was the son of Robert Bridges, the Poet Laureate, whose poetry he was editing. His own degree was in *Litterae Humaniores* from Oxford. He had spent most of his official life in the Treasury, although from 1938-46 he had served as Cabinet Secretary, a post relinquished with some reluctance a year after he succeeded Hopkins at the Treasury. His reputation had been made during the period of rearmament before the war, when he was responsible for controlling defence expenditure and 'showed a pragmatic flexibility of judgement which was to become his most outstanding characteristic.'[15] During the war years Bridges was close to Churchill and he was bitterly disappointed when that closeness was not renewed in the 1950s. Brook had replaced him in Churchill's affections and was far closer than he ever managed to be.[16]

His experience at the heart of Government as well as service on the Civil Service Commission earlier had given him expertise and a close interest in the machinery of government. He had taken charge of the Government Organisation Committee at the end of 1946 and he set about the task of transforming the government machine to cope with the problems of postwar economic planning. He was very supportive of Plowden when he was brought in to set up the CEPS in 1947 and came to accept the permanence of some aspects of physical planning in a way that many of his colleagues did not. He sought guarantees from the Conservative Opposition that they would not dismantle the new machinery.[17] For all that he looked to bring the era of controls to an end and at heart shared much of the Treasury's traditional economic liberalism.

First impressions of a shy, rather austere figure would give way when one knew him better to a genuine informality and a great sense of fun. Fun was indeed a word he used often with fellow civil servants and he had a habit also with those whom he knew well of accompanying a remark with a playful punch in the stomach.[18] Bridges extolled the virtues of the intelligent layman both in his lectures on the role of the civil service and in his writings on the Treasury.[19] No economist himself, his heart seems to have been more in the management of the civil service than in the task of giving economic advice to the Chancellor. That did not prevent him from providing staunch support to Gaitskell in the battle with Bevan over funding for the NHS.[20] Although he chaired the Budget Committee and organised advice to te Chancellor, he left much of the task of providing advice to Second and Third Secretaries. Helpfully, as many thought, he encouraged a collegial ethos in the Treasury and this suited Butler in particular. Norman Macrae has described the advantages of the rather untidy system which resulted. Drawing on 'a gaggle of co-equal advisers slightly lower down, he [the Chancellor] could switch away from a provenly wrong policy by politely deciding to accept for a time the advice of a co-equal team (or else at least strike a compromise between the different schools).'[21] Chancellors later in the decade and afterwards found themselves in a more hierarchical set-up where they had to explicitly reject the advice of more senior figures if they wanted to seek it from other quarters in the Treasury.

The Deputy to the Permanent Secretary

The first step towards formalising the position came with the appointment of Bernard Gilbert as Bridges' deputy in November 1953.[1] Gilbert was 'a man full of ideas, a mathematician with a very keen mind, sceptical of both Keynes and controls, and critical of expenditure', but he was a year older than Bridges and his energies had been sapped by the Second World War.[22] He had wanted to retire in 1952, but had been prevented from doing so by Bridges' own intervention. Butler's own faith in Gilbert was confirmed by his appointment as deputy to the Permanent Secretary. He was made responsible for co-ordinating policy and appointed head of the C.E.P.S, although the title of chief planning officer was dropped. He continued Plowden's practice of holding meetings of the C.E.P.S. on Wednesdays and instigated a new meeting called Friday Forum with Rowan, Brittain, Compton, Crombie, Strath and Hall. This was intended to discuss general issues, however, Hall was not that impressed by the early meetings, noting that 'It has not worked very well so far as Leslie Rowan is too jumpy to be able to talk calmly about fundamental questions.'[23]

The Cabinet Secretary

Norman Brook was Secretary to the Cabinet from 1947 and took on the additional responsibility of joint Permanent Secretary to the Treasury in 1956.[2] As the Prime Minister's main policy adviser Brook gained the confidence of both Attlee and Churchill who came to rely on him more and more as his health deteriorated. However, as neither Prime Minister took a very active role in economic policy-making Brook's main impact on economic policy was through his influence on Cabinet agenda and his involvement in questions of Government organisation.

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[1] Bernard Gilbert: born 1891; educated at Nottingham High School and St John's College Cambridge. He entered the Treasury in 1914 but his career was interrupted by war service. In 1934 he became a principal assistant secretary and an under-secretary in 1939. In 1944 he was promoted to be joint second secretary responsible for supply services. [Anthony Seldon: Churchill's Indian Summer: The Conservative Government, 1951-55, Hodder and Stoughton, London, 1981.]

[2] Norman Brook: born 1902 and educated at Wolverhampton Grammar School and Wadham College Oxford, where he obtained a first in honour moderations in 1923 and a second in *litterae humaniores* in 1925. His initial civil service posting was in the Home Office. [Burke Trend in E.T. Williams and C.S. Nicholls(eds.): The Dictionary of National Biography 1961-1970, Oxford University Press, Oxford, 1981.]

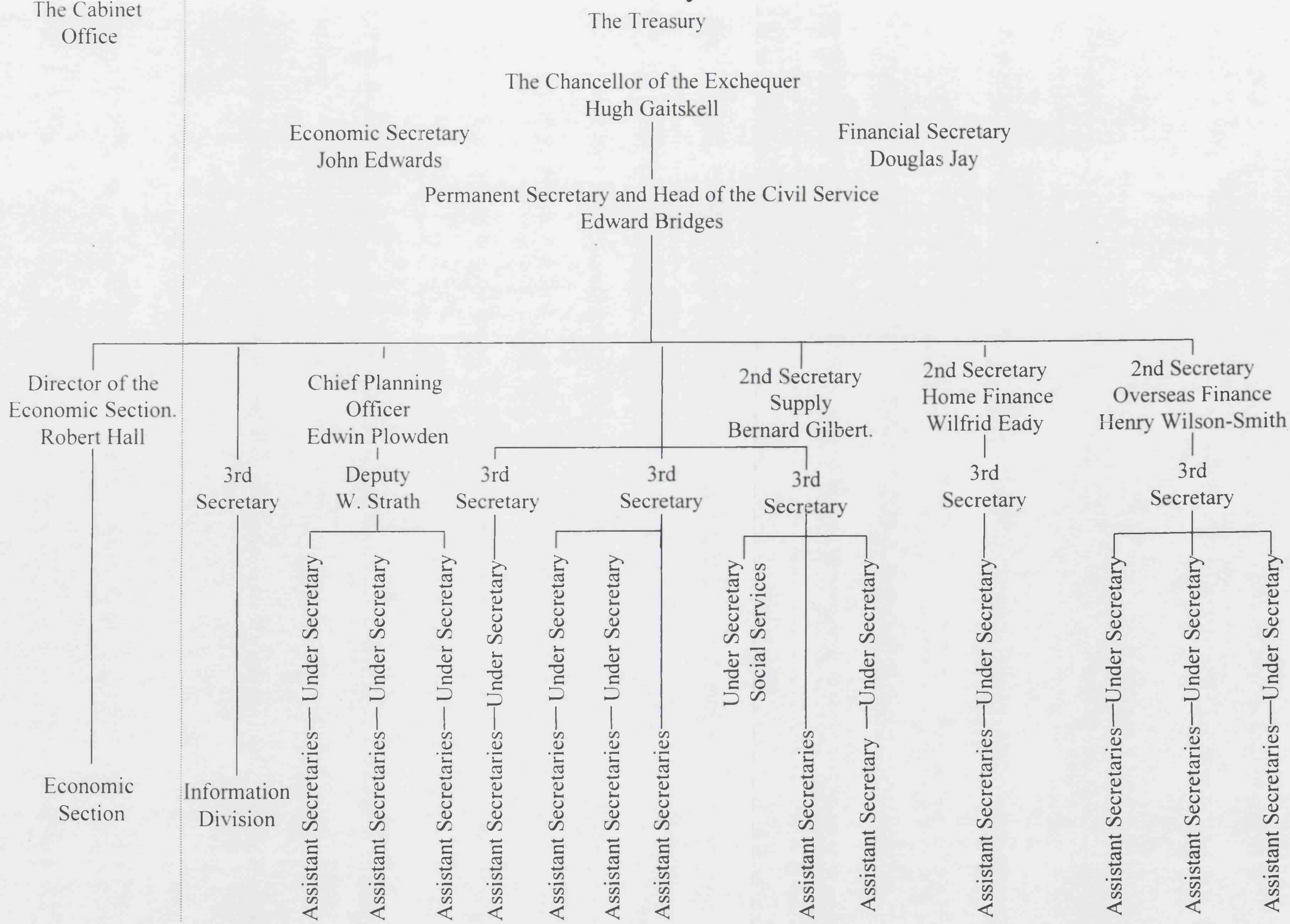
Brook's advancement in the service was slow until 1938 when he became principal private secretary to Sir John Anderson. The outbreak of war quickened his progress and he became one of the deputy secretaries of the Cabinet with special responsibility for the co-ordination of the civil aspects of the war effort. In 1943 he was appointed Permanent Secretary to the Ministry of Reconstruction. The common thread in each of Brook's appointments was that they were 'essentially regulatory, rather than innovative in character, each entailed the reconciliation of multiple and differing views rather than the pursuit of a single, undivided purpose. It was in the exercise of a function of this kind that Brook excelled. His natural disposition was that of the co-ordinator.'[24]

As Butler later recalled Brook 'wasn't in any sense a minister. He never attempted to be. He was essentially a Civil Servant.'[25] However, his conception of the role of the civil service did have an impact on economic policy. In 1951 he advised Attlee against letting work continue on the Full Employment Bill after the outbreak of the Korean War.[26] He also led the opposition to reorganisation of departments long the lines of production authorities.[27] Although Bridges shared Brook's opposition to Churchill's plan for co-ordinating ministers known as 'overlords', in other areas Brook was more of a traditionalist than Bridges, prone to scepticism about the power of the state.[28] As Middlemas has argued 'Brook represented the liberal belief that pluralism at the centre offered a better chance of harmonious government than any logical division of functions on categories that Haldane would have recognised.'[29]

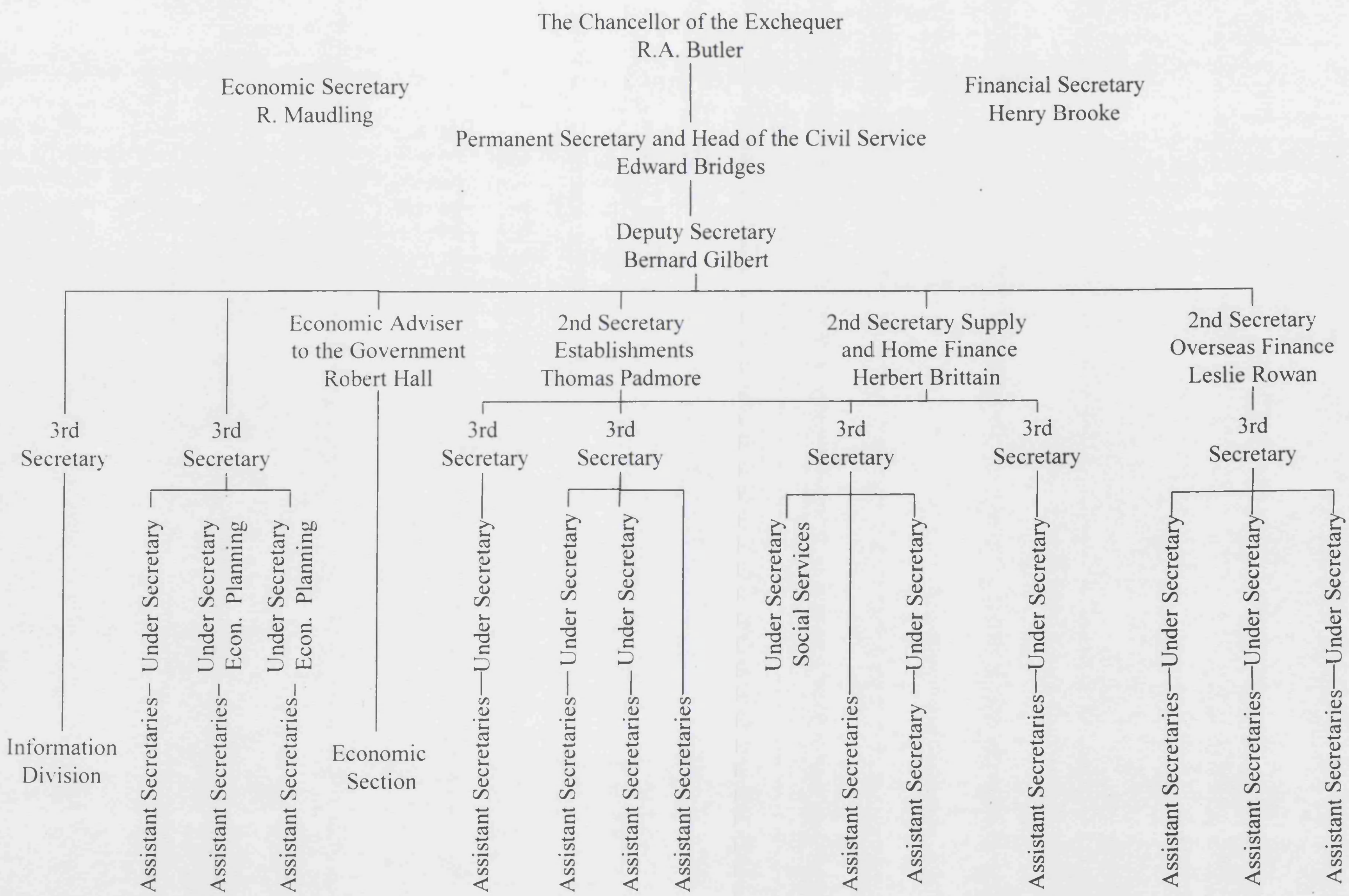
Economic Planning

Over the five years covered by this thesis the structure of economic policy-making was transformed. Although the Treasury's determination to get a firm grip policy-making does help to explain some of these changes the real explanation was the shift in economic policy which accompanied Gaitskell's replacement by Butler as Chancellor. Butler's policy did allow the Treasury to gain control of the network of economic planning and effectively incorporate it in financial control as physical controls were dismantled. The charts overleaf show the organisational structure of the Treasury in 1950 and 1955. They tell their own story, by 1955 both

The Treasury 1951



The Treasury 1955

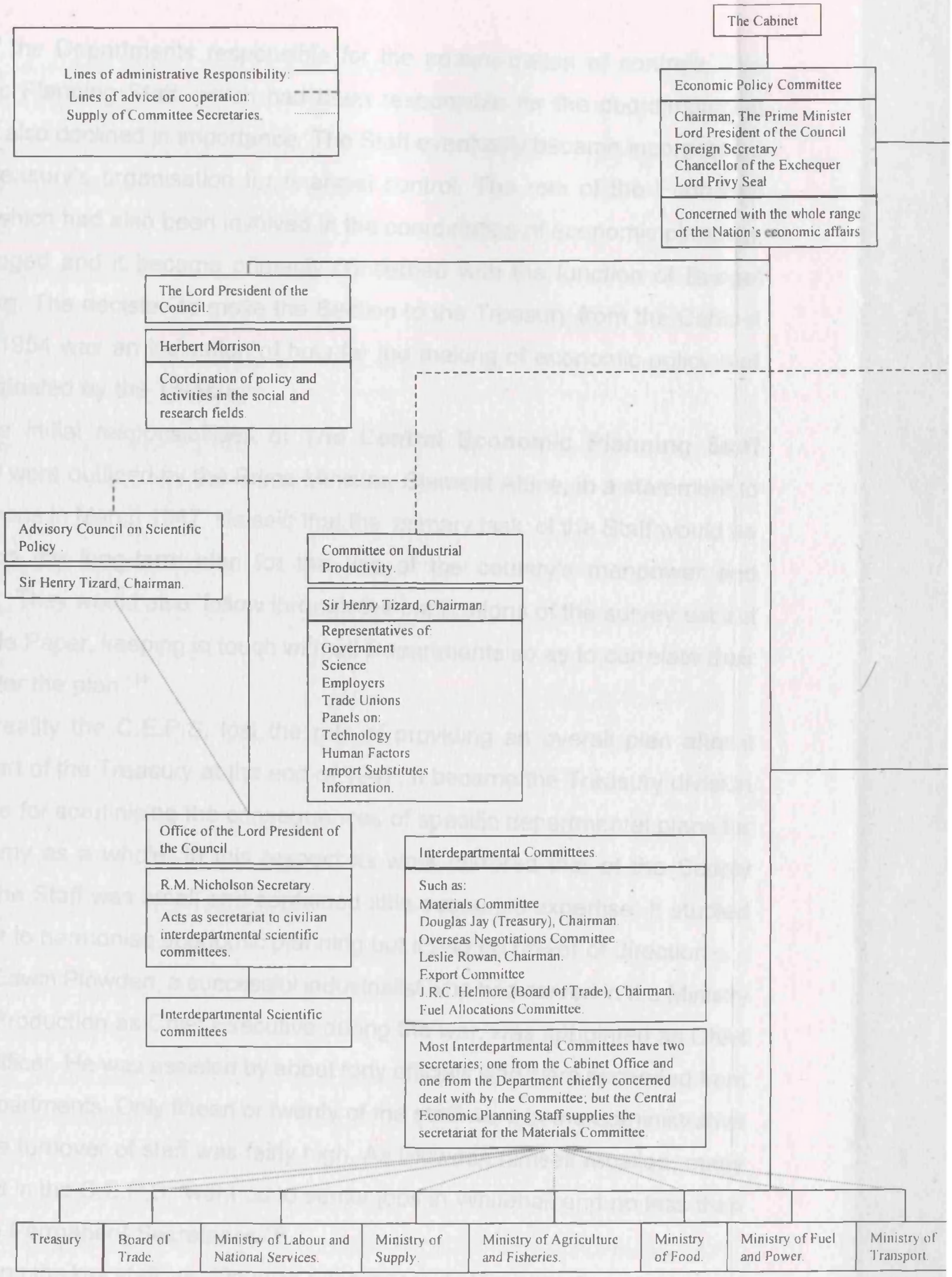


the Planning Division and the Economic Section had been firmly incorporated within the organisation of Treasury decision-making. But in monetary policy the balance of power actually shifted to the Bank of England as a result of the reactivation of the Bank Rate. The effect of all the policy changes was to shift the balance of power within the advice structure towards those sources of advice which bolstered Butler in the pursuit of his policy objectives.

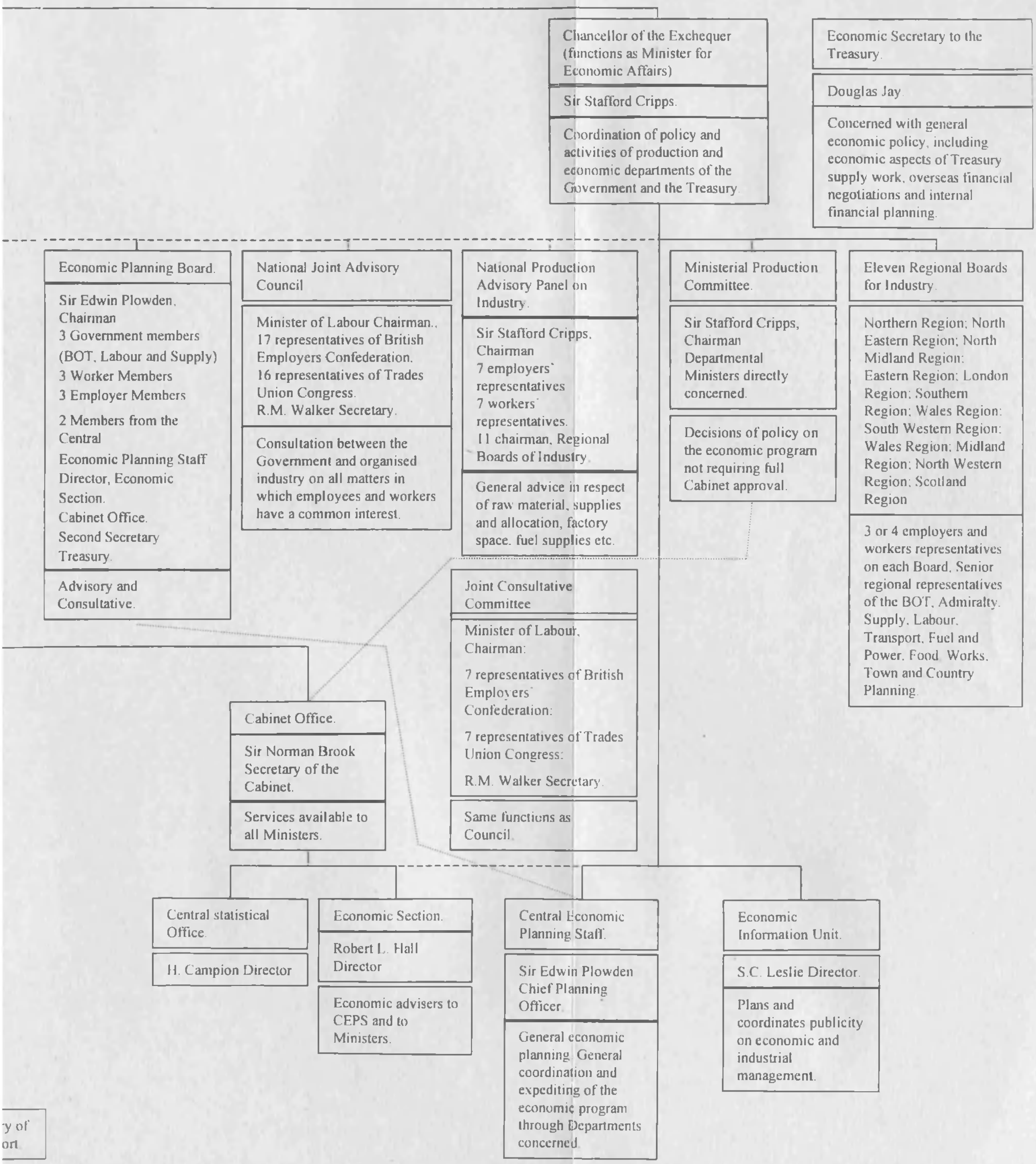
During the Gaitskell Chancellorship the focus of economic policy remained on economic planning through the use of physical controls. Planning was conducted via a network of interdepartmental committees (see chart over).[30] Although the Treasury became the preeminent economics Ministry when the Ministry of Economic Affairs was incorporated into the Treasury in November 1947, departments responsible for the administration of controls such as the Ministry of Food and the Ministry of Supply retained authority in the making of policy. The main function of the interdepartmental committees consisted in the drawing up of quantitative budgets. These budgets set out resources and requirements of the coming year in terms of different units, such as national income and expenditure. This system was developed out of the wartime method of planning, the main difference was that the principal shortage around which the rest of program revolved changed. During the war the principal problem was either shipping or manpower; after 1945 it became foreign exchange, and to a lesser extent, savings.[31]

One important point to note about the planning machinery is that the total number of civil servants centrally employed in it was small. Including those in the various units inside the Treasury and the Cabinet Office, such as the Central Economic Planning Staff, The Economic Section and the Central Statistical Office, and those in the 'economic' Departments such as the Board of Trade and the Ministries of Fuel and Power, Food, and Supply, there were 'fewer than a hundred equivalent in rank to the administrative class, about two per cent of all administrative civil servants.'[32] Of these one hundred. R.S. Milne estimated that, the disregard of rigid organisational arrangements in practice meant that the circle of people who really mattered amounted to 'something under fifty at most.'[33]

As the system of internal and external controls was dismantled under Butler the importance of the network of interdepartmental committees declined and with



The Cabinet
Lines of administrative Responsibility:
Lines of advice or cooperation
Supply of Committee Secretaries.
Economic Policy Committee
Chairman, The Prime Minister
Lord President of the Council
Foreign Secretary
Chancellor of the Exchequer
Lord Privy Seal
Concerned with the whole range of the Nation's economic affairs
The Lord President of the Council.
Herbert Morrison.
Coordination of policy and activities in the social and research fields.
Advisory Council on Scientific Policy
Sir Henry Tizard, Chairman.
Committee on Industrial Productivity.
Sir Henry Tizard, Chairman.
Representatives of:
Government
Science
Employers
Trade Unions
Panels on:
Technology
Human Factors
Import Substitutes
Information.
Office of the Lord President of the Council
R.M. Nicholson Secretary.
Acts as secretariat to civilian interdepartmental scientific committees.
Interdepartmental Scientific committees
Interdepartmental Committees.
Such as:
Materials Committee
Douglas Jay (Treasury), Chairman.
Overseas Negotiations Committee.
Leslie Rowan, Chairman.
Export Committee
J.R.C. Helmore (Board of Trade), Chairman.
Fuel Allocations Committee.
Most Interdepartmental Committees have two secretaries; one from the Cabinet Office and one from the Department chiefly concerned dealt with by the Committee; but the Central Economic Planning Staff supplies the secretariat for the Materials Committee.
Treasury
Board of Trade.
Ministry of Labour and National Services.
Ministry of Supply.
Ministry of Agriculture and Fisheries.
Ministry of Food.
Ministry of Fuel and Power.
Ministry of Transport.


Chancellor of the Exchequer (functions as Minister for Economic Affairs)
Sir Stafford Cripps.
Coordination of policy and activities of production and economic departments of the Government and the Treasury.
Economic Secretary to the Treasury.
Douglas Jay
Concerned with general economic policy, including economic aspects of Treasury supply work, overseas financial negotiations and internal financial planning.
Economic Planning Board.
Sir Edwin Plowden, Chairman
3 Government members (BOT, Labour and Supply)
3 Worker Members
3 Employer Members
2 Members from the Central
Economic Planning Staff
Director, Economic Section.
Cabinet Office.
Second Secretary Treasury.
Advisory and Consultative.
National Joint Advisory Council
Minister of Labour Chairman.,
17 representatives of British Employers Confederation.
16 representatives of Trades Union Congress.
R.M. Walker Secretary.
Consultation between the Government and organised industry on all matters in which employees and workers have a common interest.
National Production Advisory Panel on Industry.
Sir Stafford Cripps, Chairman
7 employers' representatives
7 workers' representatives.
11 chairman, Regional Boards of Industry.
General advice in respect of raw material, supplies and allocation, factory space, fuel supplies etc.
Ministerial Production Committee.
Sir Stafford Cripps, Chairman
Departmental Ministers directly concerned.
Decisions of policy on the economic program not requiring full Cabinet approval.
Eleven Regional Boards for Industry.
Northern Region; North Eastern Region; North Midland Region; Eastern Region; London Region; Southern Region; Wales Region; South Western Region; Wales Region; Midland Region; North Western Region; Scotland Region
3 or 4 employers and workers representatives on each Board. Senior regional representatives of the BOT, Admiralty, Supply, Labour, Transport, Fuel and Power, Food, Works, Town and Country Planning.
Joint Consultative Committee
Minister of Labour, Chairman;
7 representatives of British Employers' Confederation;
7 representatives of Trades Union Congress;
R.M. Walker Secretary.
Same functions as Council.
Cabinet Office.
Sir Norman Brook Secretary of the Cabinet.
Services available to all Ministers.
Central statistical Office.
H. Campion Director
Economic Section.
Robert L. Hall Director
Economic advisers to CEPS and to Ministers.
Central Economic Planning Staff.
Sir Edwin Plowden Chief Planning Officer.
General economic planning. General coordination and expediting of the economic program through Departments concerned.
Economic Information Unit.
S.C. Leslie Director.
Plans and coordinates publicity on economic and industrial management.
ry of
ort

it that of the Departments responsible for the administration of controls. The Economic Planning Staff, which had been responsible for the coordination of planning, also declined in importance. The Staff eventually became incorporated in the Treasury's organisation for financial control. The role of the Economic Section, which had also been involved in the coordination of economic planning, also changed and it became primarily concerned with the function of Budget forecasting. The decision to move the Section to the Treasury from the Cabinet Office in 1954 was an indication of how far the making of economic policy had been repatriated by the Treasury.

The initial responsibilities of **The Central Economic Planning Staff** (C.E.P,S.) were outlined by the Prime Minister, Clement Attlee, in a statement to the Commons in March 1947. He said that the 'primary task' of the Staff would be 'to develop the long-term plan for the use of the country's manpower and resources.' They would also 'follow through the implications of the survey set out in the White Paper, keeping in touch with all Departments so as to correlate their action under the plan.'[34]

In reality the C.E.P.S. lost the role of providing an overall plan after it became part of the Treasury at the end of 1947. It became the Treasury division responsible for scrutinising the consequences of specific departmental plans for the economy as a whole. In this respect its work mirrored that of the Supply division. The Staff was small and contained little economic expertise. It studied and sought to harmonise economic planning but it had no power of direction.

Sir Edwin Plowden, a successful industrialist who had served in the Ministry of Aircraft Production as Chief Executive during the war, was appointed as Chief Planning Officer. He was assisted by about forty officials who were seconded from various Departments. Only fifteen or twenty of the staff were in the administrative class.[35] The turnover of staff was fairly high. As Plowden himself recalled, many who worked in the C.E.P.S. 'went on to senior jobs in Whitehall and no less than six became Permanent Secretaries.'[36]

Among the key staff was Douglas Allen, seconded from the Board of Trade, who stayed in the Planning Staff from 1947 to 1953, first as Plowden's Private Secretary and then after 1949 as a member of the Staff. He went on to become

Permanent Secretary of the Treasury and Head of the Home Civil Service. Another key member of the Staff was William Strath who joined in 1949 and stayed on until 1955. He went on to become Permanent Secretary of the Ministry of Supply and then the Ministry of Aviation.[37]

Most of the Staff's work was introduced into the system via the network of interdepartmental committees and through memoranda to the Chancellor. Plowden himself enjoyed easy access to the Chancellor and recalled that 'on each day I would have a number of opportunities to put to him my own personal opinion on matters of policy.'[38]

Early on the Planning Staff appears to have been far more in favour of planning in terms of quantitative targets than the Economic Section. Amongst the staff was the Cambridge economist Austin Robinson and under him two young Cambridge economists Robin Marris and Kenneth Berrill. In 1948 Marris and Berrill told Robinson that 'Fundamentally the difference between the Economic Section and ourselves is that as an act of faith, we believe in planning and they do not.'. They continued that 'it is probable that the United Kingdom needs certain radical changes in the pattern of its economy and that on balance, the changes will come about more quickly if the economists use their judgement and advise on direction, quantities and methods than if all sit back and allow the machine to attempt to drive around the corner by itself.'[39] When Robinson went back to Cambridge Berrill left with him. Because of the over-lapping responsibilities of the Economic Section and the Planning Staff, Hall 'more or less begged' Plowden not to appoint senior economists in the planning staff. The Staff became dependent on the Section of economic expertise.[40]

In fact as the Staff developed it became much less about economics and more about administration. The Staff began to act in a similar fashion to the Supply Divisions of the Treasury, this was hardly surprising as these provided the natural template for Treasury interaction with other Departments. Like officials in the Supply Divisions the officials in the Planning Staff were administrators rather than economists. As R.S. Milne wrote in 1952, 'the title "Central Economic Planning Staff" is liable to mislead, carrying an implication that it consists of people selected for their knowledge of "planning" and that if the staff did not exist the planning would not get done at all. Neither of these implications is supported by facts. No "planning type" of civil servant has yet evolved; nor are there signs that all members of the existing Planning Staff have passed an examination on organization of the Russia Gosplan, nor even, that many of them have studied economics academically or possess first-hand knowledge of industry. The reason is that the type of work which they do is not perceptibly different from that of civil servants in other departments.'[41] The function of the Staff was not to give expert advice but rather 'to use it in keeping a watch on the present and future economic consequences of departmental activities.'[42] It did not operate in a pro-active way, rather it allowed the various departments to take the initiative in proposing projected investment schemes.

The main concern of the Treasury was to relate the work of the C.E.P.S. with that of the Supply Divisions, it did so by gradually conditioning the Planning Staff into an understanding of the importance of financial control. The Treasury Organisation Committee, set up in 1948 under the Chairmanship of Sir John Woods, considered the idea that the C.E.P.S., or at least that part of it concerned with investment planning, should be brought into closer contact with the Supply Divisions, possibly by a partial merger at the highest levels The meetings of the Committee were marked by an underlying unease that the Treasury was losing control of government spending. Edward Hale, a Treasury Under Secretary on the Supply side, told the Committee that 'As a general point, he thought that the Committee should bear in mind the limitations on the powers of the Supply Divisions (or the Treasury as a whole) when matters of important Government policy were under consideration. For example he thought that recent experience showed that , given a certain combination of Ministerial personalities and a certain political atmosphere, no action could be taken either by the Treasury or the Department concerned could be certain of preventing a major social service from getting virtually out of control. There was no reserve power in the Treasury in such cases, which could override decisions taken by the Government of the day.'[43]

Although Sir Bernard Gilbert, then head of Supply, did not think that a merger was necessary he was concerned about the self-contained nature of the C.E.P.S. He told the Committee that 'it was still true that the C.E.P.S. had not been fully absorbed into the Treasury proper but was still regarded (and regarded itself) as being in some way apart form the Treasury. This was perhaps indicated by the fact that files were passed between the Supply and the C.E.P.S. far less often than between the Supply and the Establishments or Finance Divisions.'[44]

The draft report of the Committee on Supply Business reflected the Treasury's concern that greater control was needed of the C.E.P.S. It noted that 'Although the C.E.P.S. has now been a part of the Treasury organisation for more than two years it is still not regarded (nor does it regard itself) as a branch of the Treasury in the same full sense, for example, as the Finance or Establishment Divisions. A small but perhaps significant indication of this fact is the extent to which reference between the C.E.P.S. and the rest of the Treasury takes the form of self-contained letters or minutes rather than the passing of files as is common in the rest of the Department... It is important that the C.E.P.S. should never become so "independent" as to lose touch with the realities of daily administration and that those engaged on both sides of the frontier between economic planning and Treasury control should know as much as possible of each others work.' In order to ensure that the C.E.P.S. was kept in line the Committee recommended that appointments should continue to be 'carefully selected' and be 'held for a relatively short period.'[45]

Initially shortages of manpower and material had the same effect on investment programming as strict financial control but as this situation eased it became ever more important to harmonise the control of the Supply Divisions with that over capital investment. The easing of shortages allowed the Conservative Government to carry out its policy of dismantling the system of physical controls. As these controls were lifted the Budget became the principal means of shaping investment in the private sector. In the public sector, as Samuel Beer notes 'the issue became one of framing general lines of investment policy rather than of criticising and limiting the particular programmes submitted by individual departments . In this process the Supply divisions, the Home Finance Division (with its connections with the banking system and with the capital financing of government activity) the Economic Section, and the C.E.P.S. could all co-operate with advantage.'[46]

Within this changing picture of investment programming the procedure also became 'more closely related to the normal work of financial control. Previously investment programmes were based on calendar years; now like estimates of expenditure, they were based on financial years, and the forward programming of investment over several years ahead came into line with forward estimating of expenditure over the same period. In this way the demands of investment and the exigencies of finance were related more closely to each other in the final process of establishing economic policy which emerges in the Budget.'[47]

It therefore seems fitting that when Edwin Plowden left the Treasury in November 1953 and the position of Chief Planning Officer was allowed to lapse, it was Bernard Gilbert, who had previously been in charge of Supply, who was put in overall charge of the C.E.P.S.

Edwin Plowden's working relationship with Gaitskell was particularly close and they were friends outside of the Treasury. The closeness of the relationship can be illustrated by an episode recorded in Gaitskell's own diary. Gaitskell was upset by a Cabinet decision to vote against an American United Nations resolution over China. The next day he sent for both Bridges and Plowden and told them what had happened. Finally he told Plowden, 'though nobody else- that unless this decision was altered I would find it difficult to continue in Government.'[48] It is clear from this example, and from the general tone of Gaitskell's diary that Plowden was closer to him than any other official in the Treasury.

The Conservatives' hostility towards planning meant that Plowden's reappointment and the maintenance of the C.E.P.S. was not a certainty once the Conservatives got back to office. In 1949 and again at the end of 1950, Bridges wrote to the Joint Director of the Conservative Research Department, Henry Hopkinson, to confirm that if the Conservatives won the next election they would want to retain Plowden's services. Hopkinson found it difficult to give any kind of commitment to Bridges. Although he wrote that 'the Conservative Party have got nothing against Plowden personally.' He went on to write that 'at the same time his name and the organisation of which he is the head have become identified in the minds of many of the Conservative rank and file both in Parliament and out, with the type of control which our Socialist friends are continually ramming down our throats with boasts that they have been responsible for full employment, the closing of the dollar gap and heaven knows what else.' He concluded that he would have to consult with Churchill and Eden for a more authoritative answer to Bridges question.[49]

After consulting Eden, Hopkinson was still unable to give a firm commitment even though Bridges told him that the C.E.P.S. was now engaged in the vital rearmament programme. Bridges felt that Churchill could at least 'feel able to say that the nonsense in the press, which implied (a) Sir E. Plowden was personally persona non grata to the opposition, and (b) the whole of his outfit would be scrapped on a change of Government, did not in any way represent the facts.'[50]

Bridges received no answer from Hopkinson for a month and then phoned him to tell him how 'very distressed' he was. Hopkinson replied that Eden had undertaken to speak to Churchill but had received no answer despite pressing strongly. Bridges said that unless he got an answer soon he would 'lose my fish.' Hopkinson phoned back a few minutes later with a dictated message from Eden that stated 'we have nothing against Plowden and hear well of him. We cannot commit ourselves in advance to such matters as the Economic Planning Staff.'[51]

Despite Hopkinson's assurance that this was a friendly response Bridges had failed to get any kind of commitment from the Conservatives about either Plowden's future or that of the C.E.P.S.. There had not even been any real distancing by the leadership from the criticisms of the Tory press.

In view of the Conservative Party's attitude towards planning it is not surprising that the relationship between Butler as Chancellor and the C.E.P.S. was not an entirely happy one. It was Butler himself who had persuaded Plowden to stay on in the Treasury after the Conservatives won the 1951 election, it had been his intention to resign. Plowden's background as a practical man of business rather than as an academic economist like Hall made him particularly useful to Butler who later wrote that he had 'depended on Edwin Plowden, as head of the economic planning staff, to interpret and give practical edge to the advice generated by the less voluble and extrovert Hall, to act as vulgarisateur and publicist for his ideas.'[52]

However, there is little doubt that Butler's support for Plowden waned after the ROBOT affair. In March 1952 Plowden was offered a job at N.A.T.O. To his surprise he discovered that the Chancellor wanted him to go. Hall recorded in his diary that William Armstrong told Plowden 'that the Chancellor had lost confidence in him 'because he changed his mind so often.' He was devastated by this as he always supposed that R.A.B., like Stafford and Hugh, had more confidence in him than anyone else.'[53]

When Plowden eventually went in June 1953 Hall noted in his diary that much of Plowden's 'influence before came from his special relationship both to Cripps and to Gaitskell' and that he had not enjoyed the same kind of relationship with Butler. However, although is true that both Hall and Plowden suffered in the short term from the division over ROBOT it is also true that Butler controlled his advisers in part by making them uncertain about their degree of influence.[54]

Plowden's position was probably undermined to a far greater extent by the diminishing importance of economic planning during the Butler Chancellorship. Butler wanted to reorganise the Treasury to bring it in line with its new responsibilities and make the Treasury more of a unity.[55] Early on in his tenure as Chancellor Butler discussed reorganisation plans with Bridges. He wrote that 'it will take longer to decide on the future of the CEPS.'[56] Specifically, Butler no longer saw the need to have someone of Plowden's status in charge of the CEPS and wanted to see it better integrated into the Treasury machine. When Hall saw Butler about his willingness to let Plowden go to NATO in March 1952 Butler pointed out that 'the Treasury would have to be reorganised anyway and though there would be a place for E[dwin] it would not be at the top. In any case he could not see E. as a permanent civil servant.'[57]

Butler wanted to use the opportunity provided by Plowden's resignation to make changes in organisation, specifically the effective abolition of the CEPS. He wrote to Bridges suggesting that there would be advantage in reducing 'the number of more or less independent units concerned with economic and financial policy, and I should hope, the number of officers. At present there seems to me to be too many hounds, some of whom start their own hares.' Butler's suggestion was that 'the CEPS should be reduced in size and amalgamated with the Economic Section which should be transferred to the Treasury. This would form what might be called the Economic Division.' Robert Hall would head this Division and Butler stressed that 'the people now in the Economic Section should continue to be free to do their work in their own way.' He made no corresponding proposal with regard to the staff from the CEPS. It was also part of Butler's plan that no one should take over Plowden's position in charge of overall economic coordination. He wrote that such coordination 'as is necessary between the new Economic Division and the Overseas Finance, Home Finance, Supply Divisions can be done by you or in your absence by Sir Bernard Gilbert, as the most senior of the Second Secretaries. I can help too, and will be glad to hold a short office meeting every Thursday morning.'[58]

Bridges opposed Butler's plans for the CEPS, an organisation he had helped to set up and strongly supported. He told Butler that 'the CEPS could not be amalgamated with the Economic Section and that the two must run parallel [emphasis in original].' He also said that although Hall could be regarded as the Chancellors Chief Economic Adviser he 'could not ... be in charge of an amalgamated Economic and Planning Division [emphasis in original].' Further more he 'reacted against an arrangement whereby we lost Sir Edwin Plowden and no-one was put in specific charge of economic coordination.'[59]

That changes in Treasury organisation did follow the path outlined by Butler reflects the fact that he had a clearer vision than Bridges of how policy changes would impact on organisation. In October 1954 the CEPS was renamed the Home and Overseas Planning Staff (HOPS) and was made the responsibility of a Third Secretary. In December 1958 the Staff was finally dissolved, its work was given to an Overseas Coordination Division and two National Resources Divisions.[60] In 1962 the Treasury as a whole was reorganised into five main groups to reflect the real division of functions as Butler had envisaged.

Budgetary Policy

Cripps had been moving towards a more Keynesian use of the Budget, a process checked when Gaitskell took over since he regarded the Budget as only one and probably not the most important of the economic weapons at his disposal.[61] But the process of Budget making was a central task for the Treasury and a good way of organising their thinking which came to its full fruition under Butler. At the heart of the process was the Budget Committee described by Douglas Jay as being 'so hallowed and secret' that 'like the mysteries of the Vestal Virgins in classical Rome, it was not allowed by tradition to be even mentioned to the uninitiated.'[62]

The Budget Committee drew the work of the various policy communities within the Treasury together and was very much a top level committee until, at a later stage in the proceedings, the Chancellor and other ministers were drawn in. The core membership of the committee consisted of the Chancellors principal policy advisers. These were the Permanent Secretary to the Treasury, who chaired the Committee; the heads of the Overseas Finance, Home Finance and Supply Divisions; the head of the Economic Section; the head of the Central Economic Planning Staff and the Chancellor's Principal Private Secretary. Also on the Committee, but not part of its core membership were the Permanent Secretary of the Board of Trade and the Chairmen of the Inland Revenue and the Customs and Excise, both of whom brought a deputy to the Committee. Although the other members of the Committee were able to select a deputy to attend the Committee in their absence, the fact that members often chose the same deputy restricted the number of people involved in Budgetary policy to a very small number. Samuel Brittan had estimated that the number of people in the know was restricted to no more than two dozen.[63]

The Budget process itself would tend to get going each year in October when the Committee would consider the general Budgetary prospect. The period in between the consideration of the immediate reaction to the previous Budget in April and of the general Budgetary prospect in October was described as 'a dead session' by Edward Bridges. Until 1954 the Committee did not meet in this period.[64]

The first few meetings of the Budget Committee were concerned with the general Budgetary situation. It was not usually until mid-November that the head of the Economic Section would present his first assessment of the economic outlook for the coming year. As a result the economic outlook would be considered by the Committee within the context of the Budgetary position rather than the other way round.

Although the Chairmen of Inland Revenue and Customs and Excise played little part in the discussion of the general economic outlook they would present papers on the state of the taxation system. As they had the authority for the administration of the system their views on any changes held great weight, and when different from the views of the economists, was more likely to prevail.[65]

It was not until after the head of the Economic Section gave his first assessment that the Chancellor himself would become involved in the Budget process and would meet with members of the Committee around the end of November. In January the Chancellor would receive the first set of recommendations from the Committee. At this point he would usually discuss the Budget judgement with the Prime Minister and some other senior colleagues. During the 1945-51 Labour Government non-Treasury Ministers played a more active part in these discussions than under the Conservatives.[66]

The main Budget decisions would be made in February. Up until 1952 these were usually made during a working weekend at Roffey Park, a home for rehabilitating nervous invalids near Horsham in Sussex, attended by members of the Budget Committee and Treasury Ministers.

The final three weeks before the presentation of the Budget were spent on writing the speech itself. During the Butler Chancellorship and most others this was largely the work of the Chancellors Principal Private Secretary with contributions from various divisions and departments on their own particular subjects. Butler would himself bring out the general themes of his Budget and amend his speech to heighten its political impact. By contrast, Gaitskell wrote his own Budget speech with the exception of a few technical passages.

Samuel Brittan has written that 'Informed people in Whitehall believe that the personality of the individual Chancellor has a lot to do with the individual tax changes chosen, but has less effect on the total Budget judgement; of how much to 'give away' or to take back in taxation (although the second is usually far and away, the most important decision).'[67] Brittan's observation does not hold for the period under discussion, during the early 1950s the Budget Committee itself did not speak with one voice on the question of the Budget judgement. In particular, the dismantling of economic controls exposed the fundamental distinction between officials primarily concerned with balancing the Budget and the balance of payments and the economists concern with the general economic outlook. The plurality of views this conflict engendered amongst his main economic advisers gave Butler more leeway in deciding on the Budget judgement than would otherwise have been the case.

During the first half of the 1950s the scope and importance of Budgetary policy grew considerably, and with it, the importance of the Budget Committee itself. During the Gaitskell Chancellorship the role of the Budget in general economic policy was limited to the equalisation of private demand for consumption goods with the available supply after allowing for investment and export needs. There was no thought of using fiscal policy to limit the demand for labour and no real concern about any excess demand for investment as this was subject to physical control. As controls were dismantled during the Butler Chancellorship the scope of Budgetary policy steadily increased, and by 1954, had moved to centre stage.

In spite of these important developments the way Budgetary policy was made hardly changed. It was not until the summer of 1954 that it was decided that an inner group of.the Budget Committee, consisting only of Treasury members, should meet during the May to October period to take stock of the effects of the previous Budget.[68] In addition, the Chancellor had not yet acquired the power, known as the Regulator, to vary consumer taxes by a tenth in between Budgets. Consequently the making of economic policy remained tied to procedures developed when the Budget was solely an instrument of financial policy. Also little attempt was made to coordinate fiscal and monetary policy. It was not until 1959 that a senior official of the Bank of England became a member of the Budget Committee.[69]

Budgetary policy was the main channel by which the advice of **The Economic Section** was incorporated in economic policy-making. The Economic Section was formed at the beginning of 1941 out of the Central Economic Information Service (CEIS). Its staff numbered approximately 14 who were housed in the Cabinet Office until the Autumn of 1953 when the Section moved to the Treasury.[70]

The Economic Section's role from 1947 onwards was to provide professional economic advice to the Chancellor. Among its duties was the drafting of the annual Economic Survey, engaging in economic forecasting, and representing the Section on various economic committees. By far the most important function the Section performed as a whole was the preparation of economic assessments for the Budget Committee. These assessments provided the economic framework within which Budgetary policy was discussed. In Robert Hall's period of office the Economic Section came to be regarded, in his words, as 'almost the responsible authority', the budget judgement put to the Chancellor was 'his more than anyone's.'[71]

From 1947 onwards the Section began submitting two economic assessments to the Budget Committee during the preparation of the Budget. This practice became formalised into a procedure whereby the Section would submit a preliminary assessment of the economic prospects for the coming year in November and a more definite assessment in late January or early February. These assessments 'usually followed a forecasting exercise of some kind and were often lengthy documents ranging over the main issues of policy as seen by the Economic Section. They might also include detailed proposals for changes in taxation or expenditure in addition to the main recommendation as to the scale on which additional tax revenue should be raised or remitted.'[72]

The form of the Section's Budget assessment changed significantly as fiscal policy became the predominant method of economic management during the Butler Chancellorship. As market forces were given greater play in the economy the Budget assessment became less dependent on semi-precise mathematical processes and became explicitly presented as 'an act of judgement' on the part of the Section. [73]

Decontrol and the ending of quantitative economic planning meant that providing budget assessments became Section's primary objective. While under Cripps and Gaitskell the Section had prepared papers on the future of planning and full employment, under Butler the Section 'concentrated increasingly on short-term economic forecasting, the annual Budget and immediate issues. Its horizons shrank and less and less was written on long-range, non-quantitative problems.' The number of discussion papers produced also shrunk dramatically from a peak of sixty-two in 1950 to forty-two in 1952 and then down to just eighteen in 1954.[74]

The Head of the Section was able to operate as an economic adviser to the Chancellor. Robert Hall found that his work cut him off from his staff, his influence depended on his own reputation rather than on his position as Head of the Section. In addition to Hall the Section was made up of a Deputy-Director, two senior Economic Advisers at Assistant Secretary level, roughly six to eight Economic Advisers at the level of principal and two or three juniors. It contained no professional statisticians and had to rely on the Central Statistical Office for such information.[75]

The Section was very loosely organised with specialisation occurring as a result of individual aptitude rather than because of an overall organisational plan. The reasons for this were outlined by Robin Marris, formerly of the C.E.P.S., in an article published in 1954 in which he compared the Section with the Dutch Central Planbureau. He found the Economic Section to be a much smaller operation than the Planbureau in spite of the fact that the national income of the United Kingdom was roughly ten times that of Holland. The main reason for this was that the Economic Section was far less involved in the operation of policy than the Planbureau. Although Marris draws attention to the fact that the nature of the British Constitution dictated that much of the work conducted by the Planbureau in Holland had to be conducted through inter-departmental committees, the main source of the weakness of the Section that he identified was the relative strength of the Overseas Finance Division within the Treasury: 'The existence of so large and powerful a body, responsible for both general and detailed policy in the most important economic policy field, must inevitably have exerted a profound influence on the role and organisation of the Economic Section, and, for that matter of the Planning Staff.'[76] In particular, it meant that 'the professional economic advisers may suggest and criticise, and thereby exert considerable influence, but always as it were from the sidelines... the aggregate loss caused by a multitude of administrative decisions based on amateur economic reasoning is immeasurable and rarely noticed.'[77]

Another important contrast between the Planbureau and the Economic Section identified by Marris was the lack of a division specialising in long-term research. He is very critical of the omission of long-term planning from the work of the Section. He concluded that 'In the United Kingdom, if an aspect of economic policy requires for its rational implementation that some substantial piece of economic research be carried out, the normal procedure, by and large is to drop the policy or to implement it irrationally. This state of affairs almost certainly arises from the traditional British administrative impatience with anything which is not of obvious urgent practical usefulness; in the social sciences, particularly, good men and good money cannot be spared for back-room work.'[78]

Unlike the Planbureau the Economic Section was not separated from the rest of the bureaucratic machine. The staff engaged directly with members of Treasury divisions, their influence depended upon their ability to persuade by argument. One effect of this was that the Staff adopted the administrative viewpoint more readily than would otherwise have been the case. Indeed, as a general ethos the Section believed in mild short-term planning. In a paper written in April 1949 D.M.B. Butt sought to outline what was meant by this. By 'mild planning' he meant 'budgetary policy, general control over the scale of investment (mainly by determination of aggregate programmes of big sectors), exhortation, the E.I.U. [Economic Information Unit] and so on.' He rejected 'fierce' planning, by which he meant the 'direction of labour, price controls, output, licensing, materials allocations, detailed investment licensing and so on.' He also rejected precise long-term planning which he thought was 'a rather obvious futility to which I will not invite my colleagues to proclaim adherence...'[79]

Robert Hall succeeded James Meade as head of the Economic Section in September 1947.[3] Hall's views were essentially those of what Alan Booth has characterised as a 'liberal Keynesian.' He saw the message of Keynes as essentially the use of budgetary and monetary policy as instruments for correcting excesses and deficiencies in demand. Hall's viewpoint had been formed at Oxford where he 'had developed as an applied economist rather than as a theorist. His interest was not so much in theories as in the uses to which they could be put.'

Hall's thinking was most influenced by Keynes's Treatise on Money which was published in 1931. Hall took from the book the message that 'the automatic working of economic forces did not necessarily of itself lead to full employment.' He was less influenced by the General Theory which was published in 1936. Hall thought that 'the practical consequences of the theories would have been clear from the Treatise even if there had been no General Theory.'[80] In 1937 he published The Economic System in a Socialist State which argued that a simple form of socialist planning by state direction could not be effective.'Even if a

[3] Robert Hall: Born in Queensland 1901. Hall was studying civil engineering at Queensland University when he won a Rhodes Scholarship to Oxford in 1922. He received a first in Modern Greats(P.P.E) in 1926 and was lecturer in Economics at Trinity College Oxford from 1926 to 1947. [Alec Cairncross in C.S. Nicholls(ed): The Dictionary of National Biography 1986-1990, Oxford University Press, Oxford, 1996.]

socialist state established a mechanism through which it could ascertain its relative errors of overproduction of some goods at the expense of under production of others, it might still be unable to enforce productive methods which would give it sufficient quantities of all goods, unless it made some use of a price system.'[81]

Hall was not an articulate man, he struggled to express himself in Treasury meetings.[82] However this handicap did not weaken his influence over ministers, rather when Hall 'did manage to verbalise his thoughts, they seemed to have been extracted with enormous effort from his innermost being' by contrast Cairncross, his successor, came across 'more like a clever professor.'[83]

To a significant degree Hall's method of operating reflected that of his Section as a whole. Robin Marris has written of Hall that 'he believes strongly in trying to see problems from the administrators point of view, in contrast with the extreme faults of outlook which many administrator's complain are often associated with academic economists.'[84] The price Hall paid for influence was to gradually compromise his economic principles. As Booth has argued, although Keynesian arithmetic became an accepted part of fiscal policy none of the Supply Side aspects of Keynes's theories were advanced by Hall in the Treasury. In particular, wage policy was not integrated into Keynesian demand management. 'Under Hall, the Economic Section failed to forge this link.'[85] Hall also never forced the battle over deficit financing to a head. In 1954 he accepted the Treasury's case against incurring a deficit when only private investment needed to be encouraged.[86] Although Hall's methods did gain him credit with both the official Treasury and with Butler, it also meant that the actual circumstances under which deficit financing was desirable were never settled.

From the beginning of his Chancellorship Butler was unhappy that the Economic Section was not housed in the Treasury. He wrote to Bridges that he thought it odd 'that our Economist should be in the Cabinet Office with another staff.'[87] His dissatisfaction with this arrangement was probably heightened by the ROBOT crisis when Robert Hall became involved in the coordination of the opposition to the plan. It has been argued that the move of the Section to the Treasury and Hall's promotion to Chief Economic Adviser in 1953 is evidence of a change in Butler's position over ROBOT and represented a victory for Hall particularly in relation to the Overseas Planning Division. However, the move is better explained by Butler's evident desire to strengthen his control over the machinery of economic policy. When he wrote to Bridges in May 1953 that he intended to regard Hall as 'my Chief Economic Adviser' the possessive aspect of his wording was important. Although the Section was largely incorporated into the Treasury structure prior to the move it had continued to be consulted by other Ministries, this was allowed to continue under the new arrangement but became increasingly rare.

External Economic Policy

One of the most powerful members of the Budget Committee was the head of the **Overseas Finance Division** (O.F.). The influence of the head of O.F. was determined by his position at the centre of the network of external economic policy making. O.F had control over information regarding Britain's overseas payments position, a close relationship with the Bank of England. The Head of the Division operated as the Chancellor's principal adviser on matters of external policy.

The major objectives of the division were to bring about convertibility of the pound and to establish a 'one-world' economy based on free trade. This meant giving greater priority to questions of external finance. This was, in part, the attraction of the ROBOT plan to the Division. Immediate convertibility of the pound at a floating rate would have meant that domestic economic policy would have had to have been made to fit external conditions. Robert Hall believed that O.F. was 'much more powerful than people dealing with domestic side' and was 'always leaning to austerity'. It was the division 'least in favour of full employment' and in pursuing its objectives was 'somewhat fortified by [the] Bank [of England]'[88]

The relationship between the head of the Overseas Finance Division and the Chancellor was an important one. On overseas trips the head of the Division would accompany the Chancellor and become in effect his chief adviser.[89] Unfortunately relations between Wilson-Smith, the head of the Division, and Gaitskell were not good. As Gaitskell did not share the policy objectives of O.F. its influence was limited during his Chancellorship. After one policy meeting where Gaitskell had conducted the discussion entirely with junior officials, Lord Croham recalls that Wilson-Smith said '"I'm not going to stand any of this any bloody longer" and he took himself off almost at once to get a job in industry.'[90] Gaitskell himself had a low opinion of Wilson-Smith. Dalton recorded in his diary that Gaitskell was 'glad that Wilson-Smith is soon leaving the Civil Service. He has been obstinate, resistant and disloyal.'[91]

Leslie Rowan succeeded Wilson-Smith as head of the Division in 1951.[4] As Churchill's private secretary during the war Rowan had gained admission to what Churchill called 'The Secret Circle'. Rowan latter recalled that 'To bring someone fully into 'The Secret Circle' was a tremendous step for Churchill to take, for once you were in you knew and saw everything except the date for military operations and the contents of the famous 'yellow boxes', the most secret enemy intelligence.'[92] Rowan's service with Churchill began what he later described as 'the close friendship with him and his family which continued in later years.' Indeed, Rowan's later advocacy of the ROBOT plan may well have influenced Churchill's initial decision to support it.

In 1947 Rowan was made Permanent Secretary of the new Ministry of Economic Affairs. However, the Ministry was quickly abolished when Cripps succeeded Dalton as Chancellor in the same year. Rowan accompanied Cripps back to the Treasury and was effectively demoted to Second Secretary level. His frustrated ambition could be the reason why so many found him to be 'emotional and impossible to work with' when he returned to the Treasury in 1951 after a spell as economic minister at the British embassy in Washington.[93]

Rowan's changing policy stance provides a good illustration of Graham Allison's maxim that where you stand on a policy depends to some extent on where you sit.[94] When the Department for Economic Affairs was merged with the Treasury in 1947 Rowan argued that a separate staff should continue under himself and that he should continue to chair the Overseas Negotiations Committee and London Committee on the basis that the business of these committees should be planning.[95] When he became head of O.F. in 1951 Rowan became a whole-

[4] Leslie Rowan: born 1908 and educated at Tonbridge School and Queen's College Cambridge. He entered the Colonial Office in 1930 and then transferred to the Treasury in 1933, becoming assistant private secretary to the Chancellor, Neville Chamberlain, shortly afterwards. In 1941 Rowan joined the private office of the Prime Minister and in 1945 became his principal private secretary. [Paul Gore-Booth in Lord Blake and C.S. Nicholls(eds.): The Dictionary of National Biography 1971-1980, Oxford University Press, Oxford, 1986.]

hearted supporter of the dismantlement of external controls and the reassertion of questions of external finance. In fact, Rowan's time as head of O.F. was marked by sharp divisions within the Treasury which almost amounted to a power struggle between internal and external objectives of economic policy.

Rowan formed a close working relationship with Butler during his time as Chancellor, Butler regarded him as 'a very important man.'[96] This relationship sprang in part from Rowan's position as the official who accompanied the Chancellor on overseas trips. Rowan was also, with William Armstrong, the main contributor to Butler's speeches and the man who would have been in Butler's room more than any other Second Secretary.[97]

R.W.B. Clarke, known to family and friends as 'Otto', was the most important Under Secretary within O.F. until he left in 1952.[5] Clarke had joined the civil service at the outbreak of war, and worked his way through the Ministries of Information, Economic Warfare, and Supply, he also spent a year in Washington. In 1945 he joined the Treasury and from 1946 to 1952 he was Chairman of the Import Programme Committee.

Clarke 'always took the architectonic rather than the piecemeal approach to his responsibilities.'[98] His tendency to look for overall solutions to problems partly explains why he was one of the main advocates of the ROBOT plan when he had previously been against an early return to convertibility. He was capable of radical changes of mind when struck by a new vision. His command of figures and gift for language made him a persuasive advocate, capable of drafting convincing memoranda in next to no time. However, his passionate beliefs sometimes made him 'reluctant to believe things that didn't support his arguments.'[99]

Although the pairing of Rowan and Clarke at O.F. proved to be powerful, from the Treasury point of view, it was also disruptive. When it was suggested that Clarke should return to O.F. in the summer of 1955, Bridges advised against it. He

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[5] 'Otto' Clarke: born 1910 and educated at Christ's Hospital and Clare College, Cambridge. There he studied studies mathematics and then switched to economics in his fourth year, receiving a second class in part ii of the economics tripos in 1932. He spent six years at the *Financial News,* which was later amalgamated with the *Financial Times.* His most lasting achievement during this time was to create the Ordinary Share Index which later became the F.T. Index. [Samuel Goldman in Blake and Nicholls: Op Cit.]

wrote to Butler that he thought Clarke 'and Leslie Rowan have some of the same defects and should not be brigaded together. You know how certain pairs of dogs, when they get togther always forget all their training and go off hunting and get into trouble. There is rather the same kind of disruptive magnetism between these two and my instinct tells me that if we put them together we shall have trouble both in office and outside it.'[100]

The Overseas Finance Division was set up in 1914 when the outbreak of the first world war undermined the previously multilateral system of payments.[101] The Division was concerned almost exclusively with policy concerning Britain's balance of payments position. An important part of its work thus involved keeping a close watch on exchange movements. The enormous balance of payments problems that dogged British economic policy in the postwar period increased the scope and functions of O.F. In July 1938 its staff had numbered only 7, ten years latter it this number had increased to 71.[102] The organisation of O.F was most affected by the measures necessitated by the granting of Marshall Aid in 1947. In order to keep Marshall Aid flowing supervision was required of its use. This also required better coordination of internal and external policy and the extension of the system of interdepartmental committees into the area of overseas finance.[103]

Among the committees set up by this process the two most important were the Overseas Negotiations Committee(O.N.C) and the Committee on European Economic Cooperation, usually referred to as the London Committee. The role of the former was to advise ministers on 'the general principle on which to base trade and financial negotiations with overseas countries and supervise... the conduct of such negotiations with particular countries.' The role of the later was to supervise the detailed allocation of Marshall Aid.[104] Another 'crucial cog' in the machine was the Import Programme Committee, chaired by Otto Clarke, which decided how much of each type of import could be allowed into the country. Clarke became the 'supreme commander' of all import policy during the Gaitskell Chancellorship and this area of policy became known as '"the Ottoman Empire."'[105]

When the separate Department for Economic Affairs was merged with the Treasury in 1947 Cripps brought Leslie Rowan and his staff with him. Rowan had been made chairman of both O.N.C and the London Committee. His independent status within the Treasury meant that O.F was initially denied control of the coordinating machinery of economic and financial policy.

Sir Henry Wilson-Smith, the head of the O.F. Division, was determined to re-establish Treasury control of this area. His memorandum to the Treasury Organisation Committee in 1948 argued that the separate staff under Rowan should be terminated and that the existing tripartite organisation on question of overseas policy should be contracted into a dual organisation of O.F and the C.E.P.S. One reason why Wilson-Smith's memorandum is interesting is because it demonstrates the fact that many of the Treasury's arguments against the structure of the economic planning machinery were based on a notion of practicality. Wilson-Smith argued that as a result of the existing set up 'the Overseas Finance view (and therefore by definition the Treasury view) on many of the issues which come before the Chancellor is determined below Third Secretary level, is maintained or modified in interdepartmental discussion, and is then submitted to the Chancellor- usually without direct reference to the Second or Third Secretaries. This leads to a blurring of responsibility among the Chancellor's principal advisers and indeed a confusion as regards reporting etc.' Therefore, the principal argument against the existing structure was that it when against the Treasury's standard operating procedures. The traditional approach was argued for in terms of practicality rather than in terms of an explicit attack on planning as a policy objective.

Wilson-Smith was keen to restrict the importance of the C.E.P.S. in external policy and thus defined its functions in such terms that it appeared obvious that it should not be in charge of these committees. 'In my view', he continued, 'this staff must fit together a United Kingdom economic policy in internal and external spheres it must draw on the expert executive and planning authorities in particular spheres and it must shun all the blandishments and temptations which would extend its sphere of influence beyond the essential minimum. To the maximum extent possible it must stand outside the ordinary machine, drawing on the resources of that machine, subjecting its view to the criticism of those responsible for the framing and execution of policy in particular spheres and, especially in the overseas finance sphere, leaving practicability to be tested by those who have to carry out actual negotiations [emphasis in original].'

Wilson-Smith's argument was not only motivated by the logic of a simple turf fight between divisions but also by the belief that questions of financial policy took precedence over those of economic planning. Re-establishing Treasury control of the machinery of external policy also meant re-establishing the primacy of questions of overseas finance. Wilson-Smith wrote that he would be 'most strongly opposed to any suggestion that the work of the Programmes Committee should focus on the C.E.P.S. and not in "old" Treasury. If the Overseas Finance Division loses "the power of the purse" in terms of exchange requirements then we should be well on the way to converting the suggested dual organisation into a single one.'

Wilson-Smith extended this argument to the other interdepartmental committees, arguing that 'personally I cannot help feeling that it will obscure the true functions of the Central Planning Staff, and certainly of the Chief Planner if they are made responsible for advice to the Chancellor of the Exchequer on all the day to day business of O.N.C and the London Committee. I am afraid I do not agree at all with Mr Rowan's view that this business is "planning." I regard it as no more than the most convenient way to settle a whole host of current financial and economic questions affecting a number of Departments, it is just that kind of coordination which I have always regarded as the job of the Treasury.'[106]

The Treasury Organisation Committee agreed with Wilson-Smith's assessment. Their draft interim report concluded that 'the work of these committee is, we suggest, an example of the intermediate stage in the planning process and should not be carried out by the central planning staff.' The Committee recommended the amalgamation of Rowan's Division with O.F and that O.F should be put in control of the interdepartmental committee structure.[107]

The relationship between the O.F. and the Bank of England was at the heart of the external economic policy network. On the external side the Bank managed the Exchange Equalisation Account (EEA) and on exchange control acted as agent for the Treasury. The responsibility for policy lay with the Treasury and O.F. therefore had the upper hand in the relationship. The Bank's influence in these matters 'depended rather more upon the Bank's managerial, intellectual, and technical weight and rather less on such formal independence as remained to it.'[108] The relationship 'of agent and principal and the great complexity and range of the subject matter produced working relationships between the Bank and the

Overseas Finance Division of the Treasury - below Governor or even Executive Director- within which both debates on policy and discussions 'at technical level' took place.'[109]

Monetary Policy

At the centre of the monetary policy network was the relationship between the Bank of England and the Treasury's **Home Finance Division**, this relationship remained, during the early 1950s, a very formal one. Under the 1946 Act the Bank retained responsibility for the management of the money market, including the fixing of the Bank Rate and the management of Issue Department Securities. In their evidence to the Radcliffe Committee the Bank made it clear that under the Act 'this responsibility lies with the Bank unless they are given dictions by the Treasury.'[110]

The position under the 1946 Act 'together with a strong Governor and the administrative (though not intellectual) simplicity of the subject matter, encouraged the relative paucity of relationships below Governor level and discouraged debate with Whitehall about policy or about the whole subject of monetary policy- how it worked and how it should be operated.'[111]

The lack of communication between the Bank and the Division on matters of policy, coupled with the Bank's tendency to put its case in purely operational terms, encouraged disagreements to develop. Disagreement was particularly apparent during the Gaitskell Chancellorship when the continued adherence to the policy of cheap money meant that the Bank's formal responsibilities over monetary policy counted for very little. The Bank's determination to reactivate the Bank rate at the end of 1950 received a poor response in the Division. In particular, Burke Trend, at that time an under secretary in the Division, found the Bank's memorandum on the subject to be a 'very disappointing document.'[112] Eady reported to Bridges that the Home Finance Division did not think the move worthwhile.[113] Once Butler decided to reactive the Bank Rate in October 1951 the relationship between the Division and the Bank was radically altered. As the responsible agent for the execution of the policy the Bank became the Chancellor's main advisers on interest rate changes, the Home Finance Division was effectively sidelined.

Wilfrid Eady was head of the Home Finance Division from 1947 to 1952. Unlike the other Treasury Mandarins he had spent most of his career outside the Treasury, mainly in the Ministry of Labour. In 1942 Eady was appointed head of the Overseas Finance Division where he worked closely with Keynes on the construction of postwar international monetary arrangements. This was 'not an easy collaboration: Eady's mind did not move with the facility of Keynes's in matters of international finance, and though Keynes came to respect Eady's qualities he was sometimes impatient at Eady's reluctance to follow his own darting thought. That reluctance however, was often justifiable: it was that of a man determined not to be diverted by intellectual coruscation from satisfying himself that the arrangements to be made would be workable and in the country's interests.'[114] In 1947 he relinquished responsibility for overseas finance and moved to the Home Finance Division where he stayed until his retirement in 1952.

Eady's successor as head of the Division was Edmund Compton who had spent most of his career in the Treasury. Butler had suggested that Eady's place should be taken by someone from the City who understood finance and banking but this 'scandalized' Norman Brook and Leslie Rowan. Robert Hall recorded in his diary that Compton's appointment was an example of 'the Trade Union in action.'[115]

Compton was not promoted to the level of second secretary when he became head of the Division and he stayed at the rank of third secretary until he left the Treasury to become Comptroller and Auditor General in 1958.[116] That the Home Finance Division was headed by someone below the rank of second secretary reflected its loss of influence once the Bank Rate had be reactivated. Compton's failure to gain promotion could also be accounted for by his closeness to the three successive Labour Chancellors between 1945-5, which might have led to him being treated with some reserve once the Conservatives came back to power.[117]

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2. Philip M. Williams(ed.): The Diary of Hugh Gaitskell 1945-1956, 5/1/51, p.220.

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6. Nicholas Henderson: The Private Office: A Personal View of Five Foreign Secretaries and of Government from the Inside, Weidenfeld and Nicolson, London, 1984, p.2.

7. Ibid. p.1.

8. Ibid. p.1.

9. Private Information, John Barnes.

10. Alec Cairncross(ed.): The Robert Hall Diaries 1947-53, Unwin Hyman, London, 1989, 27/7/51, p.162.

11. See, for example, Cairncross(ed.) Ibid. 15/10/52, p.248.

12. Ibid. 29/1/53, p.264.

13. Alec Cairncross(ed.): The Robert Hall Diaries 1954-61, Unwin Hyman, London, 1991, 19/4/55, p.32.

14. Ibid. 21/12/55, p.56.

15. Burke Trend in E.T. Williams and C.S. Nicholls(eds.): Dictionary Of National Biography: 1961-1970, Oxford University Press, Oxford, 1981, p.133.

16. Private Information, John Barnes.

17. See Pages 45-46.

18. Interview with Lord Armstrong of Ilminster, 10/6/97.

19. Sir Edward Bridges: Portrait of a Profession: The Civil Service Tradition, Cambridge University Press, Cambridge, 1950; Lord Bridges: The Treasury, Second Edition, Allen and Unwin, London, 1966.

20. See Philip M. Williams(ed): The Diary of Hugh Gaitskell 1945-56, Jonathan Cape, London, 1983, 4/5/51, p.248.

21. Norman Macrae: Sunshades in October, Allen and Unwin, London, 1963, footnote, p.30.

22. Seldon: Op Cit. p.161.

23. Cairncross(ed.): The Robert Hall Diaries 1947-53, Op Cit. 30/12/53, p.282.

24. Burke Trend in Williams and Nicholls(eds.): Op Cit.

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26. See Chapter 6 p.145.

27. See Chapter 6 pp.151-53.

28. Seldon: Op Cit, p.102.

29. Keith Middlemas: Power, Competition and the State. Volume 1: Britain in Search of Balance, 1940-61, Macmillan, London, 1986, p.195.

30. PRO T 229 266 Adapted from a chart prepared in the American Embassy, London, 15/3/48.

31. R.S. Milne: 'Britain's Economic Planning Machinery' in *The American Political Science Review*, June, 1952, Vol. XLVI, No.2, p.410

32. Milne, Ibid. p.409.

33. Ibid. p.421.

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35. Milne: Op Cit. p.416.

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40. Interview with Lord Croham, 27/3/97.

41. Milne: Op Cit. p.417.

42. Samuel Beer: Treasury Control: The Co-ordination of Financial Policy in Great Britain, Clarendon Press, Oxford, 1956.

43. PRO T 222 507 Treasury Organisation Committee, TOC(50)2nd Meeting, 9/2/50.

44. PRO T 222 507 TOC(50)6th meeting 23/3/50.

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46. Beer: Op Cit. p.87.

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50. PRO T 273 139 'Personal', Bridges, 10/1/51.

51. PRO T 273 139 'Note for the Record', Bridges, 14/2/51.

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54. For Butler's method of operating see Chapter 5 pp.115-7.

55. Ibid. 15/5/52, p.226.

56. PRO T 273 138 Butler to Bridges, undated.

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59. PRO T 273 138 Bridges to Padmore, 29/5/53.

60. Samuel Brittan: The Treasury under the Tories 1951-64, Penguin Books, Harmondsworth, 1964, p.172.

61. See Chapter 9 pp.280-89.

62. Jay: Op Cit. p.175.

63. Brittan: Op Cit. p.108.

64. T 171 450 'Note of a meeting held in Sir Edward Bridges room', 7/7/54.

65. Brittan: Op Cit. p.103.

66. Ibid. pp. 107-8.

67. Ibid. p.106.

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95. For discussion of these Committees see p.59.

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113. PRO T 233 1401 'Interest Rates', Eady to Bridges, 14/11/50.

114. Robert Armstrong in Williams and Nicholls(eds.): Op Cit. p.319.

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Chapter 3
The Treasury view

The fact that ministers operate within institution's that have developed ingrained patterns of thinking represents an important constraint on their ability to initiate policy. While the course of events and the injection of new minds into institutions does have the effect of inducing change, this process is incremental and institutions always retain elements of their past selves. Edward Bridges described the departmental view as the result of 'a store of knowledge and experience in the subjects handled' that has been built up in every department.[1] An appreciation of a department's traditional responsibilities and relationships is therefore essential if its reaction to new policies and responsibilities is to be understood.

In The Cybernetic Theory of Decision John Steinbruner draws attention to the importance of an institutions store of knowledge in the decision-making process. According to cybernetic theory decision-makers buffer themselves against the complexity of the world by simplifying the decision-making process around a series of standard operating procedures drawn from past experience. One of the advantages of cybernetic explanations is that they take into account the degree of uncertainty with which the decision-maker is faced. 'The cybernetic paradigm is based on the contradictory assumption of uncertainty control. According to this assumption, the decision maker - primarily and necessary engaged in buffering himself against the overwhelming variety which inheres in his world - simply avoids direct outcome calculations. Such a decision-maker processes procedures for processing information which in fact generate decisions and outcomes, but psychologically he is not engaged in the pursuit of an explicitly designed result. The psychological effects of uncertainly are therefore held to a minimum.'[2]

Decision-makers therefore simplify the world according to past experience. While an explicitly designed result may be avoided, implicit judgements of value are inherent to any form of simplification. These institutional values are crucial to the policy-making process because, as Geoffrey Vickers[1], has argued, 'reality judgments and value judgments are inseparable constituents of appreciation... for facts are relevant only in relation to some judgements of value and judgements of value are operative only in relation to some configuration of fact. Judgements of value give meaning to judgments of reality as a course gives meaning to a compass card. Information is an incomplete concept; for it tells us nothing about the organisation of the recipient which alone makes a communication informative.'[3]

The store of knowledge and experience held in the Treasury was drawn primarily from its historic responsibility for public finance and this shaped a view of the world that was informed by economically liberal values. While Keynesian national income accounting techniques could be incorporated into the Treasury's operating procedures with relative ease the use of physical controls destabilised those relationships the Treasury sought to maintain. In particular, the use of physical controls threatened to undermine financial control and placed demands on those at the centre they felt unable to fulfil. The Treasury's response to these pressures was to try to reestablish what it saw as normality. Psychologically, as the cybernetic paradigm suggests, Treasury officials were not engaged in the pursuit of an explicitly designed result, for them reductions in public expenditure, the dismantling of economic controls, the establishment of convertibility of the pound and of a one-world economy were necessary if the Treasury's relationship with the outside world was to be brought back into equilibrium after the exceptional conditions of the Second World War. Therefore, in order to properly understand the way the Treasury operated in the postwar period, it is necessary to look in more detail at the values it held and how they were formed.

Treasury Control and the principle of Balanced Budgets

Britain differs from other countries, in particular France and Germany, in having a Finance Ministry which also has responsibility for the control of public expenditure. The function of public expenditure control placed the Treasury at the

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[1]Geoffrey Vickers: A lawyer by training he was in charge of economic intelligence in the Ministry of Economic Warfare. After the war he joined the new National Coal Board and became Board member in charge of personnel and training in 1948 [Wayne Parsons: Public Policy: An Introduction to the Theory and Practice of Policy Analysis, Edward Elgar Publishing Ltd, Aldershot, 1995, p.25].

centre of the machinery of government. As Roger Middleton has argued 'The locus of Treasury authority within Whitehall was its institutional position at the financial and political centre of Government. This position rested on the control of expenditure, for it was this which endowed the Treasury with political power and made it the most politically conscious of all the departments.'[4]

In 1954 Sir John Woods referred to Treasury control as 'that central core' of the Treasury's work.[5] This was certainly true in terms of numbers. By July 1948 156 officials were working in either the Supply or Establishment divisions of the Treasury. This number compares with 27 in the Central Economic Planning Staff and 26 in Home Finance in the same period. Most Treasury officials would pass through these core divisions at some stage in their career. Of those Treasury officials who had reached the level of Second Secretary or above in the period under consideration, Bridges, Gilbert, Wilson-Smith, Padmore, Rowan and Brittain had all served in the Supply Divisions during their formative years in the Treasury. The only exception to this rule was Wilfrid Eady who started his Civil Service career in the Ministry of Labour. Indeed, it was viewed as desirable for officials to have experience of the various aspects of the Treasury's work. Sir Henry Wilson-Smith told the Select Committee on Estimates in April 1958 that there 'is a good deal of change-round in the Treasury and in the lower levels in particular. I think it is probably desirable in terms of giving the maximum experience over a broad field to the younger man.'[6]

Grasping the centrality of Treasury control to the way the Treasury operated is essential to understanding the Treasury view. It was this awareness of the political and institutional pressures within which the Treasury operated, rather than economic doctrine, that made the principle of balanced budgets so central to the Treasury's view. Although officials came to accept that government would play a larger role in the economy after the war this was conditioned by an awareness of the institutional pressures in which they operated. Officials fitted there new responsibilities for economic management within the framework of the existing ones of budgetary control. This method of adaptation fits in well with Steinbrunner's notion of uncertainty control. Officials were naturally predisposed to methods of economic management which least interfered with their traditional ways of doing things and with their existing relationship with the outside world. Specifically this meant the rejection of Budget deficits and of physical controls as legitimate methods of economic management as both of these methods clashed dramatically with how the Treasury comprehended its role. That both these methods had been used during the war did not mean that their use had been legitimised for peacetime. Wartime practice did legitimise the use of Budgetary policy to contain inflation but deficit financing and physical controls were diversions from normal practice only tolerated because of the national emergency. This became clear after the war when the Treasury assumed that the system of physical controls would be dismantled and that Budgetary policy would again take precedence.[7]

The Budget of 1941 is often described as the first Keynesian Budget because it was the first in which Keynesian techniques of national income accounting were used to manage the total level of spending in the economy. However, the reason why it proved possible to convert the Treasury to these methods was that the conditions of the time meant they reinforced the Treasury's own case for firmer control of public expenditure. The fact that the Treasury could easily adapt its standard operating procedures to this limited use of Keynesian methods was made explicit by Bernard Gilbert in 1945. He argued that in an inflationary context this use of the Budget would 'involve keeping the brake on with varying degrees of pressure on both capital and consumer expenditure. I see no difficulty about that; it is in harmony with all our past training and experience, and the constitution of the machinery of government is well fitted for the exercise of negative controls.'[8]

Keynesian Budgetary policy in the postwar period became identified with fine-tuning of the economy around a high level of economic activity rather than with budget deficits. The process of fine-tuning was attached to a budgetary procedure that remained essentially the same as had existed before the War.

One significant item of expenditure in the annual Budget during the Labour government was the cost-of-living subsidies. An important reason why the Treasury supported the Economic Section's case for an Autumn Budget in 1947 was because the opportunity to cut food subsidies appeared to have opened up.

Throughout the Cripps and Gaitskell Chancellorships officials argued that the burden of taxation on the economy was already too great and that the only way to deal with inflationary pressure was by cutting subsidies. In February 1950 the Budget Committee informed Cripps that 'the economy is over-loaded. We are attempting to do more things than we can do with the resources at our disposal. The result is the continuance of inflationary pressure and a rigidity in the whole economic structure which makes it extremely difficult if not impossible to have any flexibility in planning.' The Committee recommended that the 'right way to counter the inflationary pressure and to restore a balance to our economy is by a reduction in Government expenditure and we recommend that the most strenuous and determined efforts should be made to this end.'[9]

The way in which Treasury control was organised also encouraged a form of institutional scepticism in the way the it dealt with outside actors. Sir John Woods described the role of the Treasury official in relation to a departmental finance officer to be that of a 'detached outside critic. That is what the Treasury is. On the particular matter at issue the department will be expert - the Treasury inexpert. But the department man may also be an enthusiast and enthusiasm, admirable quality though it is, sometimes runs away with discretion and judgement. The good Treasury man, I have always thought, ought to be very like a first-class common law barrister, conducting a vigorous but fair, cross-examination of an expert witness.'[10]

It was natural of the Treasury to transfer these operating procedures to the machinery of economic planning as this developed after the war. Although the Treasury came to play the predominant role in economic planning after Stafford Cripps' staff was incorporated in to the Treasury in 1947 it remained naturally inclined against taking an overtly positive role in this process. Planning of both internal and external economic policy took place within an interdepartmental framework of committees. As Samuel Beer points out 'as in their relations with Supply, it was the departments that took the initiative, they, not the planning staff, drawing up and proposing the various projected schemes of investment.'[11] These plans were then greeted with natural Treasury scepticism.

The pressures encountered in the control of public expenditure created an ethos in the Treasury that was essentially sceptical about both the desirability and the practicality of the government playing the greater role in the economy that the planners wanted. This point comes across clearly in Herman Finer's recollection of the answers Edward Bridges gave about the problems of modern government. When asked what was his greatest official anxiety Bridges answered that '"It is not coordination! We have the machinery and the rules for that. My chief anxiety is that so much business must still come across the desk of myself and my thirty colleagues at the head of the other departments."' When Finer suggested: '"Is this not a function of number? Say, double the men at the top?"', Bridges replied '"No! Still too much has been concentrated in the state, to which I must say - and I alone - 'Yes' or 'No'."'[12]

Another consequence of the centrality of Treasury control to its operation as an institution was that 'well-rounded laymen' rather than economic experts were sought after as officials.[13] None of the officials at the level of Second Secretary or above in the period under consideration had a background in economics. Bridges had studied Greats at Oxford; Rowan, modern and medieval languages at Cambridge. Experience within the Supply and Establishment Divisions of the Treasury gave officials a sense of the way in which they were at the centre of unlimited pressure for scarce resources. As the Treasury's role in economic policy was superimposed upon a pre-existing machinery that dealt with financial policy it was natural for the Treasury to see economic policy as inseparable from financial control and to want as strong a grasp on the machinery of economic policy-making as possible. Sir John Woods expressed this Treasury view well in his *Political Quarterly* article of 1954: 'It is perhaps arguable whether this general co-ordinating power, as well as the traditional control of expenditure should be in Treasury hands. Certainly it imposes a heavy strain on the Treasury and the Chancellor of the Exchequer. Critics may say, and have I think said, that it gives the Treasury too much power. For my part I believe the present arrangement to be right... An economic co-ordinator outside, and independent of the Treasury, will always be falling over the Treasury's feet, and vice versa. The broad economic view and the broad financial view, cannot be disentangled. And I would rather run the risk of an over-powerful Treasury than bear the continual pull and counter-pull, of two overlapping Ministers, each claiming general and co-ordinating authority.'[14]

The Keynesian economist Thomas Balogh in his essay 'The Apotheosis of the Dilettante' offers a perceptive critique of the effect that the Treasury's mode of operation had on the making of economic policy. In essence, it was always to put financial considerations above those of broader economic significance: 'The importance of economic policy-making is enhanced by the fact that eventually all proposals involving spending will come under the baleful eye of the Treasury, whose traditional role (as the Department responsible for the preparation of estimates of 'supply') is to oppose any increase in expenditure. Thus instead of a coherent co-ordination of policy there is some danger of a series of partial engagements between the Treasury and each separate spending Department. This danger is enhanced by the consequences of the system of Cabinet responsibility and administrative procedure. In the absence of a considered long-term plan, coordination must be through ad hoc or permanent inter-departmental committees in the first instance on the official level. These committees resemble peace conferences between sovereign powers at which representatives of the several Departments keep strictly to their briefs which of necessity represent pleas for their 'own' vested interests, rather than an objective review of the case from a national standpoint. In the ensuing bargain there is - again of necessity - no guarantee that an 'impartial' member with economic competence - will insist on due regard to that standpoint. The Treasury will have its own vested interests, i.e. a cut in expenditure above all in view, and, among its staff, men with even an elementary knowledge of economics are the rare exception rather than the rule. Of the top score of officials, only one, the Head of the Economic Section, is an economist. Thus technical knowledge in this supremely important field is not unlikely to make its due contribution only by - rare - accident.'[15]

It was also natural for the well-rounded laymen of the Treasury to think about economics in emotive or moralistic terms. The effect of this was to reinforce the natural bias of policy advice in favour of laissez-faire and decontrol. Roger Opie, who served in the Economic Section between 1958 and 1960 found it 'quite impossible... to explain to a meeting of Assistant Secretaries and above that in the then existing state of the balance of payments, a deliberate policy of stimulating the production of import substitutes was more efficient, in the economic sense, than to pursue a policy of free trade... The argument used against me was simply: "I cannot believe that the future of this great country of ours lies in a policy of fostering inefficient manufactures." I admit that the proposition that "the case for free trade depends on the maintenance of full employment' is less glamorous than appeals to the future of our great country, but one might have hoped that reason would triumph over passion."[16]

The kind of decisions required by micro-economic planning did not come naturally to Treasury officials. Thomas Balogh explained the Treasury's dislike of physical controls in these terms: 'In a planned economy the crossword-puzzle mind, reared on mathematics and greats at Oxford, has only a limited outlet. They must defend themselves against a system in which positive action is in order because they can only express themselves by transferring decisions from the realm of economic realities into the sphere of pseudo-moral philosophy. This is only possible in a "free" economy where the state has no or at most very limited functions. Complicated problems are then cheerfully solved by the application of so-called "general principles." Instead of detached thinking we get metaphysical sermons on "the need for a collective approach" or "willing the means to NATO" (i.e., adopting American policy uncritically).'[17]

The fact that physical controls were exercised outside the Treasury by departments such as the Ministry of Supply weakened the Treasury's central position in economic policy-making. The work of the Treasury's Organisation Committee demonstrated how the Treasury went about regaining control of this machinery. The Committee's investigation became focussed on the relationship between the new machinery for the co-ordination of economic policy and the well-established Supply and Finance Divisions. For the Treasury the adoption of this form of economic planning presented a possible danger to its overall financial control. The Committee Chairman, Sir John Woods, was able to see this in its historical context: 'Until the last war Government finance was almost entirely a matter of the expenditure of voted money so that the control exercised by the Supply Divisions was strictly a control of supply in the parliamentary sense. To-day a conscious attempt to plan the national economy together with a great increase in the scale of Government expenditure and the nationalisation and other policies, resulted in the extension of the Government's concern in finance far beyond its original confines. Moreover, a substantial proportion of Government and Government sponsored expenditure off all types to-day represented long-term commitments spread over a number of years, which set a pattern for succeeding budgets that could not easily be altered. But many of these long-term commitments had only a relatively small effect on the budget situation in any particular year and, largely for this reason it appeared that they fell only partially within the control exercised by the Supply Divisions. He thought that it would be generally agreed that the magnitude of the present pull of Government expenditure on total resources made it essential that a firm control should be established at some point.'[18]

It was therefore predictable that the Treasury would seek to gain firmer control over the machinery of economic planning. It has been shown that the work of the Central Economic Planning Staff did become incorporated into the Treasury machinery of financial control. However, this transformation was only possible because the official Treasury's views about economic planning chimed with those of the Conservative Government.

Neutrality

Another factor that helped to shape the Treasury view was the desire for political neutrality. One aspect of this has been identified by Roger Middleton as 'the fear, in some Hayekian sense, that since political parties and pressure groups always violate general economic rules, acceptance of the policy prescripts of the 'new'[i.e. Keynesian] economics would create the opportunity for politicians to interfere with the operation of market forces for the benefit of particular groups, this development culminating in the situation in which politicians, for electoral purposes, would be forced to pursue policies against the long-term public interest.'[19]

The belief in neutrality had even deeper roots than Middleton suggests, officials feared that the adoption of a more positive role in the economy would serve to undermine the authority of the State. This concern could be seen in the official reaction to the use of physical controls which many officials believed would weaken the State's authority through the weight of administration and the degree of discrimination involved in their operation. This was clearly demonstrated by the reaction to the idea that certain departments should be seen primarily as production authorities with responsibilities to particular industries. This view, held in the Machinery of Government Division of the Treasury, was based on the idea that physical controls had an important long-term role in economic management. However, Norman Brook, at this time Cabinet Secretary, in his response to this idea showed the importance of the philosophy of neutrality to the civil service in general. He argued that the importance of physical controls was receding and that 'we could perhaps get away from the idea that production authorities are to brood in a general and aimless way over the activities of the industries for which they are "responsible". He went on that there was too much in the report on production authorities that reflected the dictum that '"the official in Whitehall knows best" what is good for industry.'[20]

Political neutrality as a mode of operation also helps to explain why monetary policy was favoured over Budgetary policy in the Treasury as a method of economic management. Monetary policy, especially the use of the Bank Rate, was not open to the same degree of political manipulation as Budgetary policy. However, the Treasury was originally attracted to the idea of cheap money, principally because the Exchequer stood to benefit from it. The collapse of the gold standard in 1931 allowed the Chancellor to initiate the period of cheap money in 1932. At the end of the war the National Debt enquiry, chaired by the outgoing Permanent Secretary to the Treasury Sir Richard Hopkins, favoured Keynes' own arguments for the retention of cheap money. The final report argued that in fixing nominal interest rates attention should be given 'perhaps especially to the burden of interest charges on the Exchequer and other State funds and on local authorities.'[21]

It was not until 1950 that the Treasury became convinced by the Bank of England's case for the reactivation of the Bank Rate. The use of the Bank Rate appealed to the Treasury not only because of its neutrality but also because discussion of monetary policy centred on its psychological effect and was therefore easily understood by Treasury generalists. Robert Hall wrote in 1959 that amongst officials 'there is still a tendency to speak in magical rather than scientific terms of the use of interest rates and monetary controls generally.'[22] The use of the Bank Rate was also attractive to the Treasury because it represented an alternative to the use of direct credit controls and to physical controls in general. Bank Rate policy represented a way for the Treasury to play a greater role in the economy without radically altering its operating procedures. Given all these considerations it is significant that it took the Treasury so long to advocate reactivation of the Bank Rate, it suggests that in this as in other areas of policy the Treasury was principally guided by the burden on the Exchequer.

Perception of Past Events

The experience of continental inflation in the 1920s helped to create a perception within the Treasury that politicians could not be trusted. Also important was 'the experience of inflation during and after the [First World] War, which was put down to political chicanery rather than to the war. Out of it arose the moral denunciation of the "managed currency" of 1914-25 and the dangerous myth that a gold standard like the one of 1925-31 was automatic, and not as it in fact was also "managed."'[23] Senior figures in the postwar Treasury spent their formative years in a Treasury where these views were prevalent. For officials fixed rate convertibility held the promise of an external regulator on the activities of politicians. This consideration was behind Lord Bradbury's recommendation to Churchill to return to the Gold-Standard in 1925. He argued that 'the Gold Standard was knave-proof. It could not be rigged for political or even more unworthy reasons.'[24]

After the war senior officials saw the restoration of fixed rate convertibility and the establishment of a one-world economy as crucial to bringing what they saw as economic reality home to ministers. This official view was brought sharply into focus by the devaluation crisis of 1949. For officials devaluation represented a soft-option, especially as ministers saw it as an alternative to deflationary measures. Although the Americans had urged a realignment of currencies in order to encourage more trade in dollar goods, officials feared that it would have the opposite effect. Devaluation without deflation would allow ministers to continue their polices of high spending and taxation and therefore further postpone the fulfilment of the conditions necessary to secure convertibility.[25]

Ministers were acutely aware of the pressure from officials on convertibility and multilateralism. Gaitskell recorded in his diary that Treasury officials 'use phrases like "one-world economy and two-world economy" and imply that the choice lies between a kind of "Schachtian autarchy on the one hand and beneficent multilateralism on the other."'[26] At a meeting of the Economic Policy Committee in July 1948 the Prime Minister took the step of asking officials to leave the room. Dalton recorded in his diary that Cripps then told the Committee that 'he did not trust his own officials and advisers. They were all really, by reason of their training and their belief in a "free economy" much more in agreement with the Americans than with British ministers. They would honestly try to carry out their instructions, but they would find it difficult.'[27] Attlee shared these doubts and told Dalton that he was 'being served up from the Treasury and the Bank arguments which he thinks are fallacious on evil effects of our public expenditure.'[28]

It is surprising that senior officials were prepared to return to a floating pound in 1951 given the Treasury's preference for fixed rate convertibility. However, senior officials such as Edward Bridges, saw the prospect of immediate convertibility, even at a floating rate, as a way of shackling ministers into making unpopular decisions. This was made clear in the debate surrounding the preparation of the Collective Approach in the Autumn of 1952. Bridges wrote to Butler that 'apart altogether from the precise method in which we manage our external financial policy there is no chance of our getting affairs of this country on an even keel and keeping them there, unless we adopt a much more stringent internal economic policy... Since I feel this so strongly I am naturally reluctant to see the issue of a strict internal policy presented to ministers as something which they have got to swallow <u>if they are to accept convertibility</u>. I regard it as essential to salvation in any case. And I want to see it so presented [emphasis in original].'[29] This quotation reveals Bridges' distrust of politicians

Their interwar experiences made it difficult for senior Treasury officials to adapt to the postwar acceptance of Keynesian economic principles and of

Government planning. The conversion of almost every economist in the country to Keynesian tools of analysis was a process that came to its height during the war years. By 1945 even those who had been sworn opponents of Keynes, like Lionel Robbins, were convinced for a time by him.[30] The Treasury old guard had 'almost been burnt out by the war.' They were not economists by training and thought that 'what planning was doing, particularly the Keynesian approach, was undercutting sound Budgetary policy.'[31]

As a result of this there was a clear generation gap between the pre-1939 and the post-1945 intake of civil servants. Robert Hall noted that 'broadly speaking, all the top people in the Treasury have been ones who formed their ideas in the pre-war period, except Plowden and me. Of course I formed mine then but being an economist at Oxford I grew up so to speak in a Keynesian atmosphere. Rowan is six years younger than I am but I do not think he is what I would call modern in his views... Bridges tried hard to understand and he was in many ways a very enlightened man - his main trouble was that he tried to do too much and couldn't really take on new ideas at all when he had so little time to use even the ones he started with. Eady was rather mad, B. Gilbert very lazy and didn't care. Brittain was a very nice man in many ways but he was essentially someone to carry out other people's ideas. E. Compton has tried very hard recently but never understood monetary theory as was very clear when we were dealing with Radcliffe.'[32]

The Second World War also had a profound effect on shaping the views of Treasury officials. One important perception that came out of the War was the importance of the relationship with America. Edward Bridges' experiences as Cabinet Secretary during the War, and in particular his role in the negotiation of the lend-lease agreements gave him 'an unrivalled knowledge of the changed position which Britain would henceforward occupy in the international community... This was particularly true of British relations with the United States. Bridges never had any doubt about the primacy of this relationship in any realistic inventory of British interests...'[33] The granting of the American loan and Marshall Aid after the war only helped to reinforce this perception. As a result a view was adopted 'that we must line up with the United States and provided we did that we would prevail and if we and the United States took the same line nobody could stop us.'[34] According to Sir Leo Pliatzky this was 'a pretty conscious philosophy.' This view helps to explain why reaction in the Treasury to the European Payments Union was so lukewarm and why the probable destruction of the Union by ROBOT caused little negative reaction. Treasury officials in this period did not perceive relations with Continental Europe to be important. This perception was tied up with those that had developed as a consequence of the instability of the 1930s. It was felt that as Britain had in the nineteenth century, America now had to take the lead in the international economy so that free convertibility based on a system of multilateral payments could be established. Thus domestic economic policy would be tied in with external policy and the natural profligacy of politicians would be tamed.

The Treasury's commitment to establishing a one-world economy brought it in to conflict with both their Labour and Conservative masters. In 1949 Gaitskell had originally doubted the point of devaluation so long as the Treasury 'cling to multilateralism and convertibility as our aim.'[35] When Peter Thorneycroft initiated a review in to the General Agreement on Tariffs and Trade (GATT) in March 1952 the Treasury was keen to quash any suggestion that there was an alternative to a policy with the objective of a one world economy. The Overseas Finance Division was asked to provide background information 'illustrating the course of the UK and Sterling Area balance of payments since the end of the war.' for the Ministerial Committee carrying out Thorneycroft's review. 'Otto' Clarke of the Division wrote to the Division's head Leslie Rowan that 'I would suggest that we give them background material in a suitable form which would set the stuff out in a way which pointed towards "one-world" concepts rather than away from them.'[36]

Notes:

1. Sir Edward Bridges: Portrait of a Profession: The Civil Service Tradition, Cambridge University Press, Cambridge, 1950, p.15.

2. John D. Steinbruner: The Cybernetic Theory of Decision: New Dimensions of Political Analysis, Princeton University Press, Princeton, 1974, p.66.

3. Geoffrey Vickers: The Art of Judgement: A Study of Policy Making, Harper and Row, London, 1983, p.40.

4. Roger Middleton: Towards the Managed Economy: Keynes, the Treasury and the Fiscal Policy Debates of the 1930's, Methuen, London, 1985.

5. Sir John Woods: 'Treasury Control' in *The Political Quarterly*, 1954, vol.25, number 4, p.370.

6. Sixth Report from the Select Committee on Estimates Session 1957-58, 'Treasury Control of Expenditure', Sir Henry Wilson-Smith examined, 29/4/58. p.285.

7. Jim Tomlinson: British Macroeconomic Policy Since 1940, Croom Helm, London, 1985.

8. PRO T 161 1297 S53555/3 'Notes on the Future Role of the Investment Working Party', Vinter citing Gilbert, 5/6/47.

9. PRO T 171 400 B.C.(50)15, 22/2/50.

10. Woods: Op Cit.

11. Samuel Beer: Treasury Control: The Co-ordination of Financial and Economic Policy in Great Britain, Clarendon Press, Oxford, 1956, p.85.

12. H. Finer: 'Review of "Treasury Control; The Co-ordination of Financial and Economic Policy in Great Britain" by Samuel H. Beer. *The American Political Science Review*. Vol.11, June, 1957.

13. Roger Opie: 'The Making of Economic Policy' in Hugh Thomas(ed.): Crisis in the Civil Service, Anthony Blond Ltd, London, 1968, p.63.

14. Woods: Op Cit. p.380.

15. Thomas Balogh: 'The Apotheosis of the Dilettante' in Hugh Thomas(ed.): The Establishment: A Symposium. Anthony Blond Ltd, London, 1959, p.103.

16. Opie: Op Cit, p.65.

17. Balogh: Op Cit, p.111.

18. PRO T 222 507 T.O.C.(50)2 9/2/50.

19. Middleton: Op Cit.

20. PRO T 222 565 G.O.C.(S.C)(50)2 'Contact between Government Departments and Industry and Business.' Comments by Sir Norman Brook. 26/2/51.

21. Quoted in Susan Howson: British Monetary Policy 1945-51, Clarendon Press, London, 1993, p.52.

22. Quoted in Peter J. Katzenstein: Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States, The University of Wisconsin Press, 1978, p.105.

23. Sidney Pollard in Sidney Pollard(ed.): The Gold Standard and Employment Policies between the Wars, Methuen and Co Ltd, London, 1970, p.18.

24. Grigg quoted in Middleton Op Cit.

25. See Philip M. Williams(ed.): The Diary of Hugh Gaitskell 1945-1956, Jonathan Cape, London, 1984, 328/6/49, p.116.

26. Ibid. 3/8/49, p.127.

27. Ben Pimlott(ed.): The Political Diary of Hugh Dalton 1918-40, 1945-60, Jonathan Cape, London, 1986, 19/7/49, p.453.

28. Ibid. 'End of July', p.454.

29. PRO T 236 3073 'The Collective Approach and all that', Bridges to Butler, 24/10/52.

30. Interview wih Lord Croham, 27/3/97.

31. Ibid.

32. Alec Cairncross(ed.): The Robert Hall Diaries 1954-61, Unwin Hyman, London, 1991, 30/7/58, p.165.

33. Burke Trend in E.T. Williams and C.S. Nicholls(eds.): Dictionary Of National Biography: 1961-1970, Oxford University Press, Oxford, 1981, p.133.

34. Interview with Sir Leo Pliatzky, 25/3/97.

35. Williams(ed.): Op Cit. 28/6/49, p.116.

36. PRO T 236 3248 Clarke to Rowan, 12/5/52.

Chapter 4
The Wider Economic Policy Network

One of the most important characteristics of the Treasury was its detachment from the outside world. Its dealings with the external environment were normally through other departments which acted as its 'eyes, ears, and arms.'[1] Information about financial markets was channelled to the Treasury through the Bank of England. Similarly, information about the conditions facing industry was collected by the Board of Trade, and information about the workings of the tax system by the Inland Revenue. D.N Chester, who was a member of the Central Economic Information Service and the Economic Section of the War Cabinet Secretariat from 1940-45, was struck by the 'remoteness of all this policy-making machinery from the everyday life of the people and therefore from the effects of many of its decisions.'[2]

Even though the Treasury has been relatively isolated from outside influences its world view is naturally conditioned by the wider institutional and cultural structure of which it is a part. Chester noted that senior civil servants would get their information from 'official minutes and memoranda, reports of committees, *Hansard* and *The Times* and probably *The Economist*.'[3] Both *The Times* and *The Economist* were written from a predominantly economically liberal stance. The fact that senior civil servants got their information from such sources particularly annoyed Labour Ministers. At a discussion at the Economic Policy Committee in January 1950 the Committee Secretary noted 'there was a lot of talk about civil servants, reared in poor but honest Liberal homes who gave misguided advice to ministers because of their background and upbringing. The Chancellor of the Duchy [Dalton] felt strongly on this point and said that officials were bound to be influenced not only by their environment but by the tone of the "Economist" and the speeches made by bank chairmen.'[4]

The last of these influences listed by Dalton was important. Much has been written about the separation of financial and industrial capital in the British system.[5] The City of London is primarily orientated towards international rather than domestic finance and has been politically and socially more influential than British industry. The City exerted a great influence on Treasury via the Bank of England which retained formal authority in the area of monetary policy and was responsible for day-to-day dealings with financial markets.

The influence of the City was bolstered by the precarious overseas finance position which faced British policy-makers after the war. The continuation of sterling as an international reserve currency put great pressure on the economy. Britain left the war with foreign reserves of only £250 million and overseas liabilities over fifteen times that.[6] Officials in the Treasury and the Bank of England 'lived in a state of perpetual anxiety about anything that might spark a run on the nation's very limited reserves of foreign exchange.'[7] The fact that these reserves were mostly held in countries which were part of the Sterling Area added an incentive for Treasury officials to see this issue in a moralistic way. Officials were liable to see devaluation as a default on Britain's overseas responsibilities. Edward Bridges gave the 1949 devaluation the code name CALIBAN 'in order to signal his detestation of the proposal.'[8] The financial markets, with their external dealings, were naturally in favour of the defence of sterling. The Treasury was already predisposed to deflation in any case because of the primacy of public expenditure control in its thinking. As Peter Hall puts it: 'The organisation of Whitehall was conducive to the formation of a consensus on the desirability of deflation over devaluation.'[9]

By contrast, industrial interests had much less influence over macro-economic policy. The main channel of business influence was via those departments responsible for the administration of economic planning through the use of controls. These departments, including the Board of Trade and the Ministry of Supply, had little influence in the networks of Budgetary, monetary, or external economic policy. In practice this organisational structure meant that the principal way in which the influence of industry was felt by administrators was through pressure to dismantle the system of direct controls.

The Bank of England

During the Gaitskell and Butler Chancellorships the Bank was, to the exclusion of all other issues, concerned by 'the gnawing problem of sterling's survival, as a reserve and trading currency, in a world that it saw ahead after Marshall Aid had ceased and when the commitment to Article VIII of the IMF [to establish external convertibility] might have to be honoured.'[10] For the Bank the only solution to this problem was the restoration of sterling convertibility. In the years immediately following the disastrous leap into convertibility in 1947 the Bank was willing to agree to a gradual step-by-step approach to this goal. However by 1950 the Bank began a change of heart which lead to continued demands for convertibility as a short-term objective.

This background helps to explain why the Bank was at best lukewarm in its enthusiasm for the European Payments Union which did little to solve 'the continuing problem of the sterling balances and the over-extended banking position of the U.K.'[11] It also shows the motivation behind the Bank's desire to end the policy of cheap money and reactivate short-term interest rate policy. As far as domestic economic policy was concerned the Bank felt that it had to be brought back into line with external policy objectives, it therefore shared the Overseas Finance Division's concerns about the level of Government spending. The Bank's position was made clear in the report of the Niemeyer Committee in 1949 that looked into devaluation. The report concluded that 'If therefore the time came when devaluation had to be considered as a practical move it would be essential, we feel, to aim at providing the condition in which we could hope to maintain the new sterling rate.' To this end the report recommended four policy prescriptions: '(a) a balanced Budget at a level which allows for the formation of new capital - in other words, at a figure lower than the present.

(b) no increase or a very minor increase in the pre-devaluation wage level.

(c) some reductions in home capital expenditure, particularly where it involves substantial demands on materials.

(d) a fairly tight monetary policy (inter alia to press out commodity stocks) and certainly no monetary inflation.'[12]

To fully understand the policy stance of the Bank it is necessary to have some understanding of its relationship with the City. Even by the 1950s most authority rested on its 'evolved power as central banker de facto' and not on legal powers granted by statute. Up until 1946 the Bank had remained in private hands, the 1946 Bank of England Act essentially nationalised an institution which depended for its authority on its prior relationship with the City. The Act 'contained no provision at all for the enforcement of directives, or the punishment of offenders.'[13]

Even in the area of exchange control, where the Bank had enforceable statutory powers, it continued to depend on its informal relationships for enforcement. It administered this policy 'often with the help of staff specially recruited from the banking system; often too with the active assistance of that system to whose members the Bank delegated much of the day-to-day work and on whom by virtue of the surrounding self-regulatory ethos, the Bank could rely provided the control itself was administered in a flexible and humane way.'[14]

With regard to credit policy the Bank reserved the power to direct clearing banks under the 1946 Act. But the Bank's authority also continued to depend on its self-regulatory.heritage. The nature of this relationship made it difficult for the Bank to accept Gaitskell's requests for more detailed directions to made to the clearing banks. As Fforde puts it: 'Nationalisation increased the power of the authorities in the field of credit policy while in practice reducing self-regulatory authority that the Bank might otherwise have wielded in that area. The result was an unhappy ambiguity, almost a degree of pretence and make-believe, which did little to enhance the Bank's relationship with the banking side of the City or its relationship with the Treasury.'[15]

It can therefore be seen that the Bank favoured certain policy prescriptions to protect its relationship with the City and to strengthen its authority which was endangered by the amount of leakage encountered under exchange control. The Bank feared that more formal enforcement might cause its relationship with the City 'to degenerate into an unimaginative bureaucratic machine beset by rival lawyers interpreting the text of innumerable orders in different ways.'[16] As exchange control over non-resident transactions became increasingly unreliable after 1948, despite the tightening of controls, the Bank began to see the restoration of convertibility as the only practical solution to the problem.

The nature of the Bank's relationship with the City also helps to explain why it wanted to restore flexibility to the Bank Rate. Apart from the progress this would represent towards the goal of convertibility, it would also 'restore the Bank's control over the money market and hence its pre-war position in the British financial system.'[17]

The Governor

Cameron Cobbold succeed Lord Catto as Governor of the Bank in 1949 and remained Governor until his retirement in 1961.[1] Cobbold's duties as Governor meant that he had less time to spend on questions of external finance than he had as deputy Governor. However, he played a central role in domestic monetary policy. One of the central features here was 'the continuing primacy of the Governor, supported by the Court, as the person through whom policy decisions were finally determined between the Bank and the Treasury and through whom requests were debated and agreed with the Bank.'[18] In this field Cobbold strove to defend as much of the Bank's independence as possible. This stance was reflected in his evidence to the Radcliffe Committee, he stated that 'in matters like Bank Rate and Interest Rates and credit policy, the initiative rests with the Bank of England, and initiative would normally come from the Bank of England.'[19]

Monetary Policy

The structure of the machinery in the Bank devoted to domestic monetary policy was largely unaffected by the institutional reforms instigated by Norman in the second half of his Governorship. Domestic monetary policy 'had become relatively inactive after 1932 and had not required supporting with much new organisation in the bank or with additional senior staff.'[20] The normal practice within the Bank in formulating monetary policy recommendations was for the Governor

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[1] Cameron Cobbold: born in 1904 and educated at Eton and went to King's College Cambridge in 1923. However 'academic life did not offer the challenge he was seeking' and he left after only one year. His skill as manager of an insurance company in Milan 'in unravelling the tangled affairs of a failed Italian bank came to the notice of Montagu Norman... At Norman's invitation he joined the Bank in 1933 and rapid advancement followed.'
In 1938 he was made one of the four executive directors appointed to the court. As deputy Governor from 1945 he was heavily involved in the negotiations that preceded the nationalisation of the Bank in 1946. [Peter Taylor in C.S. Nicholls(ed): The Dictionary of National Biography 1986-1990, Oxford University Press, Oxford, 1996, p.79.]

to call for policy advice from members of the small home finance team. For the most part, the Governor adamantly disallowed prior discussion by his officials with Treasury officials except 'at technical level.' The Governor would argue the Bank's case personally with the Chancellor or the Permanent Secretary to the Treasury 'on occasion making what technical milage he could out of the Bank's formal position and his own public status.'[21]

The leading official on the home side was Kenneth Peppiatt who was Chief Cashier until February 1949 and then Home Finance Director. Peppiatt was 'a man of long experience in the gilt-edged and money markets, where his skills and judgement were undoubtedly good. He was, in addition, attached to straightforward principles of anti-inflationary debt management that were probably derived from the experience of European currency disorders following the First World War. These principles emphasised the need to avoid undue reliance on floating debt, a version of the 'printing press', as a source of funds for the Exchequer.' However, although Peppiatt was able to advise on the market implications of a change in interest rates he 'would never have regarded himself as capable of arguing out a particular monetary policy in analytic terms with the university educated mandarins in the Treasury.' As a result he disliked attending meetings at the Treasury and preferred to 'deal with his customer by correspondence or over lunch in Threadneedle Street.'[22]

Peppiatt's working methods reflected the philosophy of the Bank at the time that its influence was not dependent on economic expertise. Indeed 'there were those too who felt not only that they could get along quite well without professional economic advice but also that preserving the skills and influence of the Bank in the post-war era would depend overwhelmingly on market expertise, City intelligence, or skill with overseas financial diplomacy rather than an ability in applied economics.'[23] Although Lucius Thompson-Macausland, Adviser to the Governors, was a self-taught economist and Sir Humphrey Mynors, an Executive Director of the Bank who became Deputy Governor in 1954, was a professional one, they had no fixed role and the Statistics Office was at this time employed on balance of payments work. The Bank's monetary policy recommendations were based primarily on financial market conditions rather than on an understanding, in terms of monetary economics, of their impact on economic activity.

The Bank's method of operating had an impact on the reception of its advice in the Treasury, especially during the Gaitskell Chancellorship. Although the Bank was able to block detailed directions being given to the clearing banks, it was unable to persuade Gaitskell to reactivate short-term interest rate policy. It was only after Butler became Chancellor and the Bank Rate was reactivated that the Bank began to play a greater role again in monetary policy. However, the paucity of relationships beneath the Governor level continued and contributed to a lack of understanding between the Treasury and the Bank over the uses of Bank Rate policy. By 1955 the Treasury and the Bank were at cross purposes with the Bank insisting that an increase in the Bank Rate be accompanied by further moves to convertibility.[24]

External Economic Policy

The most important official on the external side was George Bolton. Although he was not he highest ranking official in this area he acquired 'a personal ascendancy' due in part to Cobbold's responsibilities elsewhere and to the fact that Siepmann, his senior college had 'never fully recovered from the ordeal of 1947.' Bolton's influence was also enhanced by his method of operating. He had 'little taste for operating through working parties and committee. Instead, with his gifted turn of phrase, he liked discharging provocative written salvoes in various directions, modifying his views only in the light of the rather random responses that he got.'[25] Bolton was appointed as an Executive Director in March 1948. Robert Hall found him to be 'essentially an operator and one who takes snap decisions by instinct and finds any reasons that come into his head to justify them. This makes him a baffling opponent as he will reverse his view and apparently his reading of history and his logic, in a very short period and seem, and I think be, quite unaware that he has done so...'[26]

The close relationship between the external side of the Bank and the Overseas Finance Division of the Treasury, combined with Bolton's working methods and Cobbold's preoccupation with other matters meant that Bolton's ideas 'were seldom subject to rigorous or systematic criticism in Threadneedle

Street.'[27] Indeed, Bolton's involvement in the formulation of the ROBOT plan shows that he was prepared to detach himself from the policy goals of the Bank as a whole. Cobbold was horrified at the emphasis on floating in the original plan which threatened to undermine the international status of sterling.[28]

Relationship with the Chancellor

Gaitskell did not think highly of the Governor or the Bank of England in general.[29] His Chancellorship marked a low point in the Bank's relationship with the Treasury. While Gaitskell had tried to impose more direct methods of credit control on the Bank it in turn had tried to persuade him to reactive short term interest rate policy. The resulting stalemate derived from an oversight in the 1946 Bank of England Act that reserved the right to give directions to clearing banks to the Bank of England, this had not been the intention at the time of the Act and Dalton remained under the impression that the Treasury had the power of direction. Curiously, Gaitskell told the Radcliffe committee that this had not been 'a live question' during his Chancellorship although he did think that the Treasury should have this power. Instead Gaitskell saw the problems involved in the relationship between the Treasury and the Bank in more general terms than just powers of direction.

Gaitskell told the Radcliffe Committee that when he was Chancellor the intention of the Act 'was not entirely carried out.' Not because of anything wrong with the Act itself, 'but because I do not think the relationship between the Bank and the Treasury had settled down.' What he personally wanted to see, and what he believed to be the intention of the Act was 'that under modern conditions the Chancellor of the Exchequer must be supreme,... there can be no question of any independent policy of the Bank of England.'[30]

Gaitskell noted that the Chancellor had not been supreme during his term in office. The Bank had regarded itself as 'a buffer between the Treasury and the rest of the City generally and preferred all relationships between the Treasury and the City to go through the Bank.' Gaitskell regarded it 'as desirable that the Chancellor, at any rate on occasions, should have pretty close relations with the clearing banks.' Gaitskell also perceived as a problem the fact that the Bank was involved 'in a number of highly technical operations which most people outside the Bank do not begin to understand at all...' This was a problem because 'the day to day operations of the Bank are often of enormous importance... open market policy, for instance, obviously may be very significant for the economy, but you would be describing it I think fairly as a day to day matter.'[31]

Gaitskell wanted the Chancellor to have 'both expert advice and at the same time a relationship of complete confidence between himself and the people giving the advice.' He thought that the relationship between the Chancellor and the Bank was too remote, 'the officials are a long way away... when I was Chancellor only the Governor in the ordinary course of events, would see the Chancellor himself.' The formality of the relationship also meant that 'Treasury officials, with some exceptions, perhaps found themselves in difficulties I think in arguing with the Bank on the technical field.' This itself lead to difficulties. 'Supposing you take the decision to support the market for transferable sterling. Here is a matter of enormous significance, but it is also a matter on which I think any layman would find it extremely hard to make up his mind without hearing the whole thing argued out, and without perhaps having people in the Treasury who have sufficient experience of the operations in the foreign exchange market to give sufficiently expert advice puts the Chancellor in a very difficult position.'[32]

Gaitskell saw a 'much greater mixing up of the staffs of the Treasury and the Bank' to be the answer to this problem. He felt the relationship would be improved if it were normal for Treasury officials to spend five or even ten years in the Bank and for Bank officials to have some experience of the Treasury. Gaitskell agreed with Radcliffe's summation of his 'general approach' to the Bank 'that it should be as like a government department as the circumstances which are rather peculiar to it permit.' However, he went further than this and likened the Bank to the Inland Revenue. He could not see the Governor acquiring the status of an adviser on the Governments general economic policy. Instead he thought of the Bank 'much more as the executor of government policy. Of course any executor of this degree of importance is an adviser as well, as the Chairman of the Board of Inland Revenue is an adviser on what sort of taxes you should levy and can levy and so on, but he does not determine the policy of the Chancellor; he makes his contribution in his own field, so I think the Governor of the Bank would.'[33]

Butler's relations with the Bank were rather better than Gaitskell's. In October 1951, when Butler agreed to a ½% rise in interest rates he also discussed relations between the Bank and the Treasury with Cobbold. They agreed that they should have regular meeting that could be supplemented as required.[34] However, relations between Butler and the Bank did sour in the summer of 1955 when the Bank begun to interfere with the parity of sterling.

The differences between Butler's and Gaitskell's understanding of the relationship between the Treasury and the Bank of England was clearly demonstrated by Butler's evidence to the Radcliffe Committee. Unlike Gaitskell, he had experienced 'a considerable degree of informality in dealing with those representatives of the Bank, chiefly the Governor and the deputy Governor, and the head of exchange control, whom I knew quite well.' He thought that this should be the case 'because you see you are dealing with matters of common concern, and it is essential that there should be understanding and agreement before they are carried out.'[35]

He was thoroughly dismissive of Gaitskell's idea that the Bank should be completely subservient to the Treasury. Instead he saw the relationship as 'a partnership because I think there are things that the Bank can do that the Treasury cannot, and thing that the Treasury can do that the Bank cannot. The Bank is more instinctively intuitive and the Treasury more instinctively deliberative... therefore these two partners rather supplement each other and the management of the day to day market, which is the fundamental job of the Bank... is a slightly different sphere from the more deliberative long-term policy aspect of the Treasury.'[36]

Butler thought that a change in the relationship would be disastrous because 'no Government and Chancellor of the Exchequer either could or ought to think that they could run a thing like the Bank of England. I do not think first of all they have the expert knowledge, and above all, which I think is the most important in the modern study of Whitehall, have they the time. And as certain of the operations of the Bank, especially in dealing with the market, require in my opinion a lifelong experience of things with which the heads of Government and civil servants are totally unacquainted and totally unsuited to deal with, I think you have got to have a marriage between two different types of institution, and if you have made one literally subordinate to the other I think you would lose part of the independence that you get from a happy marriage.'[37]

Sources of Information

The main sources of information for the Bank were the financial markets and institutions of the City of London. Most of the senior staff of the Bank were drawn from the City and the Bank continued to enjoy a close relationship with it. The Bank did not have responsibility for gathering business statistics, this was left to the Board of Trade. Cobbold was clearly uncertain of the nature of the relationship between the Bank and the Board of Trade when he was asked about it by the Radcliffe Committee. He said that 'I think our economic advisors would be in close touch and have full access to the Board of Trade figures. On questions of high policy we tend to work with the Treasury, but from the information point of view, I think we do get a lot of information from the Board of Trade.'[38] During the Gaitskell and Butler Chancellorships the information coming from the Board of Trade was not as yet detailed enough to have been much help in the making of credit policy. When Frank Lee was asked by the Radcliffe Committee, in January 1958, whether the Bank had shown great curiosity in the results the Board was producing on the liquidity of Business, he replied that 'It really would not be possible as yet. We are in our very early stages, as you know, and we published our first results of this during this month.'[39]

The Board of Trade

Keith Middlemas has written that the Board of Trade 'believed in free trade as the ark of covenant since the mid-nineteenth century.'[40] In December 1943 the Board had routed the bilaterialists in the Cabinet. Representing the Board's view, Richard Law argued that 'there is no mechanical device by which we can ensure that the rest of the world will maintain the population of these islands at a standard of living higher than which it is entitled to by its activity. That would depend on the energy and skill of its people.'[41]

The logic behind the Board's free trade philosophy was expounded by

Frank Lee, who was Permanent Secretary at the Board between 1951 and 1960, in his evidence to the Radcliffe Committee. He told the Committee that 'The Board are of the opinion that, when restrictions of any kind have to be applied in order to influence the economy, measures of wide and general application are preferable to selective measures of narrow application; the latter, by their nature, discriminate sharply against particular kinds of production, and may thereby adversely affect the growth and pattern of investment and the channels of trade.'[42]

Oliver Franks, who had served as Permanent Secretary at the Ministry of Supply between 1945 and 1946, asked Lee if he meant by this that 'the Board of Trade were adhering to their traditional attitude and building in natures way or "laissez-faire", or whatever we call it and that if there are particular restrictions imposed by government authority, of whatever kind, these obviously point by point cut into the ordinary development of things.' Lee did not dissent from what Franks said and added that 'in my judgement the nearer you can get to that natural development of the economy the better.'[43]

The Board's view was shaped by practical as well as theoretical considerations. It enjoyed a close relationship to industry. In a lecture on the subject of the Board of Trade in 1958 Lee said of this relationship that 'What we do, in greater or less degree, is to keep in close touch with the industries concerned, to get to know their problems, personalities, structure, likely developments, to constitute ourselves their main link with the Government machine, and to be prepared to give them advice and help on export issues, tariff problems, and the like.'[44]

Adherence to the administratively neutral doctrine of laissez-faire was in the interests of the Board. Discrimination against one industry or another threatened to undermine the Board's authority. This was particularly true of the administration of physical controls which involved an army of staff and changed the nature of the relationship of the Board with industry from one of facilitation to one of compulsion. Producer groups were hostile to extension of state power and lobbied for the abolition of controls.[45] Frank Lee's predecessor as Permanent Secretary, John Woods 'gave much thought to the ways of unscrambling the tangle of controls, for he greatly feared that public service would be permanently weakened by the weight and complexity of the bureaucratic machine.'[46]

Organisation

The introduction of economic controls during the war and the retention of many of them by the postwar Labour Government greatly increased the role of the Board of Trade in the economy. In 1938 the staff of the Board had numbered 2,400, by the time Stafford Cripps became President of the Board in 1945 this number had increased to 15,000.[47] Even with the dismantlement of these controls the Board still played an important role in domestic credit policy through its responsibility for hire-purchase restrictions.

The Board also played the role of production authority for all industries which had not been assigned to other departments, among the most important of these were textiles, chemicals, rubber and paper.[48] The fact that other departments, particularly the Ministry of Supply, also had major industrial responsibilities diminished the weight given to these interest in government as no department spoke for industry as a whole.

In his lecture on the Board of Trade in 1958, Frank Lee divided its work under four headings:

'(a) The Patent Office and the Statistics Division.

(B) the 'old' regulatory division, dealing with Company Law, insurance, bankruptcy, standards and the like;

(c) the 'Home Divisions and their activities; and

(d) the 'Overseas' Divisions and the Trade Commissioners service...'[49]

Of these divisions the most important in terms of general economic policy were those dealing with overseas trade. The overseas side was divided into five divisions: 'There is a small, almost specialist, division which deals with what may be called the refinements of commercial policy (the General Agreements on Tariffs and Trade, the negotiation of commercial treaties, our policy in regard to international commodity and cartel problems and so on)- and four other divisions which are concerned, on a 'country' basis, with the general work of commercial relations overseas.'[50]

In spite of the clear connection between the issues involved in trade and wider questions of external economic policy the overseas side of the Board was largely excluded from the network of external economic policy-making by the Overseas Finance Division of the Treasury. Although both institutions shared the same liberal values, O.F wanted to maintain its control of external policy advice. When the President of the Board of Trade Peter Thorneycroft instigated a review of Commercial Policy in 1952, Rowan, the Head of O.F, sought to stop the Board of Trade looking at wider questions of external economic policy such as convertibility. He described these wider questions as 'our business and not theirs'. Instead he asked 'Otto' Clarke to come up with several different hypotheses for the review to work from.[51]

The President of the Board of Trade

Harold Wilson

Harold Wilson served as President of the Board of Trade from September 1947 until his resignation from the Government in April 1951. Thirty-one at the time of his appointment, Wilson was a decade younger than the rest of the Cabinet.[52] He had already amassed a great deal of experience in government having joined the civil service at the outbreak of war; in 1943 he was made director of economics and statistics at the Ministry of Fuel and Power.

The similarities in Wilson and Gaitskell's experience probably account for some similarities in how they approached their responsibilities as ministers. Both were trained economists who had worked as officials and both had the reputation of being overly concerned by detail. Raymond Streat, the Cotton Board Chairman, came to the conclusion that Wilson would 'be all right if he does not entirely forget big things by allowing himself to be preoccupied with a million small ones.'[53] However, Wilson appears to have enjoyed a more relaxed relationship with his officials at the Board than Gaitskell ever did at the Treasury.[54] Wilson concentrated on a few important policy areas including regional policy; the creation of the new Monopolies Commission; and the negotiations surrounding the General Agreement on Tariffs and Trade. He left the day-to-day business of the Department to his Permanent Secretary Sir John Woods.[55]

Peter Thorneycroft

Appointed by Churchill when the Conservative's returned to power in October 1951, Peter Thorneycroft was to serve as President of the Board of Trade for over five years. His only previous experience of Government was in Churchill's brief 'caretaker' administration of May 1945, in which he served as Parliamentary Secretary to the Ministry of War Transport. He did not serve in the leader's committee - the forerunner of the Shadow Cabinet - while the Conservatives were in Opposition, probably because of his decision in December 1945 to defy the party whip and vote against the American Loan Agreement.[56]

Thorneycroft himself recalled that 'the two broad strategic things, to move away from imperial preference and the abortive move for Europe were born inside the Board of Trade. By that I mean by Sir Frank Lee, myself and the Deputy Secretaries who were all first class.' Thorneycroft regarded the Department 'as the finest I ever served in.'[57]

In Butler's opinion 'Lee really made Thorneycroft. Lee of course was about three times the intellectual stature of Thorneycroft.' However, Thorneycroft was able to put a case across, and when he was briefed by Lee it was a case of 'a young advocate being briefed by the best civil servant.'[58] But Thorneycroft was more than just an advocate for Lee's ideas. While in Opposition he had taken a close interest in trade policy and was the only Conservative member to fully welcome the G.A.T.T agreement. Thorneycroft argued that in international trade everyone should be bound by 'the same rules of the game. We ought to lay down the rules of the game.'[59] Thorneycroft's policy as President closely corresponded with this position.

The Permanent Secretary

Sir John Woods was Permanent Secretary at the Board of Trade from 1943 to 1951.[2] Woods was succeeded as Permanent Secretary by Frank Lee who

[2] Sir John Woods: born in 1895 and educated at Christ's Hospital. He went straight from school to the army in 1914. In 1916 he was very severely wounded in the leg. After being invalided out of the army in 1918 he attended Balliol College Oxford and then joined the Treasury. He served as Principal Private Secretary to both Neville Chamberlain and John Simon. In 1943 he was appointed Permanent Secretary at the Ministry of Production and in 1945 moved to the Board of Trade. Wood's career was hampered by his leg injury, which later

stayed at the Board of Trade until his appointment as joint Permanent Secretary to the Treasury in 1960.[3] Lee had joined the Supply side of the Treasury in 1940 and in 1944 he went to Washington as deputy head of the Treasury delegation. He became closely associated with Keynes in the negotiations over the end of lend-lease and the British loan agreement. He had a good relationship with Keynes and 'was able to deal with him on equal terms.'[60] Lee's appointment as Permanent Secretary to the Board of trade followed three years as Permanent Secretary a the Ministry of Food.

Lee was judged by all those who worked with him to be an outstanding civil servant. 'Apart from an insatiable capacity for work, he was lucid and persuasive in argument, and had good personal relations with his staff, his colleagues in other departments, and his ministers who were generally disposed to take his advice. His understanding of Americans and their ways was profound; in return Americans admired and liked him, as did his Commonwealth colleagues, and this was a great help in his negotiations.' His one great fault as an administrator was 'a temperamental inability to delegate; he often drove himself too hard and his staff too lightly.'[61]

Lee was the first senior civil servant to perceive the growing importance to Britain of Europe and the declining importance of the Commonwealth. According to Sir Leo Pliatzky 'Frank Lee was responsible for producing a revolution in that attitude.'[62]

The Ministry of Supply

Attlee's decision of October 1945 to merge the wartime Ministry of Aircraft Production with the Ministry of Supply created a leviathan of a department, employing over 100,000 people, responsible for the sponsorship of all heavy

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required forty-five surgical operations, and later by the loss of an eye due to an accident caused by his injuries. In 1951 he made the decision to retire from the service, although he was only fifty-six. [Norman Kipping in E.T. Williams and C.S. Nicholls(eds.): The Dictionary of National Biography 1961-1970, Oxford University Press, Oxford, 1981.

[3] Frank Lee: born 1903, he won a scholarship to Brentwood School and then another to Downing College Cambridge where he read English and History, gaining a first in both. He entered the Colonial Office in 1926 and spent two years as district officer in Nyasaland. [Lord Sherfield in Lord Blake and C.S. Nicholls(eds.): The Dictionary of National Biography 1971-1980, Oxford University Press, Oxford, 1986.]

industry. The departmental responsibilities included policy for the aircraft industry; atomic energy; the nationalisation and denationalisation of the steel industry; the manufacture in Government owned factories of goods for the civil market; facilitation of the transition to peacetime export objectives of the entire engineering industry and the Korean war rearmament programme.[63]

Although the Ministry lost some power in July 1951, when responsibility for raw materials was transferred to a new Ministry of Materials, it was the Conservative's decontrol programme that led to the systematic removal the Ministries responsibilities. In January 1954 responsibility for Atomic Energy passed to the Lord President who was given responsibility for the new Atomic Energy Authority. In July 1955 responsibility for iron, steel, engineering and non-ferrous metal industries were transferred to the Board of Trade. From then until its abolition in 1959 the Ministry of Supply was reduced to a department for aircraft, electronic and light metal industries in addition to defence provision.[64]

Although it lacked a minister of Cabinet rank, the Ministry of Supply continued to play an important role in economic policy-making until its main responsibilities were transferred to other Departments. After the Conservatives came to power the Ministry played an important role in finding ways to transfer production of metal-using industries to the export market. The Ministry also played an important role in cutting defence expenditure.

The policy stance of the Ministry of Supply was informed by the same liberal values that were found in the rest of Whitehall. Although the Ministry gained its power from its sponsorship of heavy industry this did not prevent it from believing that most of these functions would become redundant as the economy returned to peacetime conditions. The departmental view was expressed by Sir Archibald Rowlands, its Permanent Secretary from 1946 to 1953, in response to the suggestion that the Government should be reorganised to reflect the primary responsibility of many departments as 'Production Authorities' for particular industries. Although the power of the Ministry of Supply would have been enhanced by this suggestion Rowlands argued that 'many of the present contacts of departments with industry were vestigial - survivals from the wartime system of controls. Apart from material shortages, contacts between government [sic] would continue only so long as industry was willing to maintain them.'[65] Rowlands successor as Permanent Secretary, Sir James Helmore, devoted much of his energy to the task of transferring the functions of the Ministry to other departments.'[66]

Conclusion

It has been seen that the structure of the wider economic policy network helped to shape the Treasury's economically liberal view of the world. The nature of the Treasury's relationship with the Bank of England and of the Bank with the City meant that policy was made predominately within the context of information from financial markets. This structure focussed the decision-making process on questions of international finance. The focus on financial markets helped to shape the Treasury's view that deflation was preferable to devaluation and that progress towards full convertibility of the pound and a multilateral trading system were over-arching policy objectives.

The impact of the Board of Trade and the Ministry of Supply on economic policy-making was marginal when compared to the Bank of England. The nature of both of these departments relationship with industry was to increase pressure to remove physical controls from the economy and to get as close as possible to a policy of laissez faire.

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2. D.N. Chester(ed.): Lessons of the British War Economy, Cambridge University Press, Cambridge, 1951, p.29.

3. Ibid. p.29.

4. PRO T 273 311 Alec Johnson to Bernard Gilbert, 20/1/50.

5. See Peter A. Hall: Governing the Economy: The Politics of State Intervention in Britain and France, Oxford University Press, Oxford, 1986. and James Cronin: The Politics of State Expansion: War, State and Society in Twentieth Century Britain, Routledge, London, 1991.

6. Hall: Ibid. End Note to p.77.

7. Ibid. p.77.

8. Edmund Dell: The Chancellors: A History of the Chancellors of the Exchequer 1945-90 HarperCollins, London, 1996, p.118.

9. Hall: Op Cit. p.251.

10. John Fforde: The Bank of England and Public Policy 1941-1958, Cambridge University Press, Cambridge, 1992, pp.216-18.

11. Ibid. p.218. For a discussion of the E.P.U. proposal see Chapter 7 pp.187-90.

12. Quoted in Fforde: Ibid. p.289.

13. Ibid. p.697.

14. Ibid. p.696.

15. Ibid. pp. 698-9.

16. Ibid. p.696.

17. Susan Howson: British Monetary Policy 1945-51, Clarendon Press, Oxford, 1993, p.273.

18. Fforde: Op Cit.

19. PRO T 159 5 Radcliffe Committee, witnesses from the Bank of England including C.F. Cobbold, 11/7/57.

20. Fforde: Op Cit. p.316.

21. Ibid. p.612.

22. Ibid. pp.317-18.

23. Ibid. p.319.

24. See Chapter 10 pp.350-1.

25. Ibid. p.196.

26. Cairncross(ed.): Op Cit. 6/9/49, p.78.

27. Fforde: Op Cit. p.196.

28. See Chapter 7 p.204.

29. For Gaitskell's opinion of the Bank see Chapter 10 p.326.

30. PRO T 159 8 Radcliffe Committee, witness, Hugh Gaitskell, 18/12/58.

31. Ibid.

32. Ibid.

33. Ibid.

34. Fforde: Op Cit. p.403

35. PRO T 159 8 Radcliffe Committee, witness, R.A. Butler, 18/12/58.

36. Ibid.

37. Ibid.

38. PRO T 159 5 Radcliffe Committee, witnesses from the Bank of England including C.F. Cobbold, 11/7/57.

39. PRO T 159 6 Radcliffe Committee, witnesses from the Board of Trade, Sir Frank Lee and J. Strafford, 7/1/58.

40. Keith Middlemas: Power, Competition and the State. Volume 1: Britain in Search of Balance. 1940-61, Macmillan Press, London, 1986, p.104.

41. Quoted in Middlemas: Ibid. p.103.

42. PRO T 159 6 Radcliffe Committee, witnesses from the Board of Trade, Sir Frank Lee and J. Strafford, 7/1/58.

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44. Sir Frank Lee: The Board of Trade, The Stamp memorial lecture 1958, University of London, The Athlone Press, 1958.

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46. Norman Kipping in E.T. Williams and C.S. Nicholls(eds.): The Dictionary of National Biography 1961-70, Oxford university Press, Oxford, 1981, p.1104.

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52. Harold Wilson: Memoirs: The Making of a Prime Minister, Weidenfeld and Nicolson and Michael Joseph, London, 1986, pp.96-7.

53. Streat Diary, 21/7/49, quoted in Ben Pimlott: Harold Wilson, HarperCollins, London, 1992, p.111.

54. Pimlott: Ibid. p.110.

55. Ibid. p.111.

56. *The Times*, Obituary of Lord Thorneycroft, 6/6/94.

57. Seldon interview with Lord Thorneycroft. 2/5/77.

58. Seldon interview with Lord Butler 1/3/78.

56. House of Commons Debates, 29/1/48, vol.446, col. 1298.

60. Lord Sherfield in Lord Blake and C.S. Nicholls(eds.): The Dictionary of National Biography 1971-1980, Oxford University Press, Oxford, 1986, p.494.

61. Ibid.

62. Interview with Sir Leo Pliatzky 25/3/97.

63. Howard Hooper: 'Sir Archibald Rowlands' in E.T. Williams and Helen M. Palmer(eds.): The Dictionary of National Biography 1951-1960, Oxford University Press, Oxford, 1971, p.851.

64. Anthony Seldon: Churchill's Indian Summer: The Conservative Government, 1951-55, Hodder and Stoughton, London, 1981, p.322.

65. PRO T 222 565 Economic Organisation Enquiry. Note of a meeting in Sir Edward Bridges Room. 27/2/51.

66. Seldon: Op Cit. p.325.

Chapter 5

The Chancellors

In an interview given to *The Times* in 1976, after he had left the civil service, William Armstrong suggested that 'the biggest and most persuasive influence' of the civil service 'is in setting the framework within which questions of policy are raised. We, while I was in the Treasury, had a framework of the economy basically neo-Keynesian.'[1] It has been shown that the structure of economic advice was more pluralistic than Armstrong's comment indicates. In particular, a neo-Keynesian framework had not yet developed in the period covered by the Gaitskell and Butler Chancellorships. There existed a sharp division between Treasury Mandarins, who still thought primarily in terms of financial control, and the economists of the Economic Section, who were far more Keynesian in their thinking. The different perspectives of the Chancellor's main advisers meant that they did not all speak with the same voice. Furthermore, the framework within which policy advice was given was much less dependent on econometric analysis than it was to become. It was easier for a Chancellor with general intellectual ability, but without economic expertise, to understand and question economic analysis reliant on written argument rather than equations.

However, even if the framework in the early 1950s was not as rigid as it was to become, the Treasury's ability to set it did represent a major constraint on the Chancellor's room for manoeuvre. It has been shown that this framework was conditioned by the values that developed in the Treasury as a result of its traditional responsibilities; by the structure of the main economic policy communities and by their relationship with the wider policy network. What needs to be explained is how Gaitskell and Butler were able to produce such a marked discontinuity of policy within this framework.

There are aspects of the organisation of policy-making that encourage the Chancellor to take an active role. One important factor is the socialisation of civil servants into accepting a policy lead from ministers which acts as a countervailing force to the institutional view. Treasury civil servants are particularly aware of the fact that they needed a strong Chancellor capable of dealing with the enormous pressure for resources with which the Treasury has to deal.

The minister's position is also strengthened by the fact that he is the point of overlap between the various institutional policy communities and ministerial decision-making. What strengthens the Chancellor's position even more is the lack of formal aggregation of advice. The Treasury, as Kenneth Clarke has stated, is a very different institution to other Whitehall departments. It remains relatively small and the average ability of officials is high. This encourages an atmosphere that reminded him of an Oxbridge college - 'lively, intellectual, relaxed.'[2] Lord Croham found the environment in the Treasury to be friendlier than the one he had encountered in his previous posting at the Board of Trade, this informality was reflected in the fact that 'most things were on a Christian name basis.'[3] The open advice structure helps the Chancellor to have a better feel for the subject than he would have if everything had been filtered through the Deputy Secretary level with the result that the minister often has little idea about what the differences of opinion within the department are. As has been seen the policy advice structure during the Gaitskell and Butler Chancellorships was particularly informal.

Bruce Headey has provided a typology that can be used to classify Gaitskell and Butler's involvement in policy formation.[4] Headey suggests that a minister's involvement falls into one of three categories. The first is the policy legitimator, who simply rubber-stamps the suggestions of his officials; the second is the policy selector and the third the policy initiator. The latter is a minister who 'challenges the department's assumptions, imposes other priorities and establishes new policy goals.'[5]

There are various factors that help to determine which of these categories a minister is likely to fall into. First, there are questions of policy expertise, personality and experience that provide him with the necessary resources to play an active role in policy. Second, there is the question of the origins and comprehensiveness of his thought; whether or not this amounts to a coherent package or is determined primarily by events. Third, the ministers relations with his officials and colleagues are important. Particularly important to a Chancellor is his relationship with the Prime Minister given the significance of economic policy and the fact that the Chancellor's control of the purse strings is likely to set other ministers against him. A minister's standing with the public and his party are also important factors in determining his power within the Government. The use of external sources of policy advice can also be important in providing a countervailing force to the official view. Matching Gaitskell and Butler to these factors allows us to see more clearly how they were both able to play a dominant role in the making of economic policy.

Hugh Gaitskell

Gaitskell can undoubtedly be characterised as a policy initiator while he was at the Treasury. His background as an economist gave him the confidence to take the lead in policy. He wrote his own memoranda and often took suggestions about their content only after he had written the first draft. He also wrote his own Budget speech with the exception of a few technical passages.

By the time Keynes published his General Theory in 1936, Gaitskell was already a long way down the path of developing his own ideas about economic policy. The two most important influences upon his development were Evan Durbin and Hugh Dalton, both of whom believed that central economic planning was the crucial means by which a socialist government could fulfil its economic objectives.

Michael Postan, who was a fellow lecturer of Gaitskell's at University College London in the 1930s, witnessed his intellectual transformation. During his earliest discussions with Gaitskell in 1929 and 1930 Postan found Gaitskell's socialist convictions 'to be of the typical inter-war Oxbridge variety. They were couched in a language which was nothing if not radical. The words "class war", "socialist revolution", and "proletariat" rolled off his tongue easily and "middle-class" he used as often as not as terms of opprobrium.'[6]

In 1930 Evan Durbin, a friend of Gaitskell's from his Oxford days, joined the staff of UCL and joined the conversations Gaitskell was having with Postan on economics. Postan later recalled that 'by 1930 they [Gaitskell and Durbin] had already arrived at a mutual understanding which for newcomers like myself was, to begin with, almost impenetrable. They were, of course, too different as persons to agree on every subject. Evan Durbin was already set in his views, which were essentially those he was to hold for the rest of his life, whereas, Hugh Gaitskell was still very much on the move. The touch of finality in Durbin's convictions was of immense value to Hugh who came to rely upon the assured, down-to-earth, good sense which Evan, appeared to ooze out of every pore.'[7]

In 1930 Gaitskell and Durbin were first introduced to Hugh Dalton by Postan's wife Eileen Power. Postan remembered Power and himself 'having to defend ourselves, after Hugh and Evan had gone, against Dalton's accusation of "hoarding" for our exclusive use these "charming young socialists."'[8]

Under the influence of Durbin and Dalton, Gaitskell moved away from his early near Marxist views. He came to believe that to be successful, socialist economics had to appeal beyond the industrial working class and to what Marx classified as the petit bourgeoisie. He also moved away from thinking common ownership held the key to a socialist economic policy to thinking that central planning was central. In coming to this conclusion both Gaitskell and Durbin were influenced by Hayek's theories on the business cycle.[9]

In 1930 Professor Hayek, recently appointed to the LSE, gave a series of lectures entitled 'Prices and Production' on the business cycle. Durbin almost certainly attended these lectures, and it is possible that Gaitskell did as well.[10] 'They were both to criticize and adapt Hayek's analytic techniques in their own studies. They wanted to understand the business fluctuation which appeared to be endemic to the capitalist system, so that they would know how a socialist government could control them.'[11]

Hayek argued that bank credit boom would only distort the structure of production and create inflationary consumer demand. This was the very opposite of the monetary theory that Keynes had developed. 'Hayek stood for deflation through automatic market forces, in direct and public opposition to Keynes's stand in favour of expansion through active government intervention.'[12]

Hayek did not convince Gaitskell and Durbin of the sanctity of market forces, rather they used Hayek's ideas to argue that direct intervention in the economy by the Government was the only way to fulfil socialist economic objectives. When the General Theory was published in 1936 neither of them was convinced by the argument that fiscal and monetary means were sufficient in themselves to ensure full employment without creating inflation, or that it could deal with the long-term problems of the trade cycle. When he looked back to the publication of the General Theory twenty years later Gaitskell recalled doubting whether a Keynesian policy 'could really be made to work in a purely capitalist framework. Socialist economists, while avoiding dogmatism, were inclined to argue that the Government's power to influence the level of demand even with full control of the banking system, was still too limited, and that it needed in addition to have some more direct control over the volume of investment. For the time being, however, qualifications of this kind were dwarfed in the general battle to get the new rational approach to monetary policy accepted.'[13] Gaitskell and Durbin also disagreed with Keynes' defence of private enterprise and envisaged the state playing a much greater role in ensuring an equitable society.[1]

Gaitskell and Durbin envisaged a Supreme Economic Authority (SEA) would be need to execute the plan of a future Labour Government. In the notes for his unfinished book, The Politics of Democratic Socialism, which was in part the result of long discussions with Gaitskell and Postan at UCL, Durbin wrote that the setting up of an SEA would have to be a central part of a future Labour Government's programme: 'It was crucial to prevent nationalized industries from establishing their own syndicalist power and to secure the co-ordination of industry and finance which was "the greatest advantage of planning."... The SEA itself would be responsible for macroeconomic policy and for co-ordinating the policies of the nationalizes industries with the central plan. Its final form would emerge slowly as the socialized sector expanded.'[14]

The circumstances in which Labour formed its first majority government were rather different to those Gaitskell and Durbin had foreseen in the 1930s. As Gaitskell later recalled: 'The Second World War ... involved the use of an immense

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[1] Durbin wrote to Keynes to express his disbelief that he could argue 'that one advantage of a laissez faire system is in the freedom it gives to certain privileged persons to exercise their sadistic impulses in the control of industrial workers. It is as though you argued that it was one advantage of possessing an Empire that we could get rid of our cruellest countrymen in Kenya. Free enterprise with the whip. After all, the sufferers are only black! The petty tyranny of the employer-employee relationship- irresponsible, hidden; without redress- is surely not a lovely thing? As Tawney says, the religion of inequality seems to make it possible for men of generous good will to forget that workmen are also men.' [Elizabeth Durbin: New Jerusalems: The Labour Party and the Economics of Democratic Socialism, Routledge and Kegan Paul, London, 1985, p.159.]

array of “direct” controls on the economic activities in Britain on a far larger scale than the 1914-18 war. Indeed it was not just a matter of controls. The Government bought on public account a high proportion of all imports-especially raw materials and food; it placed orders for a large part of the domestic output of the country and though the allocation of raw materials and other controls it was able not merely to determine the general pattern of the economy but the details of what was to be imported and produced, and how it was to be consumed. For the first time Britain had a fully planned economy.

‘Such an immense change was bound to influence the thinking of the Labour Party anyhow, but the General Election victory of 1945 meant that the thinking had to be accompanied by urgent decisions.

‘There was, of course, no question of maintaining the whole war-time apparatus of controls... But the question remained - what controls should be retained, temporarily or permanently?’[15] Gaitskell's thinking on economic policy after the War was largely animated by this question.

Although the 1930s witnessed a profound change in Gaitskell's economic ideas, there were certain aspects of his character that did not change and were to affect his conduct as a minister. The first of these aspects was his natural radicalism. Although he moved away from the near-Marxist convictions of his youth he remained more radical than Durbin and than many on the left of the Labour party who were to become his opponents. Michael Postan recalled that Gaitskell ‘was by temperament, or rather by logic, a whole-hogger. This showed itself in his policy in MEW (Ministry of Economic Warfare) on blockade and neutral rights; in the influences he had on the 1949 devaluation, more drastic than that favoured by many of his colleagues; in the manner in which he chose to present his opposition to Clause 4; and in his final attitude to the Common Market. On all these occasions he was of course concerned with immediate political issues, not with final socialist objectives, but those who know him best would probably agree that both before and after 1945 the vision of equality which inspired his socialism was more intense and far-reaching than that of most Labour politicians.’[16]

Gaitskell's tendency to take arguments to their logical conclusion is important to understanding his conduct after he joined the Treasury. He was by intellectual temperament against compromise and always saw individual policy decisions within the framework of his overall economic strategy. This aspect of his character can clearly be seen in the way he took control of policy towards economic controls, interest rates and convertibility of the pound.

Another important aspect of Gaitskell's character was the essentially English nature of his socialism. Michael Postan recalled a conversation that he and Gaitskell had with R.H. Tawney in 1933. Tawney described his social work in the slums of pre-1914 Manchester. During the discussion Tawney said that 'although that time he felt humiliated by the sight of "his fellow Englishmen" in their abject condition.' When Postan commented on Tawney's use of the words 'fellow Englishmen' rather than fellow human beings Gaitskell 'confessed that he would have used the same words. He had reasoned himself into international socialism, but his vision of the future was one of England's Jerusalem.'[17] This aspect of Gaitskell's socialism was later to find its most visible expression in his opposition to Britain joining the Common Market, but it found expression also during his time at the Treasury. One of his main concerns was that liberalisation of trade and movement to convertibility should not take precedence over the maintenance of full employment and a planned economy in Britain.

Gaitskell joined the Treasury as Minister of State for Economic Affairs in March 1950. His appointment was intended to take some of the strain off of the ailing Stafford Cripps. Cripps, however, wanted Gaitskell to 'alternate for him' and, therefore be in on everything but this would not have eased the burden of his work and it shows how difficult Cripps found it to give up responsibilities.[18] Treasury officials wanted a clear demarcation of responsibility and Gaitskell was assigned to overseas finance and planning, two areas which he thought 'of absorbing interest.'[19] It had been Gaitskell's leadership in the devaluation crisis which had persuaded Cripps and Attlee that he was the right man for the appointment. Douglas Jay later wrote that Gaitskell 'made up his mind clearly and decisively what needed to be done; convinced the doubter... and supervised all the arrangements... [persuading] those few who knew the facts that if Cripps' health failed, Hugh Gaitskell was the only possible Chancellor... [and] determining the subsequent leadership of the Labour Party and so much else.'[20] Gaitskell eventually became Chancellor in October on the recommendation of Cripps himself and in preference to both Bevan and Wilson.

Gaitskell did not enjoy an easy relationship with his officials during his Chancellorship. This tension was the result of a genuine and deep-rooted conflict over the content and objectives of economic policy although Gaitskell's character and relative inexperience of high office also had an impact.

The fact that Gaitskell's own views about economic policy were at variance with the Treasury view was evident even before he joined the Treasury. Shortly before he was placed in charge of overseas finance Gaitskell had found it necessary to lay out in comprehensive terms his own thoughts about external financial policy. The paper he co-wrote with Jay, 'Economic Planning and Liberalisation', was presented to the Economic Policy Committee of the Cabinet. Their warnings about the dangers inherent in drifting towards decontrol had two distinct targets. They explicitly criticised officials, in particular they targeted a report by the Programmes Committee which stated that 'It should be recognised that in the management of our general balance of payments indirect measures of control must play an increasing part, by anti-inflationary internal policies and a strict external policy.'[21] Their criticisms were also implicitly directed at Cripps. Dalton noted in his diary that 'S.C.[Cripps] says, with a wan smile, that he supposes this is a vote of no confidence in the Chancellor. Of course, we all deny this. It is meant, we say, for guidance to official advisers, who keep on giving advice which runs contrary to H.M.G's [the Government's] view of things.'[22] Gaitskell's ideas remained consistent with those he had developed before the War. He told the committee that the United States administration might be urging the liberalisation of trade but 'this should not be allowed to prejudice the planned economy of this country.'[23]

Gaitskell's skill as a policy innovator did have a negative side. In his memoirs Edwin Plowden has written of his 'occasional arrogance, indeed at times a pig-headedness, and a tendency to become bogged down in the detail of his work'.[24] From his diary it is clear that Robert Hall concurred with Plowden's analysis of Gaitskell's faults. This aspect of Gaitskell's character as a minister was probably the result of two parts of his earlier development. First, Gaitskell's academic background meant that he tended to approach issues as a theoretical economist and therefore got more involved in the details of a debate than might have been necessary. Michael Postan has argued that Gaitskell's interrupted progress as an economist 'showed itself most in his undimmed admiration for economics and economists, which I suspect reflected his nostalgia for the profession he had to abandon. I also suspect that had he continued his progress as an economist he might also have developed a more sceptical attitude to economic argumentation.'[25]

Second, Gaitskell's experience as a temporary wartime official at the Ministry of Economic Warfare and the Board of Trade also contributed to his interest in detail. During negotiations in Washington in October 1950 Hall noted that Gaitskell 'will talk too much about things beneath his dignity, as if he were an Assistant Secretary. Yesterday, for instance, we went to see Foster and Bissell [ECA Administrator and Deputy Administrator] and he and Bissell talked for hours about the procedure on the Deputies, and the problem of assessing fair shares under the Nitze plan. Foster obviously did not feel that he knew, or should know, enough about this to be able to join in, so he just sat there bored.'[26] Gaitskell's fastidious nature did impair his efficiency and prolonged the decision-making process. It also meant that he often kept his officials waiting for long periods of time .[27]

Although Gaitskell was suspicious of his officials he also felt the need to impress them with his competence. When he was still Minister of State he had felt that as number two, officials treated him differently to the Chancellor. During the E.P.U. negotiations he made proposals which Treasury officials viewed as 'too inflationary' however, after a favourable American reaction he noticed a change in attitude. This perception says much about how he viewed his relationship with his officials. He noted in his diary that 'up to then they had been reserved, at times resentful - never giving me the reasons for thinking things but just implying that I was wrong. Since then although they have not just accepted my views, they have been much more open and undoubtedly prepared to follow my lead'.[28]

Gaitskell was aware of the fact that the Treasury had its own agenda on various aspects of economic policy and therefore felt it necessary to set out general principles of policy. For example, on the issue of economic controls Gaitskell knew that the official view was that decontrol was inevitable. Consequently he wanted '(a) ministers to lay down the principles to be followed, (b) an inter-departmental Committee to report on all proposals for de-control.' Hall noted that 'This is of course part of his general line: he doesn't want to give up any controls he can help and he doesn't want to give any discretion in this field to either other ministers or civil servants.'[29]

Gaitskell's uncertainties and suspicions explain the aloofness with which he treated officials and the coolness in his relations with them. Hall noted that at a Budget policy meeting he 'could not help feeling that everyone was being called up in turn by the Chief Examiner [Gaitskell] and given a mark.'[30] His behaviour encouraged the development of an 'us and them' culture within the Treasury. Although Gaitskell was able to play the role of a policy initiator he did so primarily by imposing policy from above rather than by taking the lead in policy formation and then delegating more detailed work to others. Given the wide divergence of policy views this outcome was probably unavoidable but it also meant that there was little understanding between Gaitskell and most of his advisers.

While Gaitskell's performance during the devaluation crisis proved to be his making amongst his senior colleagues, the row over health charges in the 1951 Budget was the greatest test of his standing in the Cabinet and the Labour Party. Gaitskell was 'the junior and far less powerful figure' in his battle with Bevan and it was of great significance that the Cabinet eventually decided to back him.[31] Gaitskell's biographer, Philip Williams, notes that Gaitskell won his colleagues approval 'by showing loyalty and goodwill,... and promising that if he resigned he would make no difficulties for the Government.'[32] Whenever Attlee was called upon from his hospital bed to make a decision in the crisis he supported Gaitskell although the crisis was allowed to drag on until the morning of the Budget itself.[33]

It was a mark of Gaitskell's growing confidence and standing that after the Budget he wrote in his diary that 'We both, that is Herbert [Morrison] and I, think that the P.M. has taken a very weak line about Bevan. He is very careful not to come out fully and firmly in the open against him, nor has he really given in our view much lead to the country on rearmament, though it was he and Bevin who initiated the new programme.'[34]

Amongst the Parliamentary Labour Party the April 1951 Budget proved to be a great personal triumph for Gaitskell. Dalton noted in his diary that 'The party are very pleased and the Tea Room is full of his [Gaitskell's] praise... it is practically all one way.'[35] This reaction was shown in the special meeting of the Parliamentary Labour Party held after Bevan and Wilson's resignations. When Gaitskell rose to speak he received what he called 'a pretty considerable ovation.' There was no doubt in his mind that 'the *Tribune* article' which had attacked his Budget 'had a lot to do with this. But when I sat down they went on clapping for a minute or two. Douglas [Jay] said it was the biggest applause that he had ever heard at a party meeting. I do not know about this but it was certainly an outstanding success.'[36]

Gaitskell's growing authority and confidence was reflected in his standing within the Treasury. On Budget day Bridges came to see Gaitskell to tell him that 'I want you to know that not only all those in the Treasury who know about it tremendously admire the stand you have made, but that all the others who do not at present know but will know will feel the same way. It is the best day we have had in the Treasury for ten years.'[37]

It is therefore clear that Gaitskell was able to play the role of policy initiator while he was at the Treasury not only because of his expertise as an economist but also because this expertise supported a comprehensive economic doctrine. Gaitskell was able to impose his own framework of policy assumptions and objectives onto the Treasury while he was Chancellor. He found that he had to impose his own framework as the Treasury's view diverged so completely from his own. The certainty with which Gaitskell held his views also helps to explain how he had become the preeminent figure among the younger generation of Labour ministers by the summer of 1951. The lead Gaitskell took during the devaluation crisis and his stand over prescription charges enhanced his authority and his control over economic policy.

Rab Butler

John Boyd-Carpenter, who was Financial Secretary under Butler until 1954, has written that 'Rab Butler immediately dominated the Treasury. How he did so was difficult to see. He listened politely to senior officials and junior Ministers. He rarely committed himself to a view. He was meticulously polite to all, senior or junior. He appeared to have all the time in the world. He gave no signs of flapping or of temper. He was very quick at absorbing the contents of complex documents. The Treasury knights were, and are, the pick of the Civil Service... But Rab apparently without effort asserted control. We had many meeting round the long table in his room in Treasury Chambers. On the walls were four splendid Canalettos lent by the Duke of Buccleuch. I sometimes suspected that Rab arranged that the only lighting in the room was on these pictures, so distracting attention from his proposals!'[38]

Boyd-Carpenter's account clearly points to Butler acting as a policy initiator while at the Treasury even though he lacked Gaitskell's background in economics. Butler's lack of economic expertise meant that he had to rely far more on his official advisers than Gaitskell had. However, Boyd-Carpenter provides certain clues as to how Butler was able to dominate the Treasury. First, his intelligence compensated for his lack of specific knowledge and allowed him to quickly pick up policy details. Butler had been a gifted academic. After attending Pembroke College Cambridge, where he achieved firsts in both modern and medieval languages and history, he was awarded a fellowship at Corpus Christi College where he lectured on the French Third Republic. Butler's experience as a don probably accounts for his ability to pick out the assumptions and the weak points in the arguments of his advisers. Often the most telling comment he made on a memorandum was to simply underline a sentence or passage and put a question mark in the margin next to it.

A second clue provided by Boyd-Carpenter points to Butler's ability to manipulate his officials. Butler was a politician noted for his evasiveness and ambiguity. As Anthony Sampson suggests, this ambiguity was in part a product of his background. Butler was also the son of a British Civil Servant in India. His father, Sir Montagu Butler, became Governor of the Central Provinces. Coming from an academic-administrative family Butler stood 'between the landed and bourgeois strands in his party.' Although, in marrying the heiress, Sydney Coutauld, Butler became a wealthy man, Sampson concluded in 1962 that 'he has not become the complete landed squire, and his self-critical side remains strong. This cleavage has heightened his ambiguity. He moves in stately circles: but loves to encourage young men to attack "the Establishment". He is careful in parliament about homosexuals and flogging, but privately encourages agitation for reform.'[39]

Butler's ambiguity was also a product of his sense of humour. Once, during his time at the Treasury, when he received a memorandum discussing the details of a government subsidy for the British Lion Film Corporation, Butler put a ring round the word 'lion' pointing to the word 'Grrr' in the margin.[40] Butler would also draw hearts pieced by cupids arrow in the margins of memorandums which had pleased him.[41]

Butler's ambiguity led some officials and advisers to underestimate him; this helped him to manipulate them. Robert Hall's diary of the period shows how he came to an understanding of the way in which he was being used by the Chancellor. His first impression of Butler was of a 'much pleasanter person than Stafford or H.G. [Gaitskell] and conducts business almost facetiously.'[42] However this enjoyment of a more light-hearted character quickly turned to a fear that he was a dangerous light-weight. During discussions about the Collective Approach Hall noted that 'it is impossible to know whether he [Butler] understands anything at all about it or not. He has a lot of conversational points which usually counteract one another, so that one feels he knows nothing at all about the real arguments.' Even then Hall conceded that 'this may be going too far.'[43]

A month later Hall had acquired a better idea of how Butler worked. He found that his friend the American political commentator Joseph Alsop concurred with William Armstrong in finding Butler 'not nearly as ignorant as he seems.' Hall came to the conclusion that 'the Chancellor regarded himself as manipulating other people and thinks it easier to do this if they think he is rather a fool - and if this were so it would give him a feeling of triumph that others should think him stupid. It seems rather a peasant's outlook, however, and I don't think he has that in other ways!'[44] Although there is more than a hint of resentment in these words there is still a good deal of truth in them. It is clearly the case that as a more experienced minister Butler had none of the worries Gaitskell exhibited about how his officials saw him.

Butler was a man of many masks. He was quite capable of saying different things to different people to gain the maximum advantage. While Hall might have thought Butler did not understand the Collective Approach to convertibility, Frank Lee found that he made a favourable impression on the American Administration during the negotiations on the Collective Approach in March 1953. This favourable impression was not only due to his mastery of the facts but also due to 'his ability to use words like "moral" and "right" which Americans thought quite proper though British civil servants could not bring themselves to use in a business deal.'[45]

One of Butler's greatest assets as a minister was what Edwin Plowden latter described as 'his acute political judgement, which at times appeared to officials as a kind of second sight.'[46] He had an 'appreciation of exactly what the Tory party, the House of Commons and the electorate would and would not accept.' Although officials also sometimes thought him indecisive this was a necessary part of his political judgement. He would often act as though he had made a decision and then live with it for a while to see if he still felt comfortable with the decision the next day.[47] Butler's conduct could frustrate his advisors who thought that everything had been decided. However, once Butler had actually made a decision for real he would stick with it in spite of the sometimes intense pressure to change it. Thus, he stuck by his ROBOT decision even after it was postponed by the Cabinet. He was still committed to the principle of letting the pound float in 1958, when it was finally made convertible.[48] Also his wish to live with decisions for a while did not stop him from making tough choices, and it certainly was not a way of backing out of them. For example, Butler agreed to the unification of non-resident sterling in March 1953 despite taking an extra day to make up his mind.

Butler's approach raises the question of whether any great policy objectives lay behind his great skill as a manipulator. Edmund Dell has argued that Butler's main strength was as a political survivor and that as Chancellor he was 'the slave of advice.'[49] However, Butler's role cannot be dismissed as lightly as Dell suggests. By the time he became Chancellor Butler was already highly experienced at ministerial level and was the main architect of the policy Charters that the Conservative Party produced in response to the election defeat of 1945.

Butler did have important objectives as Chancellor. The fact that he was not an economist did mean that he felt he needed some kind of official support for the policy he wanted to follow but there two main reasons why he was nearly always able to get this support. First, Butler's skill as a manipulator meant that he was often able to get officials to be far more radical than they originally intended. For example, when Butler first arrived at the Treasury Leslie Rowan and the Overseas Finance Division did not envisage convertibility as anything other than a long-term objective. By manipulating their own arguments Butler was able to get them to support immediate convertibility at a floating rate. Second, the separation of the policy structure into several communities meant that it was pluralistic enough to provide Butler with the options he needed to follow his own strategy. Taken as a whole, the economic strategy Butler followed as Chancellor was his alone but it involved the careful selection of advice. It is impossible to properly understand Butler's tenure as Chancellor without understanding his policy goals.

One crucial fact to note about Butler's policy goals is that they were inextricably linked to his method of operating. Butler belonged to a tradition of Conservative thought which sees Conservatism more as a form of behaviour than as a fixed set of beliefs. In this view he was profoundly influenced by his Uncle Sir Geoffrey Butler's book <u>The Tory Tradition</u>. Butler wrote a preface for this book when it was republished by the Conservative Political Centre in 1957. He took the legacy of the four figures that Geoffrey Butler had studied: Bolingbroke, Burke, Disraeli, and Salisbury to be 'not a collection of causes for which we are obliged to die in the last ditch, nor a set of premises by the consistent application of which we may infallibly regulate our conduct, but a mature and human tradition of political which is neither fixed or finished. Such tradition of behaviour are, as Professor Oakeshott has reminded us, tricky things to get to know; they cannot, in a Disraelian phrase, be scribbled down in a morning on the envelope of a letter by some Charter-concocting politician. Those of us who helped to concoct the post-war Charters can testify that this is true. But the tradition can be absorbed by close and sympathetic observation of how particular Tory politicians have behaved at particular periods of political crisis.

'From Bolingbroke, for example, in the Jacobite aftermath, we can learn how a political Party, without damage to its life and identity, not only may but must discard an old-fashioned argument, as a snake sloughs off an outworn skin, no matter how beautiful or serviceable it may once have been. (Peel for one understood this lesson well.) From Burke's profound intellect, at work in the Jacobin heyday, we learn to distrust political abstractions and panaceas imposed on society from above, and derive our preference for seeking a pattern of improvement by harmonising or balancing the forces and interests actually at play in society. Disraeli, with his romantic and imaginative insight, taught us, during the critical transition to democracy, how to bring Tory philosophy down from the ivory tower into the market-place, and so enlist "the invigorating energies of an educated and enfranchised people." "Educated" is in my view the key word. A Tory Democrat will agree with Dr. Johnson that "about things on which the public thinks long it commonly attains to think right", but is bound to acknowledge that the public does not always think long: a study of Salisbury's foreign policy teaches us this lesson. A rock-like figure in an age of volatile emotionalism, Salisbury demonstrated how political problems have to be seen in the perspective of history, and how policies, if they are to be successful, must be based on intense precalculation.'[50]

This quote is revealing about Butler's beliefs and about the way he operated. It shows that he thought Conservatives should adapt to changing circumstances, that they should avoid abstraction and apply their tradition of behaviour to whatever views and demands were prevalent at the time. It comes as no surprise that he mentions Michael Oakeshott in this passage. Butler's preface was published in 1957, one year after Oakeshott gave his famous lecture 'On being conservative.' There is much in common between their reflections, both saw Conservatism primarily as a tradition of behaviour and both saw the principle objective of a Conservative in power to harmonise countervailing forces within society and not to impose the beliefs of one part of society upon the rest. In fact, there is one passage in 'On being conservative' that could almost be taken as a description of Butler himself. Oakeshott writes that 'into the heat of our engagements, into the passionate clash of beliefs, into our enthusiasm for saving souls of our neighbours or of all mankind,' a government of a conservative sort 'injects an ingredient, not of reason (how should we expect that?) but of the irony that is prepared to counteract one vice by another, of the raillery that deflates extravagance without itself pretending to wisdom, of the mockery that disperses tension, of inertia and of scepticism: indeed, it might be said that we keep a government of this sort to do for us the scepticism we have neither the time nor the inclination to do for ourselves.'[51]

From Butler's Conservatism came his political arguments against Labour's economic policy. Physical planning went against the grain of the Conservative tradition, it involved the imposition of the values and beliefs of one part of society upon the rest and it was based on a belief in 'political abstractions and panaceas'. Butler was an eloquent opponent of Labour's policy of physical controls while the Conservatives were in Opposition. In the 1950 Budget debate he recalled 'discussing my scholastic reforms with a planner, and he said, "what a pity it is that you cannot turn children out of our schools in ready-made groups ready to be planned by the society in which they are moving." That is the exact opposite of the philosophy for which we stand. We believe that in creating equality of opportunity we should give the maximum rein to individual flexibility and genius. We believe that a rigid economy -as the "Economist" said recently, "Our economy is crammed right against the ceiling"- and a precariously balanced Budget, without any latitude or elasticity, cannot meet the undoubted shocks to which we are heir and which are so dramatically described in paragraph 62 of the Economic Survey.'[52]

The first part of this statement was drawn from Butler's political case against controls, the second from his economic case against them. The fact that he was more sure of the former than the latter is revealed perhaps by his use of another source, in this case *The Economist*, to back up his economic argument. But although he lacked economic expertise Butler had already developed the idea that the reintroduction of the discipline of the market was the only alternative to the Labour government's policy of physical planning.

The basis of Butler's economic policy has been best described by Norman Macrae in his book Sunshades in October. Macrae first met Butler in 1949 when

Butler invited him to lunch after having been impressed by his criticisms of planning in the *Banker*. Butler offered Macrae a job in helping to shape Opposition policy. Even at this stage Butler was a whole hearted supporter of decontrol and his main idea was to 'get rid of controls and go for devaluation before Labour did.'[53] Macrae joined *The Economist* in 1949 but he came back into contact with Butler through the lunches hosted by the editor of *The Economist*, Geoffrey Crowther, which Butler attended during his Chancellorship. It was through this contact that Macrae was able to gain the picture of Butler's views that informs Sunshades in October. As Ian Bancroft, one of Butler's private secretaries during his last two years at the Treasury, has said, Butler's economic strategy can best be understood in the context of the words he used at the Conservative Party Conference in 1954: 'I give you a slogan: invest in success,' and in his vision of doubling Britain's standard of living in the next 25 years.[54] Butler was essentially an expansionist who believed that external and internal controls placed an artificial strait jacket on the economy. Not allowing the price mechanism to play its proper role in the economy created artificial excesses of demand for controlled goods. In a free economy, with these factors brought back into equilibrium and with interest rates being allowed to rise to something like there natural level, the Government would be able to pursue a more expansionist economic policy that would in turn create economic confidence which would stimulate investment and allow further economic expansion.

In following his overall strategy Butler can be characterised as a policy initiator. Although the official Treasury had been in favour of decontrol and the restoration of convertibility, Butler pushed them into moving faster than they otherwise would have wished. Officials are naturally cautious and keen to protect their ministers from political attacks. Butler's advocacy of the ROBOT plan to make the pound convertible at a floating rate, the restoration of Bank Rate policy and the removal internal physical controls showed him to be far less cautious than his officials. However, Butler's own lack of economic expertise meant that on the actual details of policy he often had to operate as a policy selector, in so doing he manoeuvred between the various sources of advice that were available to him. For example, he took the advice of the Economic Section on fiscal policy until 1955 principally because it recommended an expansionist policy. When the Section recommended a deflationary Budget in 1955 Butler looked elsewhere for advice. On convertibility policy Butler took his advice from the Overseas Finance Division and the Bank of England. However, when O.F. came out against further moves towards convertibility after 1952, Butler switched to taking his advice principally from the Bank of England.

Butler was also assisted by the availability of external sources of advice, in particular the Conservative Research Department. They would provide Butler with advice on Budgetary policy every year. In particular, their arguments in favour of income tax cuts in the first Budget of 1955 provided Butler with useful ammunition for getting his way.[55]

Although Churchill's main policy interest by now lay in foreign affairs he was supportive of the main thrust of Butler's economic policy on decontrol and tax cuts. This support strengthened Butler's position in getting his policies through Cabinet and Cabinet Committees. Only Churchill's anxiousness the avoid industrial strife, even at the cost of highly inflationary wage settlements, was at odds with the general direction of Butler's policy.[56]

Butler's relationship with Churchill was coloured by the fact that he was, as Robert Armstrong, who served in Butler's private office, recalls, 'quite frightened' of Churchill. This went back to Butler's association, when he was a junior Minister in the Foreign Office, with the policy of appeasement. Armstrong remembers accompanying Butler on an official visit to Germany. On a walk Butler pointed to the hotel Chamberlain had stayed in 1938, and started talking about the 'terrible time' he had endured then because he had to defend the policy of appeasement in the House of Commons as Halifax, the Foreign Secretary, was in the Lords, although he claimed to have played '"no part in the formulation of policy"'. After a pause 'he waggled his cane at me and said "since that time I have never carried an umbrella", because an umbrella was the symbol of Mr. Chamberlain. I learnt from this that even fifteen years later he was very conscious of the fact that he was associated with Chamberlain and I think that he was very conscious of the fact that Sir Winston Churchill hadn't forgotten that. I never saw any signs of it in Churchill but there was no doubt that he was still in great awe of Churchill.'[57]

Churchill's initial suspicions of Butler led him to impose what appeared to be important constraints on his freedom to act when he appointed him Chancellor. The most significant of these was the creation of the Treasury Ministerial Advisory Committee, a body consisting of five senior Ministers, Woolton, Swinton, Lyttelton, Thorneycroft and Eccles, which was supposed to provide Butler with advice on economic policy. Churchill also appointed Sir Arthur Salter as Minister for State for Economic Affairs to keep an eye on Butler. In addition he brought Lord Cherwell back as Paymaster General and asked him to recreate the statistical branch to provide an alternative source of economic policy advice to Butler and the Treasury.

One mark of Butler's strength as a minister was that it did not take him long to establish his preeminence over economic policy. The Treasury Ministerial Advisory Committee was quickly sidelined and then absorbed into the Economic Policy Committee. Salter proved to be an ineffectual Minister, already seventy at the time of his appointment, the weight of parliamentary work was too much for him.[58] In November 1952 he was replaced by Butler's own choice Reginald Maudling who had the title of Economic Secretary. Cherwell also failed to make much impact on economic policy. During the ROBOT crisis the combined arguments of Cherwell and Salter failed to convince Churchill of the economic case against the ROBOT plan. It was only the intervention of the Foreign Secretary, Anthony Eden, that persuaded Churchill to support its postponement.[59] On this issue as on many others Churchill's instinct proved to be much closer to that of Butler and his confidence in Butler grew. In February 1954 Churchill's doctor Lord Moran recorded in his diary that Churchill had remarked '"Rab is behaving very well...The Party has great confidence in him. He scorns to play for popularity, just does what he thinks is right."'[60]

The one area of economic policy in which Churchill took an active interest was Budgetary policy. Butler himself later recalled 'spending wonderful afternoons at lunch - of course champagne - in the Cabinet room... right up till six or seven o'clock and all the time him saying "look here old cock this won't do at all. You must have compassion", and he would say "my father, though they never followed up his initiative in social democracy." Conservatives never followed up Randolph's initiatives, did they. Although Randolph was mad, he was a social democrat.'[61]

Churchill's main concern was to lower the level of taxation and to reduce the size of the state. In the early stages of the preparation of the 1953 Budget Churchill told Butler that the main problem that had to be addressed was 'a swollen bureaucracy and a level of taxation previously undreamt of in time of peace. It would of course have been much easier for us to slash these back immediately the war ended if we had been returned to power. It is more difficult now. But the effort, though greater, must be made. We cannot afford to let it become accepted, as an inevitable feature of the postwar world, that the country must have a non-productive bureaucracy... and a standard rate of income tax at 9/6 d. in the £.'[62]

As Churchill and Butler shared the same objectives on fiscal policy the main effect of the interest Churchill had in the Budget was to bolster Butler's own position in getting the expenditure cuts necessary to allow for tax cuts. For example, Churchill's intervention in the 1953 Budget opened up the way to tax cuts. Churchill argued that the forecast deficit for the year 1952/3 did not justify a tax increase and that the way to deal with the problem was to stop a further increase in civil expenditure.[63]

Conclusion

Both Gaitskell and Butler can be clearly identified as a policy initiators during their Chancellorships although they achieved preeminence by different methods. While Gaitskell imposed his own framework of assumptions and objectives from above onto a sceptical Treasury, Butler got his way largely through the manipulation of the existing framework. Differences in their personalities do in part account for these different operating methods but the most important factor was the receptiveness of the Treasury to their different economic ideas. Butler found the Treasury view to be largely in tune with his own thinking. The structure was pluralistic enough for him to be able to take the lead by choosing between different sources of policy advice and by questioning the assumptions of his advisers. By doing so he produced an economic strategy that was distinctly his own. By contrast, Gaitskell's views were so much at odds with official opinion that no amount of manipulation would have been sufficient for him to get his way. Only by imposing his own ideas was Gaitskell able to operate as a policy initiator. The lack of official support for his policies meant that his economic training was crucial to his ability to take the lead.

Notes:

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3. Interview with Lord Croham, 27/3/97.

4. Bruce Headey: British Cabinet Ministers, George Allen and Unwin, London, 1974.

5. Simon James: British Cabinet Government, Routledge, London, 1992, p.38.

6. Michael Postan in W.T. Rodgers: Hugh Gaitskell 1906-1963, Thames and Hudson, London, 1964, p.55.

7. Postan: Ibid. p.51.

8. Ibid: p.51.

9. Ibid.

10. Elizabeth Durbin: New Jerusalems: The Labour Party and the Economics of Democratic Socialism, Routledge and Kegan Paul, London, 1985.

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15. Gaitskell: Op Cit. p.31.

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17. Ibid. p.62.

18. Phillip Williams(ed.): The Diary of Hugh Gaitskell 1945-1956, Jonathan Cape, London, 1983.

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20. Douglas Jay in Rodgers: Op Cit. p.95

21. PRO CAB 134 224 EPC(50)9 19/1/50.

22. Dalton Papers, British Library of Political and Economic Science, Diary, vol.38, 1950.

23. Ibid.

24. Sir Edwin Plowden: An Industrialist in the Treasury, Andre Deutsch Limited, London, 1989.

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27. Cairncross(ed.): Ibid.

28. Williams: Op Cit.

29. Cairncross(ed.): Op Cit. 29/6/50, p.120.

30. Ibid.

31. Williams: Op Cit, p.266.

32. Ibid. p.266.

33. Ibid. p.267.

34. Ibid. p.271.

35. Dalton Diary: Op Cit. 10/4/51.

36. Williams(ed.): Op Cit. 4/5/51, p.256.

37. Williams(ed.): Ibid. 4/5/51, p.248.

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39. Anthony Sampson: Anatomy of Britain, Hodder and Stoughton, London, 1962, p.84.

40. Sampson: Ibid. p.85.

41. Butler papers.

42. Cairncross(ed.): Op Cit. 29/11/51, p.185.

43. Ibid. 29/10/52, p.252.

44. Ibid. 19/11/52, p.256.

45. Cairncross(ed.): Op Cit. 11/3/53, p.270.

46. Plowden: Op Cit.

47. Interview with Lord Bancroft 25/3/96.

48. See Alec Cairncross(ed.): The Robert Hall Diaries 1954-61, Unwin Hyman, London, 23/9/58, p.172.

49. Edmund Dell: The Chancellors: A History of the Chancellors of the Exchequer, 1945-90, HarperCollins, London, 1996, picture caption.

50. R.A. Butler: Preface to Sir Geoffrey G. Butler: The Tory Tradition: Bolingbroke, Burke, Disraeli and Salisbury, Conservative Political Centre, London, 1957, pp.9-10.

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52. House of Commons Debates, 19/4/50, vol.474, col. 149.

53. Interview with Norman Macrae 17/10/97.

54. Interview with Lord Bancroft, 25/3/96.

55. See Chapter 9 pp.307-8.

56. See Lord Butler: The Art of the Possible: The Memoirs of Lord Butler, Hamish Hamilton, London, 1971, p.164.

57. Interview with Lord Armstrong of Illminster, 10/6/97.

58. Boyd-Carpenter: Op Cit. p.98.

59. For a full discussion of the ROBOT scheme see Chapter 7 pp.196-215.

60. Lord Moran: Winston Churchill, The Struggle For Survival 1940-1965: Taken From the Diaries of Lord Moran, 6/2/54, p.552.

61. Seldon interview with Lord Butler, 1/3/78.

62. PRO PREM 11 410 Churchill to Butler, 27/9/52.

63. PRO T 171 413 Churchill to Butler, 13/10/52.

Chapter 6

The Politics of Economic Controls

The leading historian of economic policy in the postwar period, Alec Cairncross, epitomises the view that the removal of the economic controls introduced during the Second World War was both a desirable and inevitable process that reflected widespread opinion about the direction economic policy should be taking. As Cairncross puts it 'the various "bonfires" of controls that began in 1948 made it clear that the continued use of controls after 1945 was essentially a *transitional* strategy. It was not intended to maintain the control indefinitely or to perpetuate the shortages with which they dealt. On the contrary, most of the controls would disappear as supply recovered to a more normal level without any change in price [emphasis in original].'[1]

Cairncross expresses what was the dominant view in Whitehall at the time. However, it was not the view of most Labour ministers including Gaitskell, Bevan, Wilson and Jay. In fact, the Government had intended to keep many of these physical controls. The Full Employment Bill, which was only held back because of the outbreak of the Korean War, would have put wartime controls on the statute book on a permanent basis.

The main disagreement amongst ministers concerned whether positive powers of control should be included in the Bill. Gaitskell, who was the leading intellectual force behind the Bill's content, believed that it should concentrate on existing negative controls such as those over prices, building, imports and exports as well as over some consumer goods, which he believed were necessary if the Government was to maintain full employment without inflation and a balance of payments problem. Gaitskell was also responsible for the Bill title and had a clearer understanding of its purpose than his colleagues.

Historians who have followed Cairncross' line have misunderstood the significance of the bonfires of controls that Harold Wilson instigated while President of the Board of Trade. Wilson abolished those controls not required by the Government for peacetime economic planning. In his announcement in the Commons of the first bonfire in November 1948, Wilson made it clear that controls would have to be retained for reasons of 'economic recovery, for industrial efficiency or for full employment.'[2] The bonfire itself only led to the loss of about 30 or 40 civil service jobs; and of the 200,000 licences abolished 125,000 had been for the production of thermos flasks.[3] The fact was that many licences could be abolished with little actual effect on the economy. As Jim Tomlinson has concluded 'the controls in existence in early post-war Britain were immensely complex and elaborate and many could be abolished with little implication for general policy.'[4]

Labour's policy on controls was the opposite of that followed by the Conservatives after the 1951 election. The Conservatives believed that controls were a threat to individual freedom and led to inefficiency in the economy. The impact of controls on individual freedom had been the theme of Churchill's 1945 election broadcast in which he followed Hayek in arguing that a controlled economy would eventually lead to 'some form of Gestapo' being imposed because the Government would not be able to tolerate dissent.[5] Churchill's broadcast set the tone for the Conservatives policy on controls while in Opposition. As controls became increasingly unpopular with the public the Conservatives announced that to 'set the people free' of them would be a major objective of a future Conservative government.[6]

It was Butler who took the lead in the Conservative's decontrol programme once they were in office. His main aim was to restore the flexibility of the price mechanism to the economy. In practice this meant the abolition of commodity controls, building licensing, rent restriction and fixed agricultural pricing. While Butler was at one with Churchill in pushing forward with decontrol, other ministers were concerned by the speed at which he proceeded. Although it took longer to relax housing controls than Butler would have liked, most controls had been abolished by the end of 1954.

Gaitskell and the Full Employment Bill

In January 1950, Gaitskell and Jay mapped out their thoughts on the future of controls in a paper to the Cabinet Economic Policy Committee. They felt they had been provoked into writing 'Economic Planning and Liberalisation' by official pressure on policy, in particular by part of a report by the Programmes Committee which stated that 'It should be recognised that in the management of our general balance of payments indirect measures of control must play an increasing part, by anti-inflationary internal policies and a strict external policy.'[7] The conclusion of the Programmes Committee's report reflected the Treasury view of controls, that their use merely disguised balance of payments and inflationary problems and that to deal with these problems internal and external economic policy should be brought into harmony. Fundamentally, dealing with these problems meant a return to primacy of questions of internal and external finance.

Gaitskell and Jay argued that such a policy was incompatible with the 'fundamental principles' of the Government's economic policy, they listed these principles under four headings:

'(a) Maximum production.

(b) Full employment.

(c) Closing the gap in the dollar and overall balance of payments.

(d) Fair-distribution among the people of available supplies.'[8]

Gaitskell and Jay argued that inflationary pressure was necessary in the economy in order to maintain full employment. The only way to prevent such inflationary pressure from having knock-on effects was through controls, particularly price controls. Rationing was also needed to ensure a 'fair-distribution' of goods. Hugh Dalton referred to this part of the memorandum in his diary as 'an admirable statement of economic doctrine. Really, therefore, though this is not the way anyone puts it, always have a bit of inflationary pressure, but use physical controls to prevent it breaking through.'[9]

The Economic Policy Committee's discussion of Gaitskell's memorandum revealed ministers suspicions about the motives of civil servants on controls policy.[10] Gaitskell shared these suspicions. Jay later recalled that Gaitskell 'strongly suspected, and indeed probably believed that a lot of people in Whitehall, even some ministers were advocating decontrol for ideological reasons and not because the merits of an individual trade justified it.'[11] Consequently, Gaitskell insisted that any proposal to remove a control, however minor, had to be cleared with the Treasury.[12]

For Gaitskell and Jay, the principles of the Treasury view were incompatible with those of a socialist economic policy. Gaitskell wrote that 'the use by the Government of direct controls - whether rationing in order to secure fair distribution or industrial controls in order to expand exports - has been the distinguishing feature of British socialist planning. One by one the non-socialist Governments in Europe have abandoned this policy and in consequence have had to put up with a certain amount of unemployment, and/or a much less equitable distribution of income.' They argued that a policy of decontrol would 'involve for us two alternatives - either to allow prices and incomes to rise in every case where controls of any kind were lifted, which in turn would create in due course a balance of payments crisis together with the risk of continuing inflation; or to reduce demand by deflating incomes which would require far more severe deflationary measures than have yet to be contemplated in Britain, and which would bring in their train serious unemployment.'[13]

In the Committee Gaitskell argued that 'In the UK certain physical controls are essential to the effective economic planning of full employment and fair distribution of income and for achieving and maintaining a balance with the dollar area.'[14] He listed the essential controls as being 'quantitative import controls, exchange control, building controls and controls in respect of certain raw materials.'[15] In the memorandum he also listed price controls as one of the methods by which 'the Government had tried to prevent and on the whole succeeded in preventing any serious inflation.'[16]

In general the Committee welcomed Gaitskell's memorandum. Both Bevan and Wilson agreed that controls played an essential role. In fact, Wilson had been the first minister to mention the idea of permanent controls in public. In March 1949 he stated that 'Certain controls over the location of industry and other things necessary for a policy of full employment and over certain aspects of foreign exchange dealings and those controls which are necessary for keeping the national economy on an even keel, should be a permanent feature of our system.'[17] This statement was considered to be important enough by the Labour Party for it to be included in the Campaign Quotations reference book issued during the 1951 election campaign.[18]

On the other hand Stafford Cripps, the Chancellor of the Exchequer, was keen to stress the importance of fiscal and monetary measures. Although he admitted that 'the Government could not rely solely on monetary and budgetary means,' he added 'that did not mean that full use should not be made of these means.'[19]

The need for physical controls for economic planning had great importance for Gaitskell and other Labour ministers who had come under the sway of Daltonian economics in the 1930s. Gaitskell had developed his theories of planning when he was a member of the New Fabian Research Bureau. Although he believed that nationalisation of a limited number of basic industries was necessary to the formation of a socialised economy it was only part of the equation. Equally important, if not more so, was the use of the appropriate economic tools to establish full employment. He wanted 'planning to improve upon capitalism's economic performance through the control and manipulation of policy instruments, rather than through detailed administration of the entire economy.'[20] Through the use of physical controls Gaitskell thought that what he called 'the three major evils of the individualist system - inequality, insecurity, inefficiency' could be eradicated.[21]

These arguments were to reappear during the battle over Clause Four in the late 1950s. Gaitskell again argued that nationalisation was only part of the picture. In his conference speech of 1959 he concluded that 'we should make two things clear to the country. First, that we have no intention of abandoning public ownership and accepting for all time the present frontiers of the public sector. Secondly, that we regard public ownership not as an end in itself but as a means - and not necessarily the only or the most important one to certain ends - such as full employment, greater equality and higher productivity.' Gaitskell argued that full employment and planning were 'fundamental aims' of the Party.[22] Bevan's contribution to this debate was interesting because he echoed the sentiments of his rival. He stated that 'I do not believe that public ownership should reach down into every piece of economic activity, because that would be asking for a monolithic society... What I do insist upon is... a planned economy.'[23]

The accord between Gaitskell and Bevan on the subject of physical controls was not really that surprising. In his 1952 book In Place of Fear Bevan had argued that 'full employment always carries with it the threat of inflation, and that to avoid inflation there must be sustained control by the state of the investments programme.' He went on to argue at length that the establishment of full employment by its very nature meant the end of competitive society and its transformation into a socialist one. Full employment meant that the economy was working at full stretch and that the provision of additional goods and services could only be achieved at the expense of others, assuming no increase in productivity. 'That means selection between different forms of consumption and that, in turn, means arranging consumption in an order of priority. Once this is accepted, bang goes at once a whole series of fetishes of the competitive society... Once the competitive society is compelled to serve a general social aim the automatism of the market is intervened with at every point and we are no longer in the capitalist system at all. We shall have abandoned selection by competition for selection by deliberation.' Bevan gave some examples of prioritising through control that occurred when Labour were in power: 'Labour had to insist that homes for workers should take precedence over cinemas, hotels and luxury building, and that industries producing for the export market along with investment in basic industries that had been neglected when the profit motive alone counted, should become top priorities.'[24] The concurrence of Gaitskell and Bevan's ideas on economic planning suggests that the battle between them that enveloped the Labour Party in the 1950s was more about personality than the substance of policy.

It was Morrison who got the ball rolling in Whitehall towards making economic controls permanent. In a memorandum to the Cabinet Committee on

Future Legislation written in March 1949, Morrison proposed legislation 'putting into permanent form the wartime powers which are still required.' Ideally he wanted this legislation to be passed in the 1950 session, before the powers expired on 10 December, but he conceded that this 'may prove impracticable.'[25] The committee agreed to Morrison's suggestion and approved his recommendation that the Emergency Legislation Committee should review the position regarding emergency powers.[26]

In May 1949 the Investment Programmes Committee issued a report on capital investment which recommended 'a comprehensive and early review of the powers and administrative machinery required for the control of capital investment.'[27] A meeting under the Chairmanship of the Cabinet Secretary, Sir Norman Brook, was held on 25 May to consider 'what kind of body was required to operate such a review.' It also discussed 'whether the time had come to undertake a similar enquiry into the powers required to operate other economic controls after the expiry of the various emergency powers.'[28]

The meeting decided that the review of investment controls should be conducted separately from the other enquiry. Although the Emergency Legislation Committee was already looking into the issue of what controls should be kept the Investment Committee's report prompted the notion of looking at the whole area in a different way. The meeting concluded that 'there was a broad field of general economic control within which it would be more than profitable to proceed by considering what kind of powers were likely to be required over a relatively long period rather than by considering whether particular provisions of existing regulations should be continued.' It was agreed that the enquiry should concentrate on seven topics: '(I) Price Control. (II) Control of Production. (III) Control of Consumption. (IV) Centralised purchases. (V) Labour Controls. (VI) Powers of the Ministry of Food. (VII) Import and export licensing.'[29]

The committee overseeing this enquiry had representatives of the Treasury, the Central Economic Planning Staff, the Board of Trade, the Ministry of Supply, the Ministry of Food, the Economic Section and the Emergency Legislation Committee which would keep the two enquiries in touch. The committee, formed under the Chairmanship of Sir Bernard Gilbert, first met on 20 July 1949.

It was intended that the committee carry out a wide review of controls, but when it came to present its report in February 1950 the powers it recommended were all drawn from existing legislation. Officials were clearly unable to make the imaginative leap from wartime to peacetime planning. For example, with regard to controls on consumption and production the committee suggested that 'these powers will have to be similar to those conferred under Section 1 of the Supplies and Services Act, 1945, as amended by the Defence Regulations 55 and 55A', even though 'it will be realised that a permanent statute in the general terms of those instruments would, on the face of it, confer on the Government of the day powers as sweeping and drastic as those found necessary in war.'[30]

The report was discussed at a meeting of the Lord President's Committee on 21 April. Morrison drew attention to the fact that the official committee had recommended all existing powers, other than the power to direct labour, should be retained. In the discussion of the report there was general agreement with this conclusion, however it was also noted that the committee did not accept the view mentioned in the report that economic controls should be used to direct industry in a positive sense. Whether or not positive controls should be included became one of the major bones of contention regarding the content of the Bill and discussion of this issue delayed its introduction.[31]

Throughout the rest of 1950 and the beginning of 1951 ministers devoted a great deal of time to discussing what was originally known as the Economic Powers Bill. An official committee was set up to draft the Bill and a Cabinet Committee was set up under Morrison to discuss it. Also on this Committee were Gaitskell, now Chancellor; Bevan, the Minister of Health; G.R. Strauss, The Minister of Supply; Richard Stokes, The Minister of Works; Viscount Addison, Lord Privy Seal; Harold Wilson, President of the Board of Trade; Maurice Webb, Minister of Food; and Sir Hartley Shawcross, The Attorney-General. The first draft of the Bill contained only negative powers and certain ministers, particularly Bevan, fought to widen its scope.

In Cabinet on 27 July 1950 Herbert Morrison argued that it might be

Gilbert also dismissed positive powers of control. The working party had been unable to extrapolate negative controls from their previous incarnation as wartime restrictions. His thoughts on positive controls demonstrated that he also viewed these as restrictions that were appropriate only in wartime. Apart from financial inducements, he wrote that the only other positive power he could envisage was 'to repeat the general power of direction which was in force in wartime and to supplement it by the sanctions which we then had, viz. authorised controllers, power to appoint directors and ultimately powers to buy up a company completely. It was in fact very rarely necessary to enforce the power of direction in this way during the war, and I think such powers would be unworkable in peace.'[35]

In a memorandum dated 17 October 1950 Bevan set out the three types of positive control his Subcommittee wanted included 'so as to enable the competent Authority (as defined in the Bill) (i) to place orders on a continuing basis for products of all types produced by industry (consumer goods, utility goods, capital goods and indeed ships), (ii) to undertake the manufacture of any goods when he considers it expedient to do so, and (iii) to sell any products obtained in either manner.'[36] Commenting on the new powers proposed by Bevan, two officials in the Central Economic Planning Staff wrote that they would 'set the pattern of full employment policy for a long period ahead. The Bill therefore represents a major landmark in the development of modern economic policy.'[37]

Gilbert attempted to persuade Gaitskell that positive powers of control should not be incorporated into the Bill. With regard to the suggestion that the Government should have the power to buy, sell and manufacture he argued that 'the difficulty here is to know what to do with the goods when you have got them. A depression is normally associated with an excess of supply over demand, and to increase supply artificially would seem likely to depress markets still further.'[38] As for the suggestion of lending money at uneconomic rates to the private-sector, Gilbert was even more scathing. He suggested 'such powers would involve a real danger of leading industry to suppose that it had only to ask the Exchequer for help in order to receive it.'[39] Gilbert advised that the title of the Bill should be changed back to the original and that it should provide only for existing negative controls.

Within the Treasury, Jay countered Gilbert's attack on positive controls. In a note to Gaitskell dated 27 October he wrote 'I am strongly opposed to having a merely negative and restrictive [Bill]... This gives the wrong impression that planning is a matter of saying "Thou shalt not" etc.' He went on to list the recommendations made by the Minister of Health's Committee and other recommendations made by the Economic Section, the Board of Trade and the Ministry of Supply in this area. The first two were the same as those made by Bevan but there were two additional powers listed: '(c) Power to lend at "uneconomic" rates of interest to stimulate investment by Public Boards and Local Authorities. (d) Power to stimulate investment by private industry in this and perhaps similar ways...'[40]

Gaitskell himself did not think that the main focus of the Bill should be on positive controls, not because he was persuaded by Gilbert's case, but because he believed the controls necessary to maintain full employment and to fulfil the objective of 'fair shares' were mainly negative in character. He saw it as primarily the role of monetary and fiscal policy to keep the economy at full stretch so that planning could be carried out. Gaitskell outlined his position in a memorandum the Cabinet Committee on the Bill had asked him to submit on the powers the Bill should include. He argued that 'fiscal and monetary measures are of far greater importance than anything else for dealing with any general deflationary tendencies.' However, he did agree that the power to stimulate public investment would be useful with respect to both local authorities and the boards of nationalised industries: 'As regards the former, the most important practical step is to get local authorities to prepare and keep up to date lists of projects which they would embark on speedily if told to do so. In the case of the nationalised boards the problem is to find some way of overcoming their reluctance because they fear that on a particular project they would lose money.'[41]

Gaitskell saw positive powers to stimulate private investment as being less important and feared that private industry would transfer to the Exchequer burdens and responsibilities it ought to carry itself. He held a similar opinion about the usefulness of powers to manufacture. He argued that they might discourage private investment. He also felt there might be a strong reaction against the Government having such power. If the Government were to progress with this idea much more thought would have to be given to it. Powers of purchase had similar implications and Gaitskell argued for more consideration here as well. In both cases he feared 'alarm and nervousness in the private sector' and 'political trouble which would be quite out of proportion to any advantage there might be for maintaining full employment.'[42]

Gaitskell had been amongst those ministers who called for a clear statement by the Government on the necessity of economic controls. His memorandum demonstrated the enormous importance he placed on the Bill. He argued that the Bill should be focussed on the use of negative controls and that it would be 'best to defend this Bill simply on full employment. And although the powers we need for this purpose are very much the same as those required for general economic planning, I doubt if we should be wise to place such emphasis on the latter. People will support controls because they recognise that they can prevent unpleasant things from happening, but I doubt if the term economic planning is much understood- or if it is, whether it is a popular concept.' Therefore, he suggested that 'a popular title would be "Full Employment and Price Control Bill."'[43]

Gaitskell saw the purpose of the Bill to be twofold. First, it was a medium for setting out the physical controls the Government would need to keep in order to maintain full employment. Second, he saw it as central to winning popular support for controls as part of Labour's electoral strategy. Controls might be unpopular so long as the general public saw them simply as restrictions. If it was spelt out that their retention and use was necessary for the maintenance of full employment then popular opinion might change. This helps to explain why Gaitskell was so keen to get the Bill properly focused. In his memorandum he wrote that 'the political importance of this Bill is so great that we must think out the implications very carefully before we decide what to put in it. The first step is to agree on the general case that we intend to make in presenting this Bill. The content of the Bill should then follow this. We should not put in the Bill powers which we do not regard as essential to this purpose. This means, I suggest, that the starting point should be not the Supplies and Services Act but our full employment policy.' As a way of neutralising hostility to the Bill Gaitskell suggested that some kind of Parliamentary control over the exercising of the Bill's powers was necessary. 'I cannot help feeling that in view of the political importance of the bill we ought to make quite sure of our ground here.'[44]

Neil Rollings has written with regards to the positive powers that were considered for inclusion in the Bill, that 'there appears to have been no thought about whether the use of permanent economic controls was realistic and likely to be effective in the long-term.'[45] Gaitskell's memorandum shows Rollings analysis to be ill informed. Gaitskell was thinking in terms of the long-term methods and objectives of economic policy and had a clearer idea than any other minister about what this entailed.

In his memorandum, Gaitskell repeated his argument that controls were needed to stop inflation when the economy was operating at the level of full employment. He put forward six negative powers that he thought were necessary in this situation:

'(i) Power to control prices.

(ii) Power to ration essential consumer goods.

(iii) Power to allocate material.

(iv) Power to control building.

(v) Power to control imports.

(vi) Power to determine the proportion of output sold at home or exported.'[46]

Gaitskell's inclusion of rationing as an essential power was noted in the discussion of his paper at the ministerial committee on the Bill. It was concluded that 'fair shares and an equitable distribution of essential consumer goods could be regarded as essential features of full employment policy.'[47] In an article entitled 'The Economic Aims of the Labour Party published in *The Political Quarterly* in 1953 Gaitskell re-emphasised the importance of rationing to Labour policy. He argued that Labour's economic policy would be 'constrained' if it were impossible to reintroduce rationing because of political considerations. A future Labour Government would have 'to be careful not to create the conditions in which it [rationing] becomes necessary.'[48]

The final draft of the Bill to be completed did include many of the positive powers that had been discussed, including the stimulation of investment by public authorities; the stimulation of investment in the private sector of industry and for the public purchase of capital goods.[49] Gaitskell was happier with this draft because of its emphasis on full employment. He wrote to Edmund Compton and the members of the official committee preparing the Bill to express his thanks and added that 'the draft Bill is now very much closer to what I myself at least had in mind.'[50]

In the Commons the Conservative Opposition reacted with anger to the plans for a Full Employment Bill in the Debate on the Address. The King's Speech stated that 'in order to defend full employment to ensure that the resources of the community are used to best advantage and to avoid inflation, legislation will be introduced to make available to my ministers on a permanent basis but subject to appropriate Parliamentary safeguards, powers to regulate production, distribution and consumption and to control prices.'[51]

Butler led the attack for the Conservatives. He referred to a speech Bevin had recently made at the Colchester Oyster Feast 'in the presence of a number of hon. And right hon. Gentlemen opposite and a few oysters' in which he said that productivity increases would help to relieve the burden of the armament programme.[52] Butler argued that 'In the face of these problems the Government should encourage enterprise wherever it is found, because that is the only way to improve productivity - to give incentive wherever possible and to control first and foremost its own excessive interference and its own expenditure. If there are to be controls, the Government must give a lead by showing some power to control themselves and their own expenditure. What is wanted as *The Times* leading article said today, is public economy and private efficiency. In the face of these needs to encourage productivity, the Gracious Speech is most disturbing because it gives a clear indication that the Government propose to rely on permanent physical controls and an intensified planned economy to achieve results such as full employment and the avoidance of inflation which we think can far better be achieved in the ways I have already indicated.'[53]

Butler's case against permanent controls was not confined to economics. He also condemned controls in terms of their effect on personal freedom. He compared the proposal to the method of governing advocated by Sir Oswald Mosley in 100 Questions Asked and Answered.[54] In a blistering attack Butler said that 'this is the Reichstag method of governing... whatever hon. Members opposite may say; and however sincere they may be in their per sonal objections to Fascism, it is leading precisely in that direction and it is something which we on this side are not going to have, and we are going to put up a fight if the method of governing this country is going to be by order.'[55]

The ferocity of Butler's attack on the proposed legislation reflected the Conservatives Hayekian argument that controls were a step on the road to serfdom. It was a sign of the importance that they attached to this issue that Peter Thorneycroft moved an amendment to the Address expressing their opposition to the plans for a Full Employment Bill.

Officials used the Conservatives opposition to the Full Employment Bill in their attempts to get the legislation put on hold. The Cabinet Secretary, Norman Brook argued in a minute to Attlee that proposals for a Full Employment Bill might be misguided even if the Government was prepared to make their rejection one of the main issues at the next general election. Brook suggested that the Conservatives might refrain from a direct attack on the bill and instead set about amending it. Given the narrowness of the Government's majority it would be difficult to defeat what would be put forward as reasonable improvements. The Government might find itself with 'a permanent Act which gave fewer powers than they thought necessary and these hedged about with awkward safeguards.'[56]

Brook's argument would appear to have been based on tactical rather than substantive objections. Given the political importance the Government attached to the legislation it is difficult to see how they could be defeated in the Commons, particularly as they were prepared to make the Bill's rejection by the House of Lords a central issue in a general election. It was the Korean War rather than Brook's objections that persuaded Morrison to put the Bill on hold. The Full Employment Bill was to have replaced the emergency powers that were renewed every year. The war meant that those emergency powers not included in the bill would still have to be renewed to deal with defence needs. Morrison agreed that considerable confusion might ensue if the Government was introducing permanent powers of economic control while overlapping powers of control were still being introduced on a year to year basis. There was also a political consideration, the Korean war meant that supplies were having to be diverted from inessential to essential work. It would not look good for the Government if the temporary unemployment this caused were brought about through the implementation of the new Full Employment Act. A further consideration was that the war meant any danger to full employment had been relegated to a relatively distant future. The relevant problem at that moment was unemployment caused by scarcity of supplies. It would be difficult to sell the bill as being relevant to current problems. Therefore Morrison recommended, with some reluctance, that the introduction of the Bill should be deferred. He also recommended that the Ministerial Committee should continue to look into the matter 'with a view to legislation being framed which can be introduced when a suitable time arrived, if necessary later in the present session.'[57]

Brook advised the Prime Minister against letting work continue on the Bill. He argued that it went against the Prime Minister's own suggestion that Departments should concentrate as much as possible on defence work.[58] The Cabinet agreed that it would be inappropriate to proceed with the Bill only 'in present circumstances.'[59] However, no further work appears to have been done on the Bill prior to the election.

Gaitskell had been the minister most acutely aware of the political significance of the Full Employment Bill. He was also responsible for giving the Bill a title with greater political resonance. Morrison's decision to defer the legislation did not take into account the fact that if the Government did not make the case for the retention of controls the Conservative calls for decontrol would go unanswered. Morrison was not an economist and was not as aware as Gaitskell of the centrality of controls to the Government's full employment policy. Given the significance Gaitskell placed on the legislation it is possible that he would not have agreed to defer its introduction if the Bill had been his responsibility.

During the 1951 election campaign the *Financial Times* commented that 'the issues of controls has hardly been mentioned... Since controls are an issue of such warm dispute between the parties, it is surprising that neither of them, during the election campaign, has breathed a whisper about the Supplies and Services (Transitional Powers) Act (from which) most of the economic controls which affect the daily lives of every business man and private individual emanate.'[60] A.A. Rogow has used this quotation to support his assertion that there was a great deal of agreement between the parties on the controls issue and this was reflected by its absence from the 1951 election campaign.[61] However, the reason why controls were not at the top of the campaign agenda was because of the deferral of the Full Employment Bill. The Bill would have provided a focus for the debate about the future of controls. Even so, the *Financial Times* was wrong to suggest that neither party breathed a whisper about the issue during the campaign. In fact both Churchill and Gaitskell saw controls as a central issue.

Churchill referred to controls in his election broadcast on 8 October. He stated that 'the keeping on of the wartime controls and restrictions has hampered our recovery, fettered our enterprise and enormously added to the cost and apparatus of government.'[62] The Labour Party countered this attack in an issue of *Campaign Notes* published two days later. In a direct comment on Churchill's broadcast it argued that 'controls are all part of Labour's policy for fair shares, for maintaining full employment, and enabling industry to serve the nation instead of just the share-holders. To take off these controls would mean abandoning the policies they secure.'[63] Attlee also reacted to Churchill in his own election broadcast on 11 October. He argued that the Conservatives would find it impossible to lift them. Necessity had driven the United States to adopt controls and other European countries expected Britain to have the power to carry out our planes. 'When the Tories talk about throwing off controls', he said, 'they are simply talking from the depth of their own inexperience.'[64]

The issue of controls dominated Gaitskell's contribution to the election campaign. At the beginning of the campaign Jay wrote to him to outline 'several points which would be likely to occur to you anyway but which, I think, in view of the Election campaign we have got to put over somehow.' Controls was one of these issues. Jay wrote that 'if, as I hope, we can be very candid in the Election about the balance of payments situation, it seems to follow that we should play up the obvious inference that in circumstances of difficulty <u>more planning, controls etc.</u> are necessary, and that the de-control policy is completely unsuited to the times. [emphasis in original]'[65]

In speeches at Doncaster, Halifax and Keighley, Gaitskell concentrated on the controls issue. He argued that their application was essential if Britain's economic problems were to be solved. He told his audience in Halifax that 'If we are to solve our balance of payments problem we must use controls to restrict inessential imports and to direct production where ever possible from producing inessentials for the home market to producing for export. Economic planning which the Tories are never tired of sneering at involves the use of controls like this. If the Tories get in and scrap this we shall have a wild inflationary scramble. Some people will do better and get away with it but the national job of building our defences and paying our way will not be done.'[66] Gaitskell told his audience that controls were also central to the Labour Party's policy of 'fair shares'. He argued that the burden could only be shared fairly 'provided we keep on rationing and food subsidies and let the taxes fall where they can best be borne. But the Tories are straining to reduce taxation on the very rich.'[67]

Production Authorities and the future of Economic Controls

Ministerial discussion about the future shape of economic planning was mirrored by discussions between officials. These questions came up in the context of the Economic Organisation Enquiry initiated by Bridges in 1950 to see if Civil

Service organisation should be restructured to fit the new functions of Government. The enquiry revealed an important disagreement between those civil servants who believed that some physical controls would continue to play a role in economic planning and that the machinery of government should be adapted accordingly and those officials who saw controls as temporary restrictions that would be abolished as the economy was restored to peacetime conditions. This disagreement became focused on the idea of reorganising departmental responsibilities to reflect their role as production authorities for specific industries. Edward Bridges, who had both experience of organising the rearmament programme and the war effort itself, was the main proponent of this idea. Norman Brook expressed the essential liberalism of most senior officials in opposing it. Significantly, Sir Archibald Rowlands who, as Permanent Secretary of the Ministry of Supply, was the departmental head most concerned with these questions, backed Brook. His victory over Bridges reflected the dominance of liberal economic values within the civil service.

The Steering Committee of the Economic Organisation Enquiry, chaired by Bridges, asked Plowden and the C.E.P.S. to prepare a report on 'The Essential Functions of Government in the Economic Field.' Plowden and his staff focussed on three primary objectives. These were:

'(A) To foster a steady increase in the real income of the community as a whole and to avoid any sudden or significant reduction in real income.

(B) To ensure a fair distribution of all essential goods and services.

(C) To maintain the highest practicable level of employment.'[68]

The second of these objectives appears a strange choice for a 'principal objective in the long term' as it reflected the Labour Party's policy of 'fair shares' and contradicted the Conservative policy of 'setting the people free'. However Plowden's report differed from minister's line on what the future role of physical controls was likely to be. He noted that once 'the supply of investment goods available for use at home exceeds substantially the level of investment which is economically desirable the efficacy of these controls will be much weakened.' However, he did concede that 'it seems likely that controls over building must be retained so long as inflationary conditions persist.'[69]

Plowden felt that if Government policy were likely to concentrate more in the future on the problem of stimulating investment in the time of recession, this would require controls. He thought that this danger could 'best be guarded against by restraining less essential investment and encouraging those concerned to keep a sufficient proportion of their future investment work in an advanced state of readiness. These projects will then constitute an immediate 'reserve of woks.' On this point he concluded that 'when the pressure for Building Investment eases it will be necessary to formulate a more precise "reserve of works", but to do so prematurely would only result in the plans being out of date and therefore useless at the time when they are required.'[70]

Plowden saw the main role for physical controls coming under the Governments policy of 'fair shares'. As long as this remained a major aim of Government policy 'it will probably be necessary to take special measures, such as rationing, to guard against scarcities which affect the general public, particularly scarcities of essential food-stuffs.' Plowden thought that the continuation of physical controls in this field was likely to be 'considered necessary.' In general, Plowden predicted a lessening of the importance of physical controls and concluded that 'it may be that the operation of the pricing system will in due course once again play a more fundamental part in the process of economic adjustment.'[71]

Although Plowden's report was sceptical about the long-term future of some controls, the Steering Committee, which included Norman Brook and the Permanent Secretaries of the Board of Trade, War Office, Ministry of Fuel and Power, Supply, Food, and Works, was still critical of the line taken. The Committee noted that the report 'left the reader with the impression that credit manipulation and the free operation of the price mechanism as instruments of economic policy were declining in importance, whereas many people held that they should have greater play.'[72]

The second aspect of the Economic Organisation Enquiry was an investigation of the allocation of responsibility in the economic field and the arrangements for securing coordination. Also an investigation of the relationship of Departments to industry, business, labour and the general public and also to the central organisation. This part of the enquiry was tackled by a working group, under the Chairmanship of J.R. Simpson of the Treasury's Machinery of Government Branch and made up of his colleagues at the Machinery of Government Branch and representatives from the Departments most concerned.

Their report stated that 'the view is strongly held' that a policy of full employment implied the indefinite continuation of some economic controls and of the departmental sponsorship of industries 'as part of the process of economic planning.'[73] Based on these assumptions the working group surmised that a number of Government Departments had become specialists in the affairs of particular industries, or in other words, they 'had become what is now usually know as the "production authority" for those industries.' The report included a list of the tasks which these production authorities performed with respect to the industries within their purview and which were 'regarded by one or more Departments as an essential part of its responsibilities as a production authority.' These functions included:

'(1) To consider and advise on the place in the economy as a whole of the industries for which it is responsible, and the contribution which they should make in furtherance of the Government's economic policies...

(2) To sponsor the needs of its industries...

(3) To operate any special controls (e.g. price controls) which are particularly related to its industries.

(4) To collaborate in the application of the general controls so far as its industries are concerned, including the "persuasive" controls which obtain in important fields such as that of export promotion.'

The authors of the report argued that the traditional assignment of departmental responsibilities on a functional basis had been made obsolete by the way the relationship between Government and industry worked in reality. In was in the interest of the Government to follow through the logic of production authorities because it was clear 'that if the Government is to plan the economy of the country effectively, it must work out a policy for all the main industries, it must therefore have an adequate knowledge of these industries which have any importance in the economic field.' In this environment functional departments would be wasteful and ineffective as they would each have responsibilities in various industries, the only satisfactory alternative was to 'concentrate knowledge of about each particular industry in one department and this is achieved in the production authority system.'

The report concluded that the production authority system was 'an inescapable development in Government organisation, and that it has come to stay.' Therefore the way forward was to examine further the division of production authority responsibilities between departments with the object of eliminating some of those only marginally concerned and ensuring that industries were not divided between two Departments.

In a covering note to the report the Steering Committee were asked to consider giving the report a wide circulation amongst Departments and also the possibility of showing the report in confidence to representative of industry 'such as the F.B.I. and the N.U.M.'[74] Sir Norman Brook, in his comments on the report, wrote that he could not favour either of these options. He could not agree with the Working Group's logic, which had lead to such general conclusions about the future role of production authorities. As the 'sponsorship' functions of Departments were 'essentially linked with allocations', Brook argued that 'with the disappearance of allocations, there would be no strict need for a production authority <u>system</u>. And, although world shortages of materials and the increased defence programme have temporarily reversed the pre-existing tendency towards dispensing with allocations, it is not presumably alleged that an extensive system of allocations is a permanent feature of our economic organisation. [emphasis in original]'

Brook's comments reflected the prevailing view in Whitehall that the interference of Government in industry should be limited. Brook wrote that he would prefer studies of the contacts between Government and industry that started from 'the specific duties which Departments have to perform... And we could perhaps get away from the idea that production authorities are to brood in a general and aimless way over the activities of the industries for which they are "responsible".' Brook intended it as a general criticism when he wrote that there was too much in the report that reflected Douglas Jay's notorious dictum that '"the official in Whitehall knows best."'[75]

In the Steering Committee meeting the full extent of Brook's anger was clear. He had written another note to Bridges questioning the whole direction of the enquiry, arguing that the 'philosophic approach to its task which the [working] group had adopted in the absence of clear direction was unsound.' However, Bridges thought that the kind of guidance Brook wanted to provide was not possible in this type of enquiry.[76]

Simpson, on behalf of the working group, defended the report, arguing that it was not philosophical, but rather was concerned with 'those features of the present economy which seemed likely to endure for some years to come, including the maintenance of exports, distribution of industry and land use, and full employment.' Bridges sided with the working group on this fundamental point. He thought that 'the current state of economic affairs would last for many years' and 'that the enquiry ought not to shirk the problem of putting in order defects of organisation in the present machinery.'[77]

However, Brook received strong support from Sir Archibald Rowlands, Permanent Secretary at the Ministry of Supply. He 'did not see how anyone could say that the production authority system had come to stay without first deciding what were the main objectives of Government and what those objectives implied as to the role of a "production authority".' For his own part he thought that 'many of the present contacts of Departments with industry were vestigial - survivals from the wartime system of controls. Apart from material shortages, contacts between Government [sic] would continue only so long as industry was willing to maintain them.' In this light, the enquiry should be concerned with 'the minimum amount of economic direction and control' which government would have to maintain. Amongst the functions which he agreed should be included were 'distribution of industry and export promotion, but not full employment.'[78]

Brook won his battle with Bridges and the working group. The report was not circulated or shown to representatives of industry, instead it was referred for study to a 'Group of Three made up of Brook himself, Sir Harold Emmerson, Permanent Secretary of the Ministry of Works, and Sir Frank Lee. They were asked to produce 'a list of specific problems arising in the field of economic organisation which required investigation.' This they did but the enquiry was put on hold until after the General Election. A revised report by the group was presented in June 1952 with the emphasis on routine questions of organisation rather than on production authorities. On the specific issue of production authorities the report concluded that it might be worthwhile examining the boundaries between them. They had in mind 'not a general study of the allocation of major production responsibilities, but a practical attempt to reduce the number of inter-departmental boundaries and eliminate the possibility of misunderstandings between Departments.'[79]

However, by 1953 the nature of economic policy was changing far more quickly than Sir Edward Bridges had expected. In March of that year Bridges discussed with Sir James Helmore, Rowlands' successor as head of the Ministry of Supply, the question of whether an enquiry into the manner in which Departments carried out their production authority responsibilities should be instigated. Helmore came out against an enquiry. He thought that 'it was difficult to see how many of the remaining controls were likely to last and the position would obviously be radically altered if most of the controls went.'[80] Later that month Sir Frank Lee outlined the main functions of the Board of Trade to a committee looking at the functions of the Board and the Ministries of Supply, Fuel and Power, and Materials. He said that the production authority responsibilities of the Board were 'shrinking' and 'might be regarded as transferable.' He thought that the main tasks of production authorities 'after the removal of controls' would be 'to promote full employment', rather than to 'maintain' it as Simpson had put it two years earlier, and also 'to maintain war potential and to stimulate exports.'[81]

Within two years the relationship between government and industry had changed from one based primarily on control to one based on guidance. The prevailing view amongst officials, that the use of controls was only a transitional strategy, appeared to have been vindicated. But this transformation had occurred only because of a change in their political masters. The election of a Conservatives led to physical controls being dismantled at a faster rate than even Treasury officials had anticipated.

Butler and the politics of decontrol

The Conservatives came to power in October 1951 committed to 'set the people free' of physical controls.[82] The Conservative case against controls was based on two central arguments. The first was that controls represented a restriction of personal freedom, the second that controls created economic inefficiency and discouraged individual enterprise. The first of these arguments had been outlined in detail by Churchill in his 1945 election broadcast of June 4. Churchill's argument drew heavily on Fredrick Hayek's book The Road to Serfdom. His contention was that a controlled economy inevitably involved the abrogation of personal liberty. He declared that 'a socialist policy is abhorrent to the British ideas of freedom. Although it is now put forward in the main by people who have a good grounding in the Liberalism and Radicalism of the early part of this century, there can be no doubt that Socialism is inseparably interwoven with Totalitarianism and the abject worship of the state. It is not alone that property, in all its forms, is struck at, but that liberty, in all its forms, is challenged by the fundamental conceptions of Socialism.'[83]

Churchill argued that the kind of controls that were in force at the time of his broadcast were only justifiable because of the necessities of war: 'Look how even to-day they [the Labour Party] hunger for controls of every kind, instead of wartime inflictions and monstrosities. There is to be one state to which all are to be obedient in every act of their lives. This state is to be the arch-administrator and ruler, and the arch-caucus boss.'[84] Churchill did not deny that controls could guarantee full employment, rather he argued that the price that the public would have to pay for this guarantee in terms of their freedom was far too high. 'In fact we punish criminals by sending them to Wormwood Scrubs and Dartmoor, where they get full employment and what board and lodging is appointed by the Home

Secretary.'[85]

For Conservatives individual liberty was dependent on a free parliament. Butler's argument that the imposition of permanent economic controls represented the 'Reichstag method of governing' was drawn from the same logic as Churchill's assertion that 'a Free Parliament is odious to the Socialist doctrinaire. Have we not heard Mr Herbert Morrison descant upon his plans to curtail Parliamentary procedure and pass laws simply by resolutions of broad principle in the House of Commons afterwards to be left by Parliament to the executive and to the bureaucrats to elaborate and enforce by departmental regulations.'[86]

Richard Law developed Churchill's Hayekian attack on the planned economy in his book Return from Utopia, published in 1950. Law was the son of the former Prime Minister Andrew Bonar Law and had been Minister of State at the Foreign Office, with Cabinet rank, from 1943 until the end of the wartime coalition.[87] Law argued that 'political liberty, which depends upon the widest possible diffusion of power and responsibility cannot easily be reconciled with an economic system in which both must be centralised in the highest degree. It can be agreed, at any rate, that the easy analogy which is often drawn between political order and economic planning is a false one. For a planned economy in which power is not centralised is clearly impossible. It is the essence of a plan that there should be a planner in whom final responsibility is vested. So far is the planned economy from promoting freedom by spreading power and responsibility that it can only discourage it by concentrating power and by preventing the exercise of responsibility except at the centre.'[88]

Law also outlined the second aspect of the Conservative's case against controls: that they created inefficiency and constrained economic activity. He argued that 'whether it is houses or machine-tools or farm machinery that are involved, the effect of planning has invariably been to slow down production by creating an artificial time-lag between demand and supply, and by interrupting the flow of components between one industry and another. The building of houses, for example, has been slowed down because the supply of cement has been out of line with the supply of bricks or timber, or because the Ministry of Works had failed to order soil-pipes or bath-taps in sufficient quantities, or because kitchen units had arrived on the site before supplies of sand for plastering... There has been a great waste of economic effort which would certainly have been avoided if those who were planning the building programme had been obliged to stake their livelihood on the accuracy of their calculations.'[89]

Law argued that the market provided a far more efficient system of allocation. 'Here in what is called the price mechanism, or the mechanism of the market, we can see a piece of machinery of the greatest complexity, which, provided that it is given the right setting provided, I mean, that there is genuine freedom of competition and that real incentives are present), is self-energising and automatic, and which operates with reasonable degree of smoothness and certainty according to laws which are generally predictable. Moreover, since the pricing mechanism can only operate effectively in a context of freedom, it tends to buttress the institutions of freedom, not to undermine them.'[90]

As Churchill's election broadcast demonstrated these Hayekian arguments were not only the province of academic texts but also of everyday political discourse. In a speech delivered at Westcliff-on-Sea almost exactly a year after he became Chancellor, Rab Butler outlined the Conservative case against controls, clearly indicating that their removal was one of the Government's top priorities. He stated that 'There are gloomy prophets on the left who are saying that the only way we can hope to survive as a nation is through rigid direction of all our economic activities. They seem to believe that it is possible somehow to command, compel, control and exhort the British people into prosperity. This belief, I am told, is called "new thinking." How it belies its own name! It is the oldest and ugliest thinking in history. It has been the creed of the tyrant, the pessimist and the materialist in every civilisation and every age. We are not used to that sort of thinking in Britain. And we do not mean to get used to it... Our policy is to enable and encourage everyone in industry, trade and agriculture alike, to give us of his best. We have never needed personal enterprise more, or more desperately, then we need it today.'[91]

As Chancellor of the Exchequer, Butler became the driving force behind the programme of decontrol carried out by the Churchill administration. In a Cabinet memorandum dated May 17 1952, Butler sought to show how his internal economic policy would fit in with his overall objectives. He wrote that 'our internal financial policy must work in line with and not against the rest of our economic policy.' This meant continuing the fight against inflation through the use of credit policy. However it also meant a return to what he described as 'a policy of economic realism, by which increases in the costs of goods are allowed to work through to the consumer' by 'making more use of the price mechanism.' He also made it clear that 'we cannot deal with inflation or secure the adjustment of our resources to the changes required by events, without some increase in the numbers temporary unemployed while changing their jobs.'[92]

On pricing policy Butler argued that the Conservatives had 'inherited measures designed to alleviate the symptoms of inflation rather than to cure the disease. These measures involved the use of public funds to subsidise certain prices, and the imposition of controls and rationing to prevent prices rising, although goods were scarce. Thus shortages were perpetuated, and taxes kept high to find money for subsidies. In many cases some goods were taxed and their prices raised to provide funds to keep down other prices. The rents of some houses are still controlled at such low levels that many owners cannot afford to repair them, at a time when we are running great risks to secure sufficient resources to build new ones.'[93] Butler's attitude to price controls and subsidies was therefore in marked contrast to those of his predecessor.

Butler made it clear that his policy meant 'we must be prepared to accept some further rise in the cost of living, including house rents and food prices.' However, a rise in the cost of living need not necessarily mean a reduction in the standard of living. He argued that the corresponding reduction in taxation would mean an ultimate rise in the general standard of living. Besides, past experience had shown 'that an improvement in the standard of living was generally associated with a rise in prices.' His goal was an expanding economy, which required the Government to remove the strait-jacket from the economy. People would be 'made better off by the fact that their incomes, as a whole, rise with rising production and more than compensate for higher prices. A good recent example is the experience of the United States since the war. We could look forward to such a process taking place here without inflation, if, but only if, production increases fast enough.'[94]

At ministerial level most of the decontrol work was done by the Economic Policy Committee with Butler in the chair. When the Minister of Food, Gwilym Lloyd George proposed the removal of certain price controls in December 1951 Butler suggested that a working party be set up to provide general rules for the guidance of ministers dealing with commodity controls, thus preventing the Committee from becoming bogged down by unnecessary work.[95] The Working Party was chaired by Salter and reported on January 19 1952. It proposed 'two rules of general application to all classes of commodities:-

(i) There should be no control in cases in which the control is not and cannot be so administered as to be reasonably effective. We consider that all existing controls which do not satisfy this condition should be immediately removed.

(ii) If an article is subsidised it must also be controlled. The only exception to the general rule is where a subsidy is negligible in amount...'[96]

Apart from these two general rules the working party thought that price controls should be divided up in to two separate categories. The first was '(A) Price control on the kinds of things which are bought regularly by the public.' These were important items in the household budget and an increase in their price was likely to have an effect on wage stability. Therefore the Working Party recommended 'that goods in Category A should be controlled if but only if, they are essential and scare.'

The second category was (B) Price control on the kinds of things which are not part of the family budget e.g. building materials since such items did not so directly effect wage demands. Even though they might be essential their removal should be left to the Minister of Works. He had argued that 'none of these controls (all of which are non-statutory) is satisfactory. the industries are now seeking higher prices and he considers that this provided a good opportunity to bargain with them that if controls are removed they will not increase their prices by more that they would have had to be increased under control.'[97]

By February 1953 the speed with which Butler was dismantling the system of price controls was worrying at least one member of the Economic Policy Committee. The Minister of Labour Walter Monckton feared that removing price controls would create an increase in wage inflation. He argued that 'the lessons of 1952 are clear enough. Wage stability cannot be maintained in the face of a continued rise in prices of basic goods and services.' He argued that 'we have to cut our costs and increase productivity. Neither purpose can be achieved if wages (as distinct from earnings) are allowed continually to drift upwards.'[98] Monckton's claim contradicted the whole thrust of Butler's expansionist policy, as did his conclusion that it should 'be a major objective of Government policy to keep the level of retail prices as steady as possible and to avoid any measures which would cause any marked or prolonged rise in the Index.'[99]

Butler was sufficiently roused by this challenge to present a memorandum of his own. He stated that 'there are some aspects of the Minister of Labour and National Service's paper on "wages and prices, the need for stability in 1953" which gave me serious concern.' He took the opportunity to restate the position he had outlined in his memorandum of May 17 1952, specifically that the level of retail prices should not be allowed to dominate economic policy. He even included a dig at Woolton's pledge in the 1951 election campaign over food subsidies.[100] 'No doubt the Minister's last conclusion - about keeping the level of retail prices as steady as possible and avoiding measures which would cause any marked or prolonged rise in the index- is not intended to advocate a return to the policy of using the food subsidies so as to stabilise the index - I am sure we should all regard a reversal to this policy as disastrous both politically and economically. But even if the Ministers conclusion only means that we should avoid measures which would put up food prices, it goes further than is, in my view justified.'[101]

Butler took the view that to look at the problem of wages, prices and inflation in abstraction from the rest of the economy would be a mistake and that there was a far more positive way to proceed. 'We must consider our economic policy as a whole. It is out broad objective to introduce flexibility to our economy in place of the rigidity of recent years. Only so can we have the necessary adaptability to meet our changing need. We must remove as far as we can artificial distortions of demand in relation to supply. We have already made progress in this direction. We have removed controls and subsidy from tea. We are in process of removing control and general subsidy from eggs and cereal feeding-stuffs. We are examining steps to lead to the thawing out of the vast iceberg of rent restriction. These are only examples. They are bound to involve some increase in prices to the consumer. I do not think we should refrain from these and other similar changes as they become possible on the grounds that they carry the risk of stimulating demand for wage increases. We must look at the effect on the economy as a whole and if on balance we think them advantageous, we must not be deterred from adopting them.'[102]

By the end of 1953 Butler was arguing that decontrol meant that the Ministry of Food, which had been set up at the outbreak of the Second World War, was ripe for abolition. On December 8 1953, he wrote to Sir Thomas Dugdale, the Minister of Agriculture, on the subject of which Departments should be entrusted with the residual functions of the Ministry of Food if it was wound up. Butler argued that such a move would 'be a most significant demonstration of the success of our efforts to end rationing, to do away with state trading in food, and to reduce the size of the civil service.'[103]

Officials at the Ministries of Food, Agriculture, Health, the Board of Trade and the Scottish Office prepared a report on the future of the Ministry. Its conclusion was not one with which Butler could agree; the officials recommended that the functions of the Ministry were 'sufficient to justify a continuing separate Department.' However, retention of the Ministry was not really an option Butler thought worth considering. In May 1954 the Conservative Party's Research Study Group, which included Iain Macleod and Henry Brooke, had brought to Butler's attention the fact that the abolition of the Ministry of Food 'was electorally essential' and that 'its retention would be unpopular in the party.'[104] Butler informed Churchill that the civil service report had reviewed two other possibilities: Amalgamation with the Ministry of Agriculture, or the distribution of the remaining functions amongst various other departments. After consultation with the various Ministers involved Butler recommended the first of these two options dismissing fears expressed by some officials inside the Ministry of Food that consumers interests would not be protected in a merged Ministry.[105] Butler argued that the merger would produce some worth while economy and added that the ministers involved considered the continuation of a. separate Ministry of Food 'to be politically unacceptable.'[106] Churchill agreed with Butler and the Ministry of Food was merged with the Ministry of Agriculture.

Butler and Housing controls

The one area where Butler found it impossible to get all his own way was housing. The problem stemmed from Lord Woolton's acceptance of the delegates' demand at the 1950 Party conference to build 300,000 houses a year. Woolton's advocacy of this target might have contributed to the feeling of antagonism that existed between him and Butler. Indeed, Ian Bancroft, who was a member of Butler's Private Office from 1953 has suggested that Butler might have suspected Woolton because 'his first taste of government had been in a heavily regulated wartime atmosphere.'[107] Nevertheless, Woolton's pledge was repeated in the 1951 Party manifesto.[108]

This manifesto commitment helped Macmillan, who was appointed Minister for Housing and Local Government, to win his battles with Butler in Cabinet. The first of these was over the raising of the housing subsidies, which Macmillan thought was necessary to meet the increased interest rate. The standard annual subsidy was raised from £22 to £35-12s per house, with the Exchequer contributing three quarters of the amount. As Macmillan later recorded the settlement 'caused one a great effort to achieve', and he was attacked in *The Times* and *The Economist* over it.[109]

The decisive battle came in July of that year. Macmillan secured release from the Treasury's capital investment programme. He was able to overcome Butler's opposition by enlisting the support of the Prime Minister.[110] If the ROBOT plan, in either of.its two forms, had been adopted then the target of 300,000 houses a year would have had to have been abandoned. In his memorandum of June 28 1952 Butler had made it clear that whether the plan was accepted or not, it was 'absolutely necessary to reduce the overload on the economy'. However he 'could not recommend the Plan unless it accompanied', amongst various cuts 'an adaptation of the investment programme, putting more emphasis on productive industry and less on social investment, including housing.'[111] In any event the housing drive was a major drag on the achievement of Butler's external and internal policy goals and worked directly against his objective of having internal financial policy in line with the rest of the government's economic policy.

With the battle to contain the housing drive lost, Butler concentrated on transferring as much of it as possible to the private sector. Macmillan continued to fight hard to maintain the local authority sector despite his decision in November 1951 to raise the ration of licences to private builders from one in ten to one in two. This had been primarily about raising the level of building.

In July 1952 Woolton expressed concern in Cabinet about the small proportion of owner occupiers. He did not ask for any increase in the total capital investment in housing, but he did suggest 'that within that total fewer houses should be built for letting by local authorities. Instead of persisting in the Socialist policy of herding people in to heavily subsidised council houses, could not the Government now remove the restriction on the building of private houses of up to, say, 1,000sq, ft.' However he did also ask whether it would be possible to 'pay a subsidy to a person buying a single house which he proposed to occupy himself, subject to contract over resale or letting for a period of years?'[112] Macmillan declared himself to be 'generally in sympathy' with this position. He also wanted to look at ways to encourage private ownership, through subsidy or other means.[113]

Butler took it upon himself to write to the Prime Minister on the subject in October. He stated that 'as part of the campaign for reducing expenditure to which our Party and the Country attach so much importance I want to encourage the Minister of Housing to transfer some of his drive to the private sector.' He also pointed out that here 'housing could be developed... without public subsidy.'[114]

Butler was granted Churchill's permission to talk to Macmillan on this subject. In December Macmillan made a statement to the effect of suspending the need for licences for houses not more than 1,000 square feet. No additional subsidy was announced.

Macmillan resisted moves to a greater share of unsubsidised private building in other areas. In November 1952 David Eccles, the Minister of Works, had proposed that the licence free limit for industrial and agricultural building should be raised from £500 to £10,000. Macmillan argued that if the limit was raised to, say, '£2,000 as a compromise, then 'the free limit for all building work by local authorities should be raised correspondingly.' He thought that local authorities would be at a disadvantage because 'in the private sector applications could be made for licences in respect of work above the free limit, but all work by local authorities was subject to the ceilings imposed by the capital investment programme.'[115] The Economic Policy Committee agreed to raise the licence free limit for agricultural and industrial building work from £500 to £2,000 but could not endorse Macmillan's proposal for local authority building. He accepted the Committee's decision but reserved the right 'to raise the point again in due course.'[116]

Macmillan was to win a related battle over New Towns policy. In May 1953 Butler drew the Economic Policy Committee's attention to the conclusion of the Home Affairs Committee that 'a prima facie case had been established for a review by the ministers concerned of the existing policy for New Towns Development.' Butler agreed with this conclusion and added that he was 'disturbed by the heavy and increasing burden of the New Towns on the Budget, particularly "below the line."' He wondered whether, in such circumstances 'we have no alternative but to acquiesce without further examination to policies inherited from our predecessors which are already so costly and are only now gathering momentum... The essence of the matter, it seems to me, is whether we can in present circumstances afford a vast outlay of money and resources on a redistribution of the population which, however desirable, cannot be regarded as essential to our national survival.' Although he accepted that a sudden halt could not be called to half completed building 'other sources of finance must be found.' Here he had 'particularly in mind the private developer who may have a substantial role to play in the future as he has done in the past.'[117] Peter Thorneycroft also expressed a concern that new towns were attracting industry and finance away from development areas.[118]

Macmillan argued that the Government should go ahead 'with ever-increasing energy and speed since the quicker we build new houses, factories and offices, the quicker we shall get back our money on the development expenses.'[119] It was this position that won the day and measures were passed voting new towns more money. These measures did nothing to encourage the New Town Corporations to stimulate private house building as Butler wanted or to assuage his continued concern about the subsidy of new town residents [120]

Macmillan also proceeded more cautiously with the removal of rent restriction than Butler would have liked. In his memorandum on economic policy in May 1952 Butler had argued for reform.[121] But it was Macmillan's contention that in the first half of 1952 'the time had not yet come to deal with the problem of rents. The Houses must go up before the rents.'[122] Action was not proposed until September 1952 after the Prime Minister had complained in Cabinet about reports of 'landlords abandoning their house property because they were unable to keep it in repair.' He considered the possibility of the Minister of Housing buying this property at a small sum. But in discussion it was pointed out that the problem arose from the operation of the Rent Restriction Acts. Macmillan announced that he had devised a scheme for dealing with the problem and was invited to circulate a memorandum on it.[123] Members of the Cabinet, and the Prime Minister in particular, were acutely aware of the political difficulties involved in reforming the restrictions. Churchill told the Cabinet that 'any legislation amending the Rent Restriction Acts must be so designed as to bring no financial benefit to landlords.' Macmillan replied that 'the scheme outlined in his memorandum had been framed with this in view.'[124] Thus the process of reform was constrained from the very beginning.

Macmillan gave his plans the title of "Operation Rescue" but they made little real impact. In fact 'many in the Ministry [of Housing] felt, with some justice, that

Macmillan was to blame for the lameness of 'what became 'the Housing Repairs and Rents Act. They had urged a far higher increase in rents for repair work than Macmillan felt politically feasible, and as a consequence, landlords has insufficient money to spend.'[125] Nevertheless, Butler was keen to proceed as quickly as possible even if the proposals only began the thawing out of what he described as 'the vast ice berg of rent restriction.'[126] He saw 'the continual drain on the Exchequer in respect of the housing subsidy' as 'one of the most serious remaining threats to the stability of sterling' and he accepted that 'some relaxation of rent control was an essential preliminary to any reduction of the subsidy.'[127] However, the Housing Repairs and Rents Act was not passed until 1954.

In October 1954 the Economic Policy Committee finally agreed to end building licensing. David Eccles had been asked by the Committee to consider the future of controls and recommended that licensing be ended. He added that 'this will be an important step in the return to a free economy. It would prove that the housing expansion is not at the expense of other building. It would save £120,000 a year on my vote and probably much more in the offices of architects and builders.'[128]

Macmillan approved the move, as did Butler who also welcomed the 'effect that this would have in reducing the Ministry of Works vote and in saving man-power.'[129]

The Deficiency Payments Scheme

One policy which has been overlooked as an area of controversy between the parties, is agricultural pricing. The 1947 Agriculture Act introduced a system of fixed prices, set annually by the Ministry of Agriculture in consultation with the Treasury and the Ministry of Food.

Considerable work on agricultural marketing arrangements after the abolition of the Ministry of Food was done in the Ministry of Agriculture under the leadership of Basil Engholm who ran the marketing division. The Ministry faced two major problems. The first was to reconcile the proposed deficiency payments scheme with the guarantees of the 1947 Act and the second was to sell the scheme to a hostile agricultural community.

At the end of 1952 the legal advisers to the Ministry of Agriculture, the Ministry of Food and the Secretary of State for Scotland were consulted on the compatibility of a deficiency payments scheme with the 1947 Act. Ministers had expressed 'doubts' on this point at a meeting of the Food and Agriculture Committee.[130] The legal advisers concluded that such a scheme was compatible with the provision of guaranteed prices and that Section 8(2) of the Act 'specifically provides that "guaranteed prices" are to be understood as including the provision of payment to producers whether by reference to acreage or otherwise as an alternative to the provision of guaranteed prices.'[131]

Engholm and J.H. Kirk, of the economics and statistics division, informed Sir Thomas Dugdale, the Minister of Agriculture, that ministers had every right to implement the scheme. At a meeting on December 10 1952, Sir James Turner of the National Union of Farmers expressed the view that the guarantees given by the 1947 Act were 'guarantees to the individual farmer.' This system, he argued could not be replaced by a collective guarantee, such as was implied by the system of deficiency payments 'except by agreement.' He continued that 'A deficiency payments system might carry out the Government's obligation to provide a guaranteed price, but it did not provide an assured market since an individual producer especially if he were short of credit or storage equipment, might have to sell at the bottom of the market but would receive only the same rate of deficiency payment as the rest.'[132]

Engholm and Kirk argued that there was nothing in the Act that indicated that it 'must provide a fixed and uniform price for all producers individually.' In addition, 'The intention underlying Part I' of the Act 'was made abundantly clear by Mr Tom Williams, the then Minister, in his Second Reading speech. He said: "stability is not necessarily synonymous with rigidity. Agriculture is composed of many different forms of production... Therefore, no single panacea can provide uniformity throughout the industry. The methods of providing stability will vary accordingly."' The brief stated that later in his speech the Minister had said '"...no single method is laid down in the Bill. The actual provision for any commodity may be a guaranteed fixed price, a deficiency payment related to the standard price, such as we had in regard to wheat in pre-war days..."' Engholm and Kirk briefed the Minister that 'the substantial arguments against support prices and individual guarantees are, however, that they are almost incompatible with freedom of the market and return of trade to private hands. In one form or another they imply the continued operation of the Ministry of Food under another name.'[133]

The N.F.U's solution to this dilemma was the establishment of producers' trading boards which would be responsible for operating the individual guarantees. Engholm and Kirk felt that 'a producers' trading board would certainly be free from some of the objections to an individual guarantee system. It would for instance transfer responsibility, cost and staff from the State to the producers.' However, this solution was 'still open to the objections of perpetuating the barrier between producer and consumer (the one receiving a higher price than the other pays) and of necessarily interfering with a large area of private trade.'[134]

Nevertheless the animosity of the N.F.U. to the scheme was such that the minute recommended that 'the minister might say that he has an open mind on producers' trading boards. If they have a genuine trading function to perform they may be appropriate and he will examine each proposal for a new trading board in that light...it is suggested that the minister should say that the onus falls on the N.F.U. in each case to say why deficiency payments will not work and what functions other than disbursing public funds would be carried out by the producers' trading boards.'[135]

Dugdale went much further than even his own Ministry suggested in appeasing the farmers and came out completely in favour of the N.F.U. plan. The Government's pledge to the meat trade to allow a return to private trade as soon as possible brought these matters to a head at the end of 1953. The Food and Agriculture Committee, chaired by Butler, decided in October 1953 that the Minister for Food, Lloyd George, and Dugdale, should submit a joint memorandum to the Cabinet on the restoration of private trade in livestock and meat. The intention was for them to come to agreement about the form of a deficiency payments scheme. In the event, Dugdale would not agree to the scheme and submitted his own memoranda to the Cabinet which proposed the producer trading board scheme of the N.F.U. Lloyd George submitted a memorandum outlining the scheme of deficiency payments that had been agreed to by the Committee.

Dugdale informed the Cabinet that the N.F.U. 'Had come down strongly against any system of deficiency payments and had formulated a scheme for the central purchase of livestock by a producers' marketing board, at pre-determined fixed prices, followed by re-sale in a free market.' Dugdale 'doubted whether it would be possible to restore the farmers' confidence in the Government's agricultural policy unless some of the principles underlying those proposals were accepted.'

Specifically, Dugdale argued for the establishment of producers marketing boards 'which had been a feature of the agricultural policy of the Conservative Government before the war. The farmers had now, however, become apprehensive that the Government might abandon that principle, and he believed that their confidence in the Government would not be restored unless it were reaffirmed.' By allowing for the continuation of 'the system of an assured market at pre-determined prices, it would provide the farmers with the security which they required. At the same time, by its provision for the resale of meat in a free market, it would redeem the Governments pledges to the meat traders and would restore freedom of choice to consumers.'[136]

In contrast, the Minister of Food proposed the system of deficiency payments to which the N.F.U. was so strongly opposed. However, he also proposed a system of buttress prices as an additional protection for farmers. This meant that 'the guarantee to farmers would be expressed in a dual form, whereby a <u>standard</u> price and a <u>buttress</u> price would be fixed at the annual review... where, through mischance or malpractice in the market, a producer has sold below the <u>buttress</u> price, he would in addition to receiving a deficiency payment, also receive such an amount as would bring his return from that sale up to the level of the buttress price [emphasis in original].'[137]

Lloyd George was not against the establishment of a producers' marketing board, and his arrangements would allow them to promote one 'although not one with monopolistic trading powers.' This Board's 'activities should add to healthy competition in the trade and besides being if advantage to the producer would contribute towards a flourishing and efficient livestock industry. This is just the sort of evolutionary process which has always served us best in the end.'[138]

In Cabinet Lloyd George said that he was 'strongly opposed' to Dugdale's plan that the Ministry of Food 'should continue state trading in meat until such time as a producers' marketing board could be established with monopoly powers.' During this period the Ministry of Food 'would be required to buy food at fixed prices and re-sell it in a free market for what it would fetch.' Given the amount of market freedom traders were to be granted this would be 'a bad commercial proposition for any Government Department to undertake.' In addition both traders and producers would have a positive incentive to increase the Department's losses. The producers marketing board which Dugdale wished to establish could only be set up after a 'long and complicated procedure' had been completed. Therefore, if the Government accepted Dugdale's plan, 'it seemed likely that the Ministry of Food would still be trading in meat at heavy cost to the exchequer.' Politically, the setting up of a monopolistic trading agency 'could be represented as a stage towards the nationalisation of the meat trade.'[139]

Dugdale's plan really had no chance of gaining the approval of Cabinet as both the Prime Minister and the Chancellor came out strongly against it. Churchill said that he was 'impressed by the advantages of the plan put forward by the Minister of Food. It was in accord with the general theme of the Government's policy for relaxing controls and restoring free markets, and abandoning state trading and bulk purchase.' He added that 'he himself preferred that the public should pay through taxation such sums as were required to ensure the stability of British agriculture, and that the prices which, as consumers, they paid for home-produced food should be left to be determined by the operation of a free market.'[140]

For his part, Butler did not accept Dugdale's assertion that the present government was in any way committed to the principle of compulsory marketing boards with powers of monopoly trading. He told the Cabinet that the Agricultural Charter of 1948 had stated that '"the basis of good marketing in the future should be producers' co-operation both through voluntary organisations and through statutory marketing boards." It had clearly been contemplated that the method would vary according to the requirements of the different commodities.'[141]

Butler also agreed with Lloyd George that 'it would be highly dangerous to establish a single agency responsible for buying at fixed prices all home-produced meat, involving an annual turnover of about £300 millions and for selling it for what it would fetch on a free market.' Moreover 'He could not accept the unlimited liability which this would create for the Exchequer. Politically Butler felt that Dugdale's scheme 'would expose the Government to damaging criticism in later years.'[142]

Although Butler strongly agreed with the deficiency payments scheme he was well aware of the problems involved in selling this to the farmers. He conceded that they were 'in a difficult mood and were disposed to reject out of hand any scheme based on the principle of deficiency payments.' However he saw the problem as being only one of presentation and felt that further thought should be given to this. The Cabinet agreed that the Chancellor should discuss the question of presentation with other interested members of the Cabinet.[143]

The Government's plans for the Deficiency Payments Scheme were set out in a White Paper 'Decontrol of Food and Marketing of Agricultural Produce' published in November 1953. In the Debate on the Address of the same month, Churchill fitted the Scheme in with the Governments decontrol policy in general. His speech was worded in such a way that seemed designed to antagonise the Opposition. He said that 'The House knows that it is our policy to reduce control and restrictions as much as possible and to reverse if not to abolish the tendency to State purchase and marketing which is a characteristic of the socialist philosophy. We hope instead to develop individual enterprise founded in the main on the laws of supply and demand and to restore to the interchange of goods and services that variety, flexibility, ingenuity and incentive... on which we believe the fertility and liveliness of economic life depend. We have now reached a point when the end of wartime food rationing, with all its rigid costly features and expensive staff, is in sight. For our farmers, the abandonment of controls will bring great opportunities.'[144]

Labour's attack on the proposed scheme concentrated on the proposition that even if it did not contravene the letter of the 1947 Act, it certainly contravened its spirit. In the third reading of the Agriculture Bill in June 1947 Tom Williams, then Minister of Agriculture, had outlined the 'basic principles of this Bill upon which the Government's agricultural policy is founded. We believe that if agriculture is to play its part fully and effectively in the national economy, we much provide for it a reasonable sense of stability and prosperity. We on this side and I think there is general agreement on this- feel that by far the best method to ensure that stability and prosperity is by assured markets and guaranteed prices for its major products...'[145] In the 1953 Debate on the Address Williams accused the Government of undermining these principles. He argued that 'those farmers who remember the '20s and '30s when there was plenty of liberty, no controls, and few forms, are not terribly enthusiastic about another dose of that sort of liberty, even if presented free of charge by a Conservative Government.'[146]

The Government's method of implementing the Deficiency Payments Scheme did succeed in allaying some of the N.F.U.'s criticisms. In particular, the opportunity to re-establish marketing boards and the buttress price aspect of the scheme were welcomed. However, the Union still opposed the return to the auction system and the consequent abandonment of fixed prices known in advance which they regarded 'as fundamental to expanding production.'[147]

Over the following year the costs of the scheme and the problems involved in its implementation created difficulties for the Government. Butler's response was to try and sell the scheme directly to farmers in a series of speeches. Tom Williams commented that Butler 'seems to have appointed himself the Government's chief agricultural propagandist.'[148] In his notes for a speech at Gloucester on July 10 1954, Butler cut out much of his prepared text in order to concentrate on the issue of agricultural pricing. He argued that 'our new schemes for guaranteed prices provide farmers with an incentive to quality production and make it possible for the preference of the housewife to be passed back to the farmer, who produced the food... We must show that the new freedom in food, which the housewife has welcomed, is welcomed by the farmer too as providing a healthy stimulus and a just reward.'[149]

The Opposition continued to attack the scheme and raised the matter in the Debate on the Address in December 1954. Both Williams and George Brown, the Shadow Minister of Agriculture, offered lengthy critiques of the Government's policy but refused to be drawn on an alternative. Although the scheme was unpopular with farmers, direct controls were unpopular with the public at large. This fact allowed the Conservatives to counter-attack. The new Minister of Agriculture, David Heathcoat Amory was able to say of Tom Williams speech in the Debate that from it 'we could not get a clue as to what the policy of the right hon. Member was. Judging from what he and his right hon. Friends have said from time to time about this matter I believe that rationing and allocation must be absolutely a central point in their policy.' In reply George Brown said that this was 'certainly not' the case but Opposition spokesmen were reluctant to elaborate on what their alternative was.[150]

This kind of schizophrenia on the subject of controls is also evident in Tom William's memoirs Digging for Britain. Although he attacked the Deficiency Payments scheme, for which he held Lloyd George responsible, he could not bring himself to defend controls as a permanent feature. He argued that 'Nobody wants controls for their own sake, but some caution is needed in removing them as this Food Minister [Lloyd George] managed to demonstrate very clearly.'[151]

In marked contrast, Gaitskell demonstrated no reluctance in defending a policy of controls. His overall vision of the economy allowed him to place agriculture policy into the broader picture of economic controls in general. In the Debate on the Address on December 7 1954 he moved an amendment to the Question that added: 'but humbly regret that the Gracious Speech displays an unwarrantable complacency towards the continued existence of social injustice and a doctrinaire determination to abandon public enterprise, essential controls and other forms of intervention by the community designed to check inflation, protect consumers and encourage economic expansion.'[152]

Gaitskell illustrated his argument by direct reference to agricultural policy:

'Here... is one sphere where we believe that the Government's policy of going back to a much greater degree of free enterprise is an especially bad one... Experience surely does show that in this field... we really do need to replace the free market mechanism with some kind of production guarantee, certainly- call it what one likes- to farmers. This is the view of the farming community. We must, I believe, if we are to get expansion, which we, at any rate, believe vital to this country, provide some degree of certainty- a buffer between the uncertainties of the market and the ordinary farmer.'[153]

Gaitskell went on to place agricultural controls in the context of Labour's policy on controls generally: 'Our view is that to preserve full employment without inflation, it is necessary to use both the so-called indirect controls - budgetary and credit controls - and direct controls at certain points of shortage- industrial building, imports and foreign exchange - and we also believe that the Government have to intervene at specific points to stimulate production. Agriculture is one example.'[154]

The Future of the Defence Regulations

It is interesting to contrast the attitude towards legislation dealing with the future of the Defence Regulations shown by the Conservative Government with that of the previous Labour one. For the Conservatives the problems were almost the opposite to those involved in the preparation of the Full Employment Bill. First, there was the issue of permanence, whether it would be necessary to put on the statute book provisions for raw material control that would only be needed in the event of an economic crisis or to simply draft legislation to be introduced when such a crisis occurred. Second, there was the issue of what to do about the provisions of the Emergency Powers Act that would still be needed for the time being. The question was whether or not to keep renewing the existing defence regulations, in particular D.R. 55, which gave general powers of material control, or to revoke it and introduce temporary legislation with a much narrower scope. Behind both these questions was one over-riding concern: how to prevent a future Labour government from reintroducing the economic controls that the Conservatives had systematically dismantled.

Cherwell had expressed concern over where decontrol was leading in a memorandum to the Economic Policy Committee in July 1953. He quoted the Programmes Committee's conclusion that 'in the event of a worsening in our balance of payments it would be extremely difficult to make any rapid and substantial impact on our import expenditure by direct restriction of imports.' Cherwell viewed this as 'an alarming situation', and recommended re-imposition of controls to cut imports directly if a crisis should arise. He hoped 'that plans will be worked out in detail for rapidly reimposing discriminatory controls should the need arise.'[155]

In November 1953 a Working Party was set up by the Cabinet Emergency Legislation Committee to 'consider the extent to which powers to exercise economic controls are likely to be required over a period of years and to prepare an outline of the legislation which would be necessary to confer these powers in substitution for D.R. (55) and other associated or related regulations and emergency statutes.'[156] Sir James Crombie, the Chairman of the Working Party interpreted the phrase 'over a period of years' in the terms of reference as meaning that the legislation the 'Working Party might wish to outline would be of a permanent nature.'[157] However, it was pointed out in discussion that ministers had recently rejected proposals for permanent legislation for price control powers contained in an official report. Indeed, one of the Secretaries of the Working Party, A.J. Collier, later informed Crombie that a memorandum Thorneycroft had prepared on this official report indicated 'the President's dislike of any permanent legislation of this sort - even when the alternative is a continuation of reliance on Defence Regulations.' Collier argued that Thorneycroft's memorandum demonstrated how 'appallingly difficult it would be to suggest this form of legislation on any form of economic control in a way which would be acceptable to the present Government.'[158]

Thorneycroft's, position was endorsed by the Home Affairs Committee and as a result the Home Secretary had to change his statement to the Commons on the subject of the Defence Regulations. This statement had originally read: 'It may be that economic strategy will require the holding of a small bridgehead for some time to come to provide, for example, for the control of strategic goods and possibly reserve powers of price control for use in economic adversity. In that event some permanent powers would be required and we should bring proposals before the House.' The final statement excluded any mention of what permanent powers might be necessary.[159]

With the views of ministers in mind, the Working Party decided to divide the problem up in to two parts. Introducing legislation to greatly narrow their scope could solve the problem of the Defence Regulations. The other problem, identified by Cherwell, of economic emergencies could be dealt with by identifying which controls would be needed in such a situation. But this left one major issue to decide on: 'whether prior legislation would be needed or whether it would be sufficient to introduce it at the time.'[160] Representatives of the Ministry of Materials were in no doubt that 'action would have to be taken in advance of a situation of sufficient danger to warrant an approach to Parliament.' The Ministry 'felt that the absence of powers would prejudice their chance of being able to act at the right time.' The Ministry of Food, on the other hand did not think that advance legislation was necessary since 'legislation might itself precipitate a crisis which might otherwise have been avoided.'[161]

Collier was concerned that a situation in which the Government was left with reduced Defence Regulations and only draft legislation to be introduced in the event of crisis would leave out 'an intermediate type of control which is not really covered by either of these decisions, a type for which the arguments have nowhere been fully set out... The controls I refer to are those which the Ministry of Materials and perhaps other departments concerned with raw materials, feel they need to have in case a situation arises in the future where it is necessary to control the use of raw materials by allocation etc. Such powers could not usefully be contained in any draft legislation which could be introduced in a crisis, because it may well be that the shortages which arise may not be connected with an Economic Crisis such as would justify the passing of such general legislation. Nor could such controls being a future possibility, be included in any temporary legislation.'[162]

E.B. Bowyer, Permanent Secretary at the Minister of Materials, wrote in a letter to Brook that he would not 'press for reserve statutory powers for this reason alone.' However, he did issue a stiff warning about the dangers of rejecting reserve statutory powers if the Government continued to exercise import controls. He wrote that 'we could not advise ministers to accept responsibility for the internal consequences of severe restrictive import licensing upon any material unless we also had reserve power to control its distribution.' He warned that 'if ministers continue to regard restriction of imports, possibly rather more severe than that which is being exercised at the present time, as necessary for safeguarding our balance of payments, we should need to retain some general powers of control over distribution to deal with the internal consequences.' For Bowyer this meant 'reserve statutory powers rather than draft legislation to be introduced in an emergency.' He thought it 'essential that a clear decision should be taken by ministers on this point before any legislation is drafted.'[163] Bowyer's points were outlined to the Cabinet Emergency Legislation Committee when it came to discuss the option of permanent reserve powers. In spite of this warning, ministers decided against retaining reserve powers and in favour of drafting legislation to be introduced at the time of a crisis.[164]

Ministers were more divided over the question of what to do about the Defence Regulations. The Official Committee recorded that the main benefits of temporary legislation were three-fold. It '(i) restricted the purposes for which emergency powers were available. (ii) Removed the Defence Regulation structure. (iii) Denied to a future Government the use of D.R.55 for the purpose of re-introducing controls which had been relinquished.'[165] However, the problem with this plan was that if the Supplies and Services Act and the Emergency Powers Act were both to be repealed then it would involve vast legislation covering land as well as economic controls. The Official Committee suggested the alternative plan of 'narrowing and re-defining the purposes for which the Economic Control Regulations could in future be used' by means of an Order-In-Council. The main benefit of this plan was that it 'would only be subject to prayer for its annulment.'[166]

Butler thought this issue important enough to write in detail to Eden about the alternatives, noting that Eden appeared to prefer the narrowing of the regulations by an Order-In-Council. Butler warned that this method had the 'one possible disadvantage, it would seem to leave D.R.55 in being and therefore capable of variation back to its original general form by some future Government if they so minded.'[167] Butler was certainly well aware of the political dimension to this decision. In February 1953 Michael Fraser, a member of the Conservative Research Department who had served under Butler, prepared a note for him on the special number of *The Political Quarterly* devoted to the Labour Party which included Gaitskell's article on 'The Economic Aims of the Labour Party'. Fraser noted that whatever the detailed form of Labour's policy 'it will require a certain number of physical controls to apply it. If these are not already in existence when Labour next wins power, they must be created.' Gaitskell had recognised that when Labour had come in to power in 1945 it had the advantage of the system of wartime controls still being in operation. Fraser drew the 'tactical lesson' from this that the Conservatives must 'ensure that before the next Election we have swept away as much of this structure of controls as possible. The Labour Party will then have to face both the difficulty and, in some cases (for example, food rationing), the unpopularity of reimposing some of them for planning purposes and as part of their doctrine of "fair shares"'[168] In the end, the Cabinet decided that these tactical considerations were not enough to justify temporary legislation and it was decided to proceed with an Order-In Council.[169]

Conclusion

Rab Butler looked back at decontrol of the economy as being one of the major achievements of his Chancellorship. In his memoirs he described 1954 as the 'year when, for the British trader and the British consumer, the war finally ended. In 1951 the law courts were crowded with about 1,700 cases each month for offences against controls. By 1954 these were down to about 80 a month. Nearly all state trade had been given back to private enterprise... Most price controls were abolished. Thousands of controls on the allocation of materials and the manufacture and sale of goods were removed. Import controls had been greatly relaxed. The great commodity markets had been reopened. Above all, food rationing and other restrictions on consumption had been brought to an end.'[170] The quote is revealing, not only because it shows Butler's pride in the success of the decontrol programme which he had spearheaded, but also because it shows that he saw controls as restrictions only acceptable in time of war. Officials shared Butler's view of controls, when the Labour Government had charged an official committee with the responsibility of reviewing what kind of controls would be needed in the long-term it had only been able to think of controls in terms of their wartime application.

Butler's free market philosophy contrasted sharply with Gaitskell's belief in a controlled economy. While Butler believed that the return of market forces would allow for greater economic expansion and prosperity, Gaitskell believed that physical planning was necessary for the maintenance of full employment and a fair distribution of goods. While Labour ministers generally agreed on the need to retain controls no other minister saw the issue as clearly as Gaitskell. He took control of deciding the content of what he christened the 'Full Employment Bill' and selected controls for inclusion on the basis of what he thought was essential to planning in the long run.

The issue of controls revealed a difference in the political as well as economic philosophy of the two parties. It is usually assumed that the tactic of attacking Labour's programme in terms of its impact on individual freedom, which Churchill employed in his election broadcast of 4 June 1945, was abandoned after the Conservatives electoral defeat.[171] However, it has been shown that the Conservatives continued to attack the Labour Government's use of physical planning in Hayekian terms. The Labour government's commitment to make many controls permanent and the Conservatives to abolish them reveals that the controls issue was not simply a matter of political propaganda but at the heart of the division between the two parties about the role of the Government in the economy.

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Chapter 7

The Politics of External Economic Policy

Policy towards convertibility offers one of the most striking examples of the absence of consensus between the parties on economic policy and at the same time emphasises the second major theme of this thesis, that it was the view taken by ministers that was decisive. Gaitskell, in common with other Labour ministers like Douglas Jay and Harold Wilson, doubted if convertibility was desirable, even as a long-term objective. Conservatives on the other hand had no doubts about the desirability of convertibility but there were divisions over whether convertibility should be at a floating rate and also about the timing of the move.

For Gaitskell the question of convertibility was fundamental. How could convertibility of the pound be reconciled with the pursuit of socialism in a non-socialist world? While ready to accept some liberalisation in the context of the non-dollar world, Gaitskell saw profound incompatibilities between those states which did not propose to plan their economies and those like Britain, which saw planning as essential, and he feared the pressure that the former would bring to bear on the latter if they consented to moves towards convertibility and multilaterism. In this context, it comes as a surprise to find Gaitskell agreeing to the creation of the European Payments Union. It will be shown below that the episode not only illuminates his thinking on convertibility, but that his agreement was conditional on the scheme taking a form that he believed compatible with British interests and more particularly a socialist approach to the problems of the British economy.

There were Conservatives equally suspicious about the American drive towards multilateralism, but they were in no position to influence the debate about convertibility, which was confined to the incoming Conservative Cabinet. Within the Cabinet there were those like Lyttelton and Butler, who believed that immediate convertibility at a floating rate would create the free market conditions that were in themselves necessary to bring Britain's economy back into equilibrium. Churchill was supportive of this position, which accorded well with his own thinking over almost half a century. Initially the ROBOT plan of February 1952, which embodied these ideas, seemed likely to be adopted, although there was a marked division of opinion in the Cabinet between its protagonists and those who believed that Britain's balance of payments had to be strong before the objective of convertibility could be reached.

Although the plan was postponed, almost entirely for political reasons, discussion of it continued for several months and led ultimately to the adoption of the Collective Approach to convertibility which embodied the same objectives but without the advantage of presenting other countries with a fait accompli. It was this difference that ultimately lead to its failure. In spite of this set back convertibility had been established as a major goal of government policy in marked contrast to Gaitskell's continuing reservations. Butler's approach continued to be shaped by his free-market beliefs and by February 1955 de facto convertibility had been achieved. Speculation against the pound forced Butler to publicly repudiate floating in the Summer of 1955 but the evidence suggests that he continued to see this as the ultimate objective of his policy.

Gaitskell and Convertibility

Under the Bretton Woods agreement of 1944, which set out the blueprint for the postwar world economic system, Britain was committed to making the pound convertible after a period of transition. However, the conditions of the American loan finally agreed in December 1945 committed the Government to making the pound convertible by mid-1947.[1] Throughout 1947 the pound became increasingly convertible and on 5 July full convertibility was in force, only to be suspended five weeks later because of the enormous loss of reserves.

The effect of the 1947 sterling crisis was to sharpen Labour ministers' thinking about whether convertibility was desirable even as a long-term goal of economic policy. Hugh Gaitskell became particularly concerned about pressure from both the Americans and Treasury officials to make progress towards convertibility and multilateralism and feared that this would force Britain to adopt a deflationary economic policy. In June 1949, when he was Minister of State for Economic Affairs in the Treasury, he wrote in his diary that 'There can be no doubt that the clash between American and British ideas on discrimination and convertibility is certain to become worse. For my part I see no hope of closer links between the dollar and sterling areas. On the contrary the incipient depression in the United States with falling prices and incomes makes our dollar problem worse. Since we will not deflate or devalue - in my view quite rightly - we must restrict dollar imports more and try and develop non-dollar sources of supply. This meant bilateral pacts with some form of multilateralism between non-dollar countries. But it is all anathema to the Americans.'[2]

Another consideration in Gaitskell's mind was pressure from Treasury officials in favour of deflation. Gaitskell and Douglas Jay eventually favoured devaluation in the summer of 1949 partly to stem this tide. Gaitskell wrote that officials in the Treasury 'favour deflation, but they all seem to want to cling to multilateralism and convertibility as our aim. Douglas Jay is opposed to this and has a continual struggle inside the Treasury for Stafford's [Cripps] soul.'[3] Gaitskell enlisted the support of the Foreign Secretary Ernest Bevin against 'a proposal to accept convertibility even in the long-term by referring to this as an "alternative" solution to the problem.'[4] In fact, Gaitskell said he would 'resign if we commit ourselves again to convertibility.'[5]

The memorandum Gaitskell and Jay submitted to the Economic Policy Committee on 'Economic Planning and Liberalisation' in January 1950 outlined their objections to liberalisation being the goal of external economic policy. They feared that the use of direct controls was under threat from the 'E.C.A. and the OEEC countries which are no longer seriously attempting to plan their own economies. One form in which the pressure is especially strong is the so-called liberalisation of European trade.'[6] Gaitskell told the Committee that the United States Administration might be urging the liberalisation of trade to reconcile the granting of Marshall Aid with the needs of American industry but 'this should not be allowed to prejudice the planned economy of this country.'[7]

The memorandum put forward two specific ways in which such liberalisation would be damaging. First, the balance of payments would be hit through an influx of what Gaitskell and Jay described as 'inessential goods' which would prevent the buying of essential goods. Also, if inessential goods were granted free entry into the British market it would be increasingly difficult to continue the controls that prevented British manufactures producing the same goods. These controls, such as those over raw materials and building, were essential to the export drive, without them incomes would have to be deflated more drastically. Liberalisation would also weaken the pound and intensify the cheap sterling problem. The second damaging effect of liberalisation would be to hamper progress towards dollar viability in Europe. Opening up European markets would discourage exports to North America. Greater competition in home markets would lead to firms concentrating on the retention of these markets. The resultant greater production and consumption of luxuries in Europe would take production away from goods for export.

Thus Gaitskell and Jay's opposition to liberalisation extended beyond dollar countries to others that were dismantling economic controls. They concluded their paper by arguing that it 'would be wise-

(1) to recognise that in the UK certain physical controls are essential to the effective economic planning of full employment of Income and for achieving and maintaining a balance with the dollar area;

(2) to be therefore exceedingly careful before demolishing any more important physical controls lest we be driven, as a result, to rely exclusively on monetary and budgetary policy;

(3) to appreciate that the policy of liberalisation if extended will probably undermine the structure of physical control we have established.'[8]

In the European Payments Union negotiations of 1949-50 Gaitskell sought and won liberal credit facilities limiting the liability for payment in gold and dollars and, therefore, limiting the possible pressure for deflation.

Gaitskell and the European Payments Union Negotiations

The proposal for a European Payments Union had first been circulated inside the OEEC on 24 November 1949. It had envisaged 'complete freedom of transactions between participants, and transferability of the currencies.'[9] The scheme attracted immediate hostility from Labour ministers. Douglas Jay wrote to Stafford Cripps outlining his opposition. He argued that we were 'led into the difficulties of 1947 partly by an over-eager doctrinaire attachment to multilateralism, convertibility etc... Are not these dangers at least to some degree again emerging in the present scheme?' He continued that 'we cannot in any circumstances permit free capital movements to countries outside the sterling area.'[10]

Cripps was sympathetic to these arguments and in a memorandum to the Council of the O.E.E.C. he set out British qualifications and objections. First, a system in which the Union was the sole lender could not be accepted. It would mean that all existing agreements would be brought under the Union's control and hence move from bilateralism to multilateralism. Essentially, the British Government wanted the Union to be the lender of the last resort only. Second, Cripps sought to protect Britain's right to control the imports of any country that was responsible for a loss of gold. Third, Cripps stressed that the E.P.U. should be largely automatic with the minimum of intervention by its Board. This demand was provoked by the fear that the Board would reflect 'the American insistence on the freest possible movement of trade, leaving any fundamental disequilibrium to be corrected by domestic deflationary policies.'[11] On this issue the British government was largely successful in getting its way. The Board's power were vaguely defined and its decisions subject to review by the O.E.E.C. The operation of the E.P.U. was mostly automatic.

Gaitskell thought that even Cripps' position gave too much away. On March 15 1950 he wrote to Cripps urging 'that you should play this hand as long a possible... It is after all just possible that it might be better for us if the present negotiations were to break down... I am sure that it will pay us to gain time and not to be rushed.' He added that Jay agreed with him.[12]

Gaitskell's attitude caused considerable consternation within the Treasury and brought previously hostile factions together to oppose him. On March 28 1950 Robert Hall, the head of the Economic Section, recorded that it had become clear 'in connection with the E.P.U. discussions, that H.G.[Gaitskell] thought we should *never* return to convertibility and never offer anyone gold points [emphasis in original].' As a consequence of 'our having to argue with Gaitskell' Hall began to get on much better with Sir Henry Wilson-Smith, the head of the Overseas Finance Division and 'Otto' Clarke of that Division.[13]

Given Gaitskell's position it is perhaps surprising that it was he who was eventually to successfully conclude the E.P.U. negotiations. However, Gaitskell was of the opinion that he had won the argument in the Treasury with Wilson-Smith.[14] The apparent change in his position is probably accounted for by two factors, the first being that the Chancellor ruled in favour of Gaitskell and Jay on the issue of 'the fundamentals'. This concerned American pressure for a commitment on free trade and convertibility. The Government set out three pre-conditions for full convertibility. The first pre-condition was that gold and dollar reserves had to be higher. Gaitskell told the Americans in 1950 that reserves should be double the present levels. The second pre-condition was that there must be 'adequate guarantees that markets would not be closed arbitrarily or suddenly against British goods.' And the third 'that the balance between the dollar area and rest of the world had to be right.'[15] Although this decision did not lead anywhere, it meant that Gaitskell was able to look at the specific issues raised by the E.P.U. negotiations without worrying about the wider perspective.

The second factor that accounted for Gaitskell changed stance was that he found an unexpected ally in the Economic Cooperation Administration (E.C.A.), which had been established to administer American assistance under the European Recovery Programme. Gaitskell wrote in March 1950 that the 'E.C.A. are themselves not so much concerned with getting dollars and gold into the multilateral payments scheme and it should not be difficult to bring home to them the dangers of this. The pressure no doubt comes from the I.M.F. and the U.S. Treasury. But in the battle we shall have to fight with the latter the E.C.A. might become our allies.'[16]

The E.C.A was prepared to assure sterling's position as an international currency. It developed a plan that would provide generous credit margins and permit the reintroduction of quantitative import controls if gold and dollar payments became a problem. In return, 'the British would have to bring the sterling area into an automatic and multilateral pattern of settlements and surrender the right to discriminate in the application of trade restrictions.'[17]

Gaitskell was willing to agree with the Americans 'on the technical problem of relating sterling to E.P.U.' as long as he 'got satisfaction on the gold and credit arrangements', thus limiting the interference of the scheme in domestic economic policy. In May, the E.C.A. negotiator Averell Harriman came London with his advisors. Harriman and Stafford Cripps handed the negotiations over to Gaitskell and the American, Katz. Gaitskell got up on the morning of May 13 at 6 a.m. to note down what sort of credit arrangements he wanted. His officials, he noted, 'were all quite horrified and regarded me as much too inflationary'[18] but the Americans agreed with Gaitskell and said that his suggestions 'were exactly the pattern we had in mind.'[19]

Gaitskell continued to be concerned about the level of credit until the deal was finally struck. After lunch with Katz on 2 June Gaitskell made it clear that 'he and the Cabinet - not the civil servants - would decide the terms of Britain's participation in the E.P.U.' He was also still mistrustful of the Americans and asserted that 'Britain would not submit to having the US impose the gold standard on it.'[20] Despite this outburst Gaitskell and Katz were able to reach agreement after two more days.

It is clear that the terms of the E.P.U agreement are only explicable if Gaitskell's views on convertibility are taken into account. The agreement would not have included liberal credit facilities if the negotiations had been left to officials.

Gaitskell and the Sterling Area

Gaitskell's public line on convertibility after the 1951 election defeat continued to be that it was only possible once the preconditions outlined above had been met. He rejected the idea, that was a central aspect of the ROBOT plan, that convertibility at a floating rate would in itself help to solve the problem of the dollar shortage. However, although Gaitskell's parliamentary speeches do not explicitly rule out convertibility as something acceptable in the long-term, his arguments reflected his continued belief that the inadequacies of American economic policy meant convertibility was neither a desirable nor a practical policy and that full convertibility would limit the scope of a future Labour government to implement its policies.

In his contribution to the debate on the Commonwealth Economic Conference in February 1954 Gaitskell argued that it would be mistake to think that the measures taken by the American Government would do anything to stop a severe recession. He thought that 'we should be making a mistake, however much we may hope for it, to expect that counter slump action by the American Government will necessarily cause the tide to turn. There is no doubt that in the United States there can very quickly be built up an extremely powerful depression psychology, and it is too early to say whether or not that will happen... I do not doubt the desire or indeed the intention of the American Government to adopt counter-measures. What I do doubt is whether they and Congress between them will move sufficiently far and sufficiently fast.' Gaitskell continued that the essential thing for the British Government to do was 'to discriminate' against dollars and 'frankly to discriminate.'[21]

Given the American position Gaitskell saw closer co-operation with the rest of the Sterling Area as the direction in which Britain's external economic policy should be moving. In the Debate on the Address in November 1952 Gaitskell told the House that he favoured a policy 'to make the Sterling Area a more closely co-ordinated, more unified institution, in which we try with our partners to work out common policies - policies of internal finance, of planning our imports from the outside world. Of increasing our trade with each other so as to try to maintain the highest possible level of employment and production. We should certainly try to bring the rest of Europe into such a scheme.'

Such a policy was clearly incompatible with the goal of convertibility. Gaitskell effectively conceded this point by acknowledging that convertibility would mean 'the end of the Sterling Area as we have it today. It means the return to the sterling bloc as it existed before the war.'[22] His own policy would 'require undoubtedly a change in the present machinery... and it will mean a permanent body being set up here in London representing the various Governments in order to reach these decisions quickly... I have no hesitation in saying that I regret that we in the Labour Government did not do that. It would have been a great help in 1951 if such a body had been in existence.'

It is therefore not surprising that Gaitskell told the Friends of the Atlantic Union on a semi-public occasion at the end of 1954 that speaking for himself, and not for his party, he could not see the compatibility between convertibility and the implementation of Labour policy.[23]

The logic behind this statement was made more explicit when the E.P.U. was wound up at the end of 1958 and the pound was made fully convertible at a fixed rate. Gaitskell was highly critical and consulted with only Patrick Gordon-Walker, Jay and Wilson before moving an amendment declaring that 'this House declines to give a Second Reading to a Bill designed to implement policies which, through the ending of the European Payments Union and the acceptance of the Bank of England of the obligation to supply gold or dollars on demand to all foreign holders of sterling at a fixed rate of exchange, makes more difficult the achievement and maintenance in Great Britain and Western Europe of industrial expansion and full employment.'[24]

Gaitskell, Jay and Wilson all spoke out against the move to full convertibility in the debate. Gaitskell argued that fully convertibility opened the pound up to the possibility of damaging speculation: '[W]e shall increase the risk of and the scope for speculation against the pound in time of trouble while throwing away... one possible weapon to be used against that speculation.' Gaitskell's main point was that this speculation would prevent a future Labour government from fulfilling its programme: 'It is not only that the speculative pressure in a difficult situation will be greater as a result of this decision. There is something else with which we are much concerned. It is that because of this, and in order to prevent what might be a run on the £, we shall be told that our internal policies have to be adjusted. We know very well what that means. We shall be told that we must cut back; that we are trying to do too much; that there is over-full employment. We shall be warned that we must delay expansion; not because of anything that is done, but because of what might be thought by speculators.'[25]

Gaitskell quoted to the House from an article in *The Economist* which reported that speculative holders of sterling '"believe that if a substantial reduction in Income Tax rates were made now, any incoming Labour Government would find it politically difficult to raise rates quite back to their old level, so that this would remove one of their main weapons through which a Labour Government might carry on a form of administration which foreign holders of our currency particularly dislike."

'I will only say that we on this side of the House regard that kind of attitude as quite intolerable and the policies which put us in that position as unworthy of any Government who claim to be a democratic Government.'[26]

It is therefore clear that Gaitskell opposed convertibility because it hampered the fulfilment of a Socialist economic policy. The policy Butler was to pursue as Chancellor amounted to the opposite of Gaitskell's. Butler supported the immediate convertibility of sterling at a floating rate precisely because it would bring home the realities of the world market to the British economy.

Butler and the ROBOT Plan 1952

Rab Butler became Chancellor in the middle of a foreign exchange crisis in October 1951. He started his Treasury life by responding to an invitation to meet Edward Bridges and William Armstrong, his principal private secretary, at the Athenaeum Club. Butler later recalled that 'both my singularly able advisers stressed the critical state of the economy... Their story was of blood draining from the system and a collapse greater than had been foretold in 1931.'[27]

Given the perilous state of the reserves Butler had little option but to approve the plans for import cuts that the Treasury had already prepared. The crisis situation meant that the new Government had little room for manouevre. Lord Croham, who was at the time a member of the Central Economic Planning Staff, has argued that 'less change occurred in 1951 than at any other changeover of Administrations in the thirty years following the end of the Second World War.'[28] One problem with Croham's analysis is that it fails to take into account the importance of Butler's decision to raise short-term interest rates in November.

Anthony Seldon has used Croham's remark to support his argument that the Churchill administration represented continuity in policy. Seldon writes that 'the new policies that the Government did adopt after the Election were in fact either recommended by officials or were forced on the Government by the dire economic position.'[29] But Seldon is wrong to draw general conclusions about the Churchill Government from what happened in the first few months after the Election. Indeed, it was not long before Butler was looking to make a radical change in the direction of exchange policy. The solution he proposed to Britain's exchange problem acquired the name 'Operation ROBOT'.[30] The essence of Operation ROBOT was to make the pound convertible, with certain important conditions, at a floating rate. It was first discussed by ministers at the end of February 1952.

The origins of operation ROBOT are usually thought to have been within the Bank of England and the Overseas Finance Division.[31] Although the details of the plan were developed within these institutions, important figures within the Conservative Party had been thinking along the same lines before the party was returned to power. An examination of the thinking of Conservatives on the question of convertibility while in Opposition reveals the true origins of ROBOT. Plans for the immediate convertibility of sterling at a floating rate were only brought forward by civil servants because of ministerial encouragement.

Oliver Lyttelton led for the Conservatives on economic affairs while they were in Opposition. Before the war Lyttelton acquired a reputation as a skilful market operator when serving as managing director of the British Metal Corporation. In October 1940 he was appointed President of the Board of Trade by Churchill who, in recognition of his skills, moved him to the new Ministry of Production in March 1942.[32] When the Conservatives returned to power in 1951 it had been expected that Lyttelton would be offered the Chancellorship but given the small majority, poor performances in the Commons and his City connections told against him.[33] In the event Churchill appointed him Colonial Secretary.

Lyttelton became the minister Butler most relied on during his Chancellorship. Butler later described Lyttelton as 'the most intelligent man in Cabinet.' He was a man of great influence who 'Churchill turned to... for quite a lot of my subjects about economics, and I would put him as a very important man. He was the only man really who actively supported me in wishing the pound to be convertible.'[34]

By the Spring of 1947 Lyttelton had been spurred by the fuel crisis into general attacks on the Labour Government's planning policy, in particular the consequences of cheap money and over-expenditure in creating inflationary pressure hidden by physical controls. He told the Commons that 'One of the effects of all this has been a very sharp fall in the value of sterling abroad.'[35] He argued that the Government should allow the price mechanism to operate. With respect to foreign exchange he argued that the wrong way to ration was through 'bulk purchase by a central authority and allocation by the Government down to the individual buyer and factor.'[36] This would only increase the enormous number of people in Government service. The right way to deal with the problem was 'to open the commodity exchanges which are now closed and to ration their use of foreign exchange... The fact is that the price mechanism, without the help of which no speedy distribution can ever be made, begins to operate.'[37]

In private Lyttelton's thinking was far more revolutionary. During the economic turmoil of 1947 Churchill sent him a memorandum by Lady Rhys Williams, a former Liberal Party candidate and prominent member of the United Europe Movement, proposing rapid decontrol. Lyttelton responded by telling Churchill that 'Nothing short of a complete reversal of our economic policy is going to reverse the trend in our national fortunes.' Although Lyttelton felt that the memorandum 'follows the general line of my thought' he found it 'striking that the memorandum makes no mention of the international value of the £. For that matter, one of the most extraordinary things about the arguments and articles about convertibility which have appeared all over the country, is the singularly small attention which is paid <u>to the rate</u> of exchange between the £ and the $. It is quite nonsensical, after all, to discuss convertibility in terms of time only. If I may use a reductio ad absurdum, it would be possible to secure convertibility of the pound at $1 to the pound now, and clearly impossible to secure convertibility at $6 by 1955.

'As a general part of a decontrol policy it would be necessary to unpeg the £ in relation to the $... At the same time that the international value of the £ was unpegged, I think at one sweep of the pen it would be necessary to abolish most of the controls and allow price rises to take place. All the natural equalising and stabilising forces are then released. The effect of such action would largely cure the bad distribution of Labour from which we now suffer [emphasis in original].'[38] In essence Lyttelton's plan was the same as Operation ROBOT.

By the autumn of 1949, following sterling devaluation, what Lyttelton was saying in public was almost in line with what he said in private. He pointed out in the Commons that it was 'most noticeable that during the three days of this Debate no official spokesman that I can remember has mentioned the word "Convertibility". But Convertibility is the essence of all currency. That is what currency is for and it shocks me profoundly to hear convertibility talked of as an adjunct, even as a desirable adjunct of currency.'[39]

The ideology behind Lyttelton's words was expounded by the former Conservative minister Richard Law in his book Return from Utopia which took its inspiration from Hayek. Law highlighted the connection between exchange control and a planned economy. 'It is hardly surprising,' he argued, 'that those who favour a planned economy at home should also favour it abroad and that the socialist should see in exchange control the reflection of his most cherished prejudices. For exchange control gives to governments an instrument of great power for the organisation not only of the national economy but of society in general.' He concluded that 'it is impossible to create a free market in any effective sense while exchange controls exist.' Law also argued 'That multilateral trade based upon freely convertible currencies is the system best suited to the needs of the British economy.'[40] This reflected what Lyttelton had told the Commons in the Autumn of 1949, that 'No country gains more from convertibility than our own.'[41]

Although Lyttelton took the lead on economic policy while the Conservatives were in Opposition, it is clear that Butler was in agreement with him and the general line of Law's book. In a House of Common's debate on the economic situation in July 1949 Butler went into some detail about his economic ideas and his speech is worth quoting at length: 'The broad appeal I want to make to the right hon. Gentleman [Bevin] is to take the next stage of our relations with the Dollar Area into a more imaginative and fruitful region. We have passed through the period of a direct loan; we have gone through part, or a great deal, of Marshall Aid to Europe; and we are now apparently approaching this problem from the standpoint of the Sterling Area. I have spent a great deal of my life concerned with the Indian question, and I should like to ask the right hon. Gentleman whether in the imaginative approach which we should like to press on him, as we have done in all matters of foreign policy, he is taking into account the need for widening the interdependence of the American Continent and the Dollar Area with the Sterling Area, thus relieving us of many of our grave problems.

'But what is the truth of this matter? We shall never get Congress to help us unless we help ourselves... We must prove to the Americans in Congress and in the administration that we can compete, that we have a resilient and elastic economy, and that we are prepared to lower our costs. Our outlook can be summarised - and this comes from a quotation of the 19th Report of the Bank of International Settlement - as follows:

'"If, then, a country is in disequilibrium because its budget expenditure is too high, or its investments are too ample, or costs are maintained at an uneconomic level, or the exchange rates have got out of line with reality, with the result that an untoward deficit has arisen in the balance of payments; if in such a state of affairs, the country concerned obstinately refuses to make any alteration either in its budget or credit policy, or in its control of prices or exchanges, there is no reason to assume that the lack of equilibrium will not continue."'

When asked by R.R. Stokes 'What does that mean?' Butler replied: '...What it means is, as it says, that despite the obvious difficulties here of a high taxation system and an expenditure higher than we have ever known, the Government obstinately refuse to remove the rigidity from our economics. We believe that this rigid taxation and rigid costs, with rigidity of the bargaining machine for labour through the joint negotiating machinery - which is practically not operating owing to the extreme rigidity of our economic system - we believe that this rigidity is the cause of the troubles affecting the working man and women, the financiers and the industrialists.

'In short, our case is that until we restore to the individual some freedom of choice, and until we can restore some elasticity of manoeuvre to our economy, we shall not be able to deal with the problem of the balance of payments. The inflationary tendencies which we see at home are, we believe, at the basis of many of our troubles in foreign fields.'[42]

Butler clearly acquired a reputation for believing decontrol to be the answer to Britain's economic problems. When he subsequently asked the Chairman of the Backbench Finance Committee, Ralph Assheton, in May 1952 what 'would restore the City's confidence in the Government', Assheton, unaware of the ROBOT plan and its initial postponement, wrote that 'we can either continue the socialist policy and increase controls or we can go for freedom.' Confident that Butler 'would not consent to remain in office unless the freedom policy is accepted' he wrote that this would involve 'pretty fundamental changes including a big cut in expenditure, moving towards convertibility as soon as possible, followed by a substantial cut in income tax and the ending of food rationing.'[43]

In favouring immediate moves towards convertibility Butler was ahead of his officials. In the first few months of his Chancellorship Butler received a memorandum from Rowan dealing with the question of convertibility policy with regard to the Commonwealth Finance Minister's meeting which was being held in London at the time. Although the memorandum argued that 'convertibility must remain our aim' it also stated that at the present time 'the dangers of any major move towards convertibility are unacceptable.' Butler underlined all the phrases in this memorandum that pointed towards convertibility as the aim, he also underlined the 'un' part of the word 'unacceptable' and put a question-mark next to it.[44]

The detailed ROBOT proposal may have originated with civil servants, but they clearly anticipated that it would be viewed favourably by the new Government. Of course this may be mere coincidence, but it is more plausible to believe that Butler's marginalia generated some enquiry. The Private Office has the role of transmitting a minister's thoughts and preferences to the relevant officials. This is not to say that Butler commanded the paper, but it is to say that officials would not have put it up unless they had some reason to believe that it would be looked at. Herbert Andrew, Second Secretary at the Board of Trade under Frank Lee once said of Lee that 'he rarely wasted his energies on things that ministers were *not* interested in! [emphasis in original]'[45] Andrew's comment is true of civil servants in general, they are too snowed under to contemplate proposals that are going to come to nothing. It is impossible to imagine that such a scheme could have been presented to Gaitskell if he had remained Chancellor.

Basically, the ROBOT proposal was in three parts. First, 'to allow the exchange rate to float and find its own level as determined by the London Foreign Exchange Market; the London Gold Market would also be reopened.' Second, full convertibility on a free market of what was described as "overseas Sterling".[46] And, third, funding in to long-term bonds of 80% of sterling balances held in the sterling area countries and the blocking of nearly all balances held by non-members outside the dollar area. 10% of these would be released as overseas sterling.

When Robert Hall first heard of the plan on February 16 his reaction was positive, he recorded that 'it sounds wonderful' but the variations in employment involved meant 'no Government would accept this at present.'[47] By February 20 he had became enthusiastic, noting that 'it certainly looks a great deal better when one thinks of the alternatives.'[48] That evening the plan changed from being a theoretical possibility to a favoured course of action. Cobbold, the Governor of the Bank of England, proposed the scheme to Churchill at a dinner also attended by Butler and the Minister of Health Harry Crookshank. They agreed that action was necessary. It was also agreed that the plan should be introduced at the time of the Budget, as part of a comprehensive solution to the sterling problem. Hall was taken aback when he heard this, recording that he had 'never supposed that there would not be time to have a good look at so revolutionary a scheme.'[49] The sudden reality of the scheme turned him against it.

Early ministerial reaction to the plan was mostly favourable. Butler presented a memorandum entitled 'External Action', drafted by 'Otto' Clark of the Overseas Finance Division, to a meeting on February 22 attended by Churchill; the Paymaster General, Lord Cherwell; the President of the Council, Lord Woolton; the Home Secretary, Sir David Maxwell Fyfe and the Secretary of State for Scotland, James Stuart. The memorandum argued 'that we must set a completely new course, stop the drain on the reserves immediately, stop the markets in "cheap sterling", rehabilitate sterling as an international currency', and significantly 'take the external pressures on the internal economy instead of the reserves.'[50]

Officials were divided over the plan. Not only were there important opponents including Robert Hall, the head of the Economic Section, and Edwin Plowden, the Chief Planner, but there was also important divisions amongst its proponents. For the authors of the scheme in the Overseas Finance Division the attraction of the plan was not only as a method of taking the strain off of the reserves but also, as Donald MacDougall, Cherwell's adviser, noted in his diary covering the crisis, as a way 'of substituting the "price mechanism" for direct ministerial decisions. They had become sceptical of the ability of ministers of either party to take unpopular decisions.'[51]

'Otto' Clarke's original memorandum outlining the plan argued that the floating rate would set up 'forces which tend to bring the economy into balance.' In a section entitled 'Internal Policy' Clarke argued that the plan would require 'a complete rethinking of the whole of the economic policy which has been in operation... during the last few years.' Specifically 'the basic idea of stability which has dominated economic policy for so long will not be maintainable. There will be a continuous process of change and readjustment and much of this will be painful.'[52]

Others in the Treasury were more sceptical about the force of the price mechanism as an automatic regulator. Senior officials saw a floating rate as the price that had to be paid for immediate convertibility rather than as one of its benefits. Throughout the Gaitskell Chancellorship officials had tried to make ministers pursue the long-term goal of fixed rate convertibility. However, the political window presented by the election of a Conservative Government and the continued fragility of the pound persuaded senior officials that convertibility was essential in the short-run. Edward Bridges, the Permanent Secretary to the Treasury, was not a trained economist. He saw convertibility as a way of making ministers take unpopular decisions, rather than an answer in itself. He made his position clear in a letter to Butler written during the preparation of the Collective Approach in the autumn of 1952: 'Apart altogether from the precise method in which we manage our external financial policy there is no chance of our getting affairs of this country on an even keel and keeping them there, unless we adapt a much more stringent internal economic policy... Since I feel this so strongly I am naturally reluctant to see the issue of a strict internal policy presented to ministers as something which they have got to swallow if they are to accept convertibility. I regard it as essential to salvation in any case. And I want to see it so presented [emphasis in original].' If ROBOT had been accepted Bridges would have expected the same sort of stringent internal policy to have been adopted.[53]

MacDougall noted that for the Bank of England the benefits of the scheme were that convertibility would 'make things easier for the City, to get rid of cheap sterling transactions, to prevent the steady decline in the acceptability of sterling, etc.'[54] The advocacy of the wider virtues of a floating rate certainly alarmed Cobbold who had not accepted the argument put forward in the Bank by Lucius Thompson-McCausland that a floating rate would act as a benign equilibrating force. Cobbold wrote on his own copy of the memorandum: 'I told the Chancellor that I thought the argumentation good, but that there was too much "floating". We must have a high degree of stability.'[55] On February 24 he wrote to Butler and Bridges outlining the Bank's position. 'The wider limits (2.80-3.20, but not publicly announced) must be supported by every possible measure to strengthen the real and psychological position of the currency. If not so regarded and supported a "floating rate" is a polite name for progressive devaluation to a new fixed rate... an international economy must have a high degree of stability. Unless we make this objective clear, we are wasting our time in trying to make sterling acceptable internationally by giving it a degree of convertibility...'[56]

Butler and Lyttelton's thinking on ROBOT was much closer to that of the Overseas Finance Division than to that of Bridges or the Bank. For them the scheme had the attraction of de-politicizing economic management and avoiding the inflexibility of a controlled economy. Butler and Lyttelton argued in Cabinet that 'there was something to be said, politically, for moving towards the system by which individuals were influenced by the operation of the price mechanism to the changing economic circumstances. This latter system had the further advantage that it enabled people to adjust themselves more gradually to changing circumstances and avoid the violent upheavals which seemed inseparable from Government planning.'[57]

Butler repeated these arguments in two draft letters to Churchill which he wrote in August 1952.The first of these, which he labelled 'unfinished fugue', was the more forthright in its language and indicated what Butler's thinking had been throughout the period in question: 'Following upon the drastic steps announced eleven days after taking office and the meeting of the Finance Ministers, which you were obliged to miss owing to your U.S. visit, I had before me the given question as to whether our rapidly falling reserves would enable the £1 Sterling to be held at $2.00 without a Devaluation.

'The decision to advance the Budget was taken in order that some psychological move could be made calculated to restore confidence before the first quarterly announcement of the rate of the Reserves on April 4th.

'After the turn of the year I took the best advice I could and studied every aspect of our position. I also scanned through the recent history of our currency policy including the undignified devaluation and the 1947 debacle. I also looked back further.

'I came to the conclusion that as a result of measures taken we were on an improving trend and that if I could take action on the lines of the External Sterling Plan, I would reduce the tight liabilities of the Sterling Balances, and reopen the Gold Market.'[58]

That Butler saw the plan as an integral part of his economic strategy is also clear from his second letter 'Unfinished Symphony' although this had a more conciliatory tone. He explained that his view during the crisis was 'that if we did not take the plunge early into the freedom of the price mechanism and in the external field - we would go on without the benefits of full planning or the discipline of the Rate.' He had little sympathy for the idea of preceding with a watered down version of Labour's economic policy and wanted a systematic return to a market economy. He concluded that without this the Government's policy 'has been between two stools.' In the event, it would appear that neither of these letters were sent because Bridges communicated Butler's feelings on this subject to Churchill personally and then reported back.[59]

The differences between the coalition of interests promoting ROBOT can clearly be seen in the issue of floating. Cobbold was alarmed by the advocacy of the wider virtues of floating. He told Butler that 'the wider limits (2.80-3.20, but not publicly announced) must be supported by every possible measure to strengthen the real and psychological position of the currency.'[60] Although Butler accepted Cobbold's line his and Lyttelton's arguments continued to place great importance on a floating pound.

Butler himself played a central role in the ministerial battle over ROBOT. He was not in any way the passive figure suggested by his official biographer who writes that Butler 'does not appear to have pressed his case with any great fire or conviction.'[61] Donald MacDougall's diary of the crisis shows that at this level there was a battle for the hearts and minds of ministers waged between Butler and Cherwell, each seeing colleagues in private. Butler managed to persuade the Minister of Materials, Lord Swinton, to back the plan even though he had been one of its early opponents. MacDougall also noted that 'Butler thought he had sold the plan to Leathers [Secretary of State for the Co-ordination of Transport, Fuel and Power] and was upset at the next meeting when he opposed it.'[62] However, the Cabinet as a whole was not informed of the plan until 28 February and were asked to come to an almost immediate decision. In these circumstances Butler was dependent on the support of the Prime Minister to get the Cabinet's agreement. Without this support no degree of fire or conviction would have been sufficient for him to get his way.

That Butler was committed to the ROBOT plan is revealed by the fact that he had little time for the further restrictive measures that were proposed to him by Hall and Plowden. Their alternative measures included the notion that sterling area members 'with large dollar deficits, i.e. Australia, India, and the United Kingdom, should be put on a dollar ration by agreement if possible but if not by unilateral action on our part.' This received the response from Butler that it was 'a vague and unworkable proposition.' He was also unimpressed by the proposal that 'further import cuts of about £200 m. should be imposed .' He understood these cuts to be 'designed to avoid the political odium of the B-plan' but thought them 'politically and in every way more onerous.'[63]

Butler's advocacy of the plan did not end with its initial postponement. Alec Cairncross has often referred to the point that Bridges later got the impression from Butler that he thought he had been wrong about ROBOT.[64] However, Butler was an excellent manipulator of his officials, and told them many different and sometimes contradictory things as it suited him. If judged by his actions it is clear that Butler never deserted the basic principles of ROBOT.

The fact that the reserves were rising after the Budget led the Overseas Finance Division and the Bank to argue in a joint submission to the Chancellor that the way the plan was presented should be changed. The memo stated that 'the original case for ROBOT was based on the expectation that some drastic act of external financial policy would become inevitable and probably sooner rather than later... ROBOT was therefore presented as a forced operation, the only real element of choice being in the timing - i.e. whether we should do it as part of the Budget, or whether we should wait until we were nearer the precipice. The Cabinet decided against doing it as part of the Budget.' It was argued in the submission that the improved reserves position 'should not blind us to the constructive possibilities of the plan.' Butler noted on this: 'a very good paper.'[65] These constructive possibilities included the familiar arguments about enlisting the price mechanism but also the idea that with the plan it would be possible to maintain 'an independent internal policy in a US recession.' In conclusion, the paper argued that ROBOT should be presented in a more positive manner as 'a constructive initiative in the world situation' and that it 'would be possible to present ROBOT as follow up action completing the new economic situation at which the Government is aiming.'[66]

The openness of this submission's argument that the supporters of ROBOT should change their tactics casts even more doubt on the idea that Butler was scared into supporting ROBOT by the emergency situation. If the Treasury and the Bank could openly discuss with him the notion that the change in circumstances meant that there was a need to change the method of presentation then Butler's role in the crisis needs to be looked at in a different light. MacDougall has argued that the initial presentation of ROBOT 'was a very clever gamble that nearly came off. The psychological appeal was to the masochistic instincts of ministers... They also appealed to some ministers sense of duty and patriotism, even to the extent of putting country before party.'[67] Although MacDougall only had officials in mind when he wrote that their method of presentation was 'a clever gamble' the fact that Butler discussed tactics after the initial Cabinet rejection suggests that he saw it in a similar way.

In the event it was Anthony Eden's opposition to the scheme that lead to its postponement. During most of the crisis he had been in Lisbon attending a NATO meeting. Herbert Brittain, a Third Secretary in the Treasury, and Eric Berthoud, Assistant Under-Secretary in the Foreign Office, were sent to explain the proposals to Eden. Edwin Plowden was already in Lisbon with Eden. Both Alec Cairncross and Edmond Dell stress the importance of Plowden in persuading Eden to press for a postponement of a decision until his return. In fact, the diary of Eden's Principal Private Secretary Evelyn Shuckburgh makes it clear that Eden had doubts about the plan after it had been explained to him by Berthoud and before Plowden had see him.

Shuckburgh recorded that Eden found ROBOT to be 'a banker's plan: logically unassailable, perhaps, but open to the very gravest political objections.' Shuckburgh suggested to Eden that 'the only possible way of putting it across would be for the Government to announce the plan and go to the country on it.' Eden agreed with this but 'had little doubt the Government would lose the election but at least then they would have told the people the truth and prescribed the honest remedy.' However, the more Eden thought about the plan 'the more A.E.[Eden] became doubtful about the premises on which it was based.'[68] This entry reveals that Eden was persuaded by the political rather than the economic case against ROBOT. That Eden objections to the plan were political is confirmed by the arguments he used during the crisis. Macmillan recorded in his diary that 'after the morning meeting yesterday [Feb. 29] Eden walked with me from No.10. He was strongly against the plan, on political grounds. "The country are not ready", according to him, "to cast away the whole effort of years to return to 'Montagu Normanism' without a struggle."'[69] As Churchill's anointed successor, Eden did not want to inherit the leadership of a politically damaged party, perhaps one even out of office.

In their accounts of the crisis both Cairncross and Edmund Dell have overlooked the importance of Eden's opposition in leading to ROBOT's postponement. Cairncross stresses the persuasiveness of Cherwell's mix of economic and political objections. The latter included the likely Commonwealth and European response. He also mentions that the Cabinet was 'advised that the economists in government service who had been consulted were against the plan and their arguments were outlined: in particular it was pointed out that immediate convertibility would lead to a general restriction of world trade and induce other countries to discriminate against the United Kingdom.'[70]

Dell puts more emphasis than Cairncross on the political arguments which might have been 'felt to be so strong that they carried the economic arguments which were more debatable.'[71] To back this assertion he quotes in full a Cabinet conclusion, in reality a speech by Salisbury, which stated: 'Under democratic government with universal suffrage such violent reversals of policy were hardly practicable. Even if the case for this change were abundantly clear on the merits, there would be very great difficulty in persuading the public to accept it. Moreover, the adoption of this policy would create an unbridgeable gap between the Government and the Opposition; and, if it were ever thought possible that an even more grave economic crisis might develop later in the year, it would be unjustifiable to take at this stage a step which might exclude all possibility of forming a National Government to handle that situation.'[72]

However, though Cairncross and Dell put the emphasis in different places both agree that the Cabinet was persuaded that a major change in economic policy was neither necessary nor desirable. As Cairncross puts it: 'instead of a radical new plan to make sterling convertible the Cabinet accepted quite a traditional package of measures focussing on import restrictions.'[73] Their view of the ROBOT crisis therefore sustains the idea of a postwar consensus on economic policy. The Cabinet rejection, it could be argued, is evidence of the Conservatives unwillingness to break from the policies of their Labour predecessors.

The problem with both Cairncross' and Dell's version of events is that it does not account for the fact that until Eden returned to London and came out against ROBOT its proponents were clearly heading towards victory. Eden's opposition is crucial to understanding ROBOT's rejection because it persuaded the Prime Minister to change his own position, something that both Cherwell and Salter had failed to do. At a meeting of ministers on February 27 only Cherwell, Salter, and Woolton were prepared to speak out against the scheme. At the time Robert Hall was under the impression that the supporters of the scheme were winning the battle. On February 29 he recorded in his diary that 'on the whole the party in favour of the Bank and O.F.[Overseas Finance] scheme is in the ascendent.' Unbeknown to Hall, Eden had attended Cabinet the previous evening and had weighed in against the scheme. It was at this meeting that Cherwell first received 'some support from Churchill' and was 'very much more cheerful.'[74] The following morning the Cabinet met again. The whole balance of the debate had changed. MacDougall recorded that Cherwell told him that Butler had only the support of Lyttelton, Swinton and possibly Crookshank. The Prime Minister, whose acceptance of the plan at a meeting on February 19 had set the ball rolling now came out against the plan.[75]

It is important to note that the decision made in Cabinet was not to reject the plan but only to postpone it. The Chancellor had wanted the plan to be reconsidered in March but the Prime Minister overruled him and the Cabinet decided to wait until April to see what happened. It was only then that Salisbury made the speech to which Dell assigns such importance. It is more than probable that Salisbury made this speech in an attempt to reinforce the temporary advantage held by ROBOT's opponents.[76]

Without Churchill's support Butler stood no chance of getting the plan rushed through Cabinet. As Macmillan noted in his diary, the Chancellor already looked 'very exhausted' by the Cabinet meeting on February 28 when he and many other ministers first heard about the plan. From his vantage point it was clear to Macmillan that 'Rab [Butler] thought that with Churchill's support (which he had at the start) he could ride over his colleagues. Thus C.[Churchill] has changed his ground, and the Chancellor of the Exchequer cannot appeal to his colleagues whom he has (too late) to woo.'[77]

For Macmillan, and probably for other ministers in his position 'the mystery in all this is Churchill. He seems to have almost fathered the plan a few days ago, and then killed it yesterday.' The only possible explanation for Churchill's mysterious behaviour is Eden's opposition to the plan. Churchill had been aware of Cherwell's arguments from February 22. It was only after Eden returned and came out against ROBOT that Churchill changed his mind. In fact, Macmillan was told by Woolton, after the meeting on February 29, that 'Eden had threatened resignation on this issue. If this is really so it would explain Churchill's sudden change of front and abandonment of Butler.'[78] However, even if Eden didn't actually threaten to resign, his opposition was probably enough to persuade Churchill. Eden was in effect Prime Minister in waiting in this period. Churchill had told Colville, his Private Secretary, shortly after the 1951 election victory that he 'intended to remain Prime Minister for one year only, and then hand over to his invariably loyal lieutenant, Anthony Eden, whose courage, energy and integrity, though not always his judgement, Churchill consistently respected.'[79] Given this position Eden's views were of particular importance, probably leading Churchill to conclude that he should not tie the hands of his successor.

Butler was forced to put before his colleagues an alternative plan that was broadly in line with that Hall and Plowden had suggested. Butler stressed his own distaste for this alternative and warned that it involved 'action which in some respects might prove quite as unpalatable to public opinion as the consequences which might have followed from the adoption of the original plan. Political difficulties could certainly not be escaped by preferring the alternative line of policy and the economic consequences might prove to be equally unpleasant.'

Most of these alternative measures, such as the reduction in food subsidies and in Government spending on housing would have been introduced as part of the ROBOT plan in any case. Butler's argument against the alternative measures was that they were not part of a coherent strategy. He later reiterated this point in the letter he drafted in August entitled 'Unfinished symphony' in this he argued that the Government's policy was between 'two stools'. He told the Cabinet that, on the one hand an increase of the Bank rate to 4% 'would certainly evoke the familiar cry that the Conservative Party had put themselves in the hands of the bankers'. While on the other hand, the postponement of convertibility at a floating rate meant that the Government had to continue to rely on controls. He stated that 'if the Cabinet were unwilling to allow the price mechanism to operate automatically to reduce consumption further use would have to be made of physical controls and the mechanisms of economic planning. In particular, a further cut of £3,200 million would have to made in import programmes.'[80]

The clear implication of Butler's remarks was that it would be politically more astute for the Cabinet to take the plunge and accept ROBOT. If they were to do so the Government would be seen to be acting decisively and to be taking policy towards a clear objective of decontrol and liberalisation. Within this framework, measures such as a rise in the Bank Rate could be more easily justified. If the Government failed to take the plunge its policy would appear to be neither fish nor fowl and would be open to attack from both left and right.

The fact that ROBOT had been postponed in February for political reasons meant that the battle for its implementation continued. It was Macmillan's perception that all that was really settled on the February 29 was that the plan 'cannot be rushed to coincide with our Budget.'[81] It was clear that Churchill had not been persuaded by the economic arguments against the plan, the following week he remarked that he still looked forward to the day when it was possible to 'free the pound'.[82] Churchill's sympathy towards the economic arguments for ROBOT meant that Butler still had the upper hand in the long-term battle over the plan and he continued to press for its implementation.

Robert Hall decided that the most effective way to deflect Butler from the ROBOT plan was to propose an alternative. He did so in a memorandum entitled 'The Future of Sterling'.[83] Butler made extensive annotations on his own copy of this memo. These annotations are important not only because they indicate Butler's continued commitment to the principles of ROBOT but also because they indicate the line that Butler took in the discussions of this issue which have not found their way into the public record. In the first part of the memo Hall outlined his arguments against ROBOT. Butler noted his own objections to Hall's line. Hall's suggestion that speculation in favour of a free-floating pound 'could not long offset the depressing effect on the rate of the Sterling Area's current deficit with the dollar area' earned the rebuttal that 'this omits all reference to the economic actions which I have been advised will help to put things right.'[84]

As for the claim that 'the loss of gold involved in holding the lower rate would be greater than needed to hold the present rate', Butler simply responded 'No'. Butler also doubted that 'the cuts in imports would be far greater than those needed to eliminate the dollar deficit at the present exchange rate.' Hall tried to win Butler over by arguing that, rather than dispensing with direct control, ROBOT would increase the need for its use. However, Butler found this statement to be 'too dogmatic'. Finally, Hall claimed that the plan 'would go against our chances of borrowing from international institutions.' Butler responded that 'this is not the confidential advice I have had.'[85]

Hall's alternative proposals combined those of Nina Watts and Robert Neild from the Economic Section and worked on the assumption that radical change was necessary.[86] He argued in favour of developing a two-world international economy. There would be a 'Dollar world' and a 'Sterling world'. The plan involved the ceasing of automatic gold payments between non-dollar countries and the transformation of the E.P.U. in to an extension of the Sterling Area. Eventually, reconciliation would be possible between these two worlds. Hall's plan had much in common with other proposals for a two-world economy put forward in the same period such as Macmillan's plan, which is considered in the next chapter, and Gaitskell's, although Hall put much more emphasis on Europe. Butler was unimpressed by these ideas, he agreed with the Bank and the Overseas Finance Division that the creation of a 'Sterling world' 'would create an isolated uncompetitive trading group built around sterling. As such it was likely to perpetuate rather than eliminate the dollar shortage.'[87]

The proponents of ROBOT were boosted by a change in the international climate to convertibility. An informal discussion with French representatives on May 6 revealed that 'the French Treasury and Bank had clearly been thinking on much the same lines as the UK.'[88] Specifically what the French had in mind 'was a fluctuating rate of exchange' with only tentative moves towards convertibility. The French seemed relatively unconcerned about the impact of this move on the EPU and 'did not even mention the Schuman Plan...in this connection.' The French response might have had a significant effect on the timing of the second attempt to implement ROBOT. Hall noted in his diary that the French had 'hinted darkly that they were going to do great things but not till the end of June, and they didn't want us to do anything till then either, and especially that we should consult them before a major move.'[89]

Butler was sufficiently encouraged by this to ask Rowan to consider the impact upon the UK and the EPU of several possible courses of action. these were '(a) French devaluation to a fixed rate (b) French adopting a fluctuation rate and remaining inconvertible (c) The adoption by one or more countries in Europe of a fluctuating rate with convertibility.' Rowan assumed that this meant either '(i) action by the UK alone' or '(ii) action by the UK and France, with possible results that others e.g. Belgium would follow.'[90]

Rowan's response to option (c) was positive. On June 20 he reported that 'there are indications that a move to convertibility on the basis of floating rates would be followed not only by France but by, at least Belgium, Western Germany is a possible, Switzerland is already for practical purposes, convertible. Italy is also a possibility... There is a distinct possibility that a large proportion of European trade would sooner or later, be on the basis of floating, convertible currencies. This would be in our interest.'[91] This would also mean the end of the E.P.U., but Rowan argues that the UK would not 'be expected to stand in a white sheet on that account. The move to a system of freer convertible currencies in Europe would have advantages which would compensate for the disappearance of E.P.U. as we know it.'[92]

The following day Cobbold informed Butler that the situation required the adoption of ROBOT. In a note covering Cobbold's letter Rowan reminded the Chancellor that 'the important new factor' was the desirability of consolation with leading European countries before the plan was announced. However, there was danger that if Western Germany was informed about the move 'the information would get back to the Americans, and our previous idea was not to tell the Americans until a few days before the announcement.'[93]

Bolstered by the reaction to his Budget, Butler tried to get the ROBOT plan adopted at the end of June. Robert Hall's reaction to this second coming of ROBOT was to advocate more of the same measures as were included in the Budget. Although he agreed that it was 'very unfortunate that the import cuts which were supposed to turn us from a deficit to a surplus position in EPU have not been effective' he still thought that 'further action here [was]... much less objectionable than the drastic action of ROBOT.'[94] However, by this time Butler had lost patience with these measures. He wrote back to Hall pointing out 'how disturbing it is for me to find that I take.physical decisions on cuts and then find in the result that they have not the result I hoped.' He added that on physical measures he had 'been led to doubt whether they will operate in time.'[95]

Butler circulated another memorandum advocating ROBOT on June 28. The new proposal no longer contained a 'provision for the formal funding of the sterling balances of sterling area countries', this meant that the plan would create less difficulties in the Commonwealth. Also 'the different treatment of sterling balances would be very helpful to Commonwealth countries.'[96]

The other main difference from the first version of ROBOT was the attitude in Europe. Butler acknowledged that 'our immediate withdrawal from the European Payments Union has always been one of the most difficult implications of any move to provide convertibility.' However, the position had changed 'and the ideas both of an early step towards convertibility and a floating rate had been ventilated much more fully than they had been previously. I think it is very likely that France and Belgium at any rate, and perhaps others, would follow any lead given by us. there may be indeed a possibility of concerted action over quite a wide field in Europe, and if the plan were adopted by us, it would be possible to have prior consultation with the French, Belgians and Scandinavians in time to permit them to concert with us.' Butler had taken on board Rowan's concerns by noting that 'prior consultation with the German's would also be desirable after the United States Government has been informed.' He concluded that 'it would, of course be very much in our interests that all these countries should act at the same time, and it would greatly reduce the danger of loss of trade through discrimination against us.'[97]

Butler was unsuccessful in his second attempt to get ROBOT adopted largely because of the decision taken by a Cabinet meeting on June 17 attended by the Australian Prime Minister Robert Menzies, to hold a Commonwealth Conference in November. This decision shifted the focus from unilateral to collective action.[98] At the end of July 1952 responsibility for external financial policy was transferred to a Cabinet Committee on preparations for the Commonwealth Conference chaired by Eden. The fact that inter-departmental cooperation would now be necessary on convertibility forced Butler and the Treasury to compromise on the issue. The preparations for the Conference lead to the adoption, against Cherwell's wishes, of the Collective Approach.

The Collective Approach

Cherwell saw the new arrangements for deciding convertibility policy to be to his advantage. Policy was now in the hands of a committee chaired by Eden who had opposed the ROBOT plan. At the first meeting of the Committee on preparations for the Commonwealth Conference Cherwell outlined his idea for an Atlantic Payments Union. This proposal had come out of a meeting three months earlier between Robert Marjolin and Harry Linlott from the O.E.E.C, MacDougall and Cherwell at the House of Lords. The idea was for the United States and Canada to join the E.P.U. which would, therefore, become an Atlantic Union. MacDougall was attracted to this idea 'as a possible half-way house between the extremes of ROBOT and "two-worlds."'[99]

Cherwell's proposal was considered by a Convertibility Working party set up under the Chairmanship of Herbert Brittain and composed of representatives of the Treasury, the Economic Section, the Board of Trade, Cherwell's Office, The Foreign Office, The Commonwealth Relations Office and the Bank of England. The majority of the Working Party, lead by the Treasury and the Bank, considered that the A.P.U. proposal, advocated by Hall as well as MacDougall, suffered from a number of technical difficulties resulting from the inclusion of United States whose currency was already convertible and was also a persistent creditor. It was also concluded that the scheme provided 'no move forward towards convertibility.'[100]

Brittain recorded that the majority also rejected Hall and MacDougall's position that the inconvertibility of sterling should be maintained until the world dollar problem was solved. On the other hand, the working party could not be persuaded by the Treasury and the Bank to support 'as an immediate policy independent action by the U.K. to make sterling convertible.' The Foreign Office feared 'that such independent action would have an unfortunate political effect in Europe'. The Board of Trade considered it unwise 'so long as European countries retain import restrictions on each others goods' because 'we should be exposed, if sterling were convertible, to attacks on our trade designed to build up surpluses in convertible sterling.'[101]

Out of this impasse, and by the time the final report of the Working Party was already being written, emerged the Collective Approach. This appeared to be a workable solution to the problems envisaged by the Foreign Office and the Board of Trade. It was probably suggested by Figgures, an Assistant Secretary at the Treasury and the drafter of the Working Party's report, who had recently returned from the O.E.E.C. The Collective Approach had its origins in the 'key currency' ideas favoured by the Bank during the war as an alternative to Bretton Woods.[102]

The idea was 'to form a nucleus of countries the convertibility of whose currencies is of particular importance to the maintenance of a multilateral trade and payments system throughout the free world.' The currencies of those countries which were not already convertible would become so and simultaneously, probably in the second half of 1953. While each member would be 'free to adopt a fixed or floating rate of exchange, the United Kingdom would adopt a floating rate.' The Working Party suggested that the group of countries that would satisfy this definition would be the United Kingdom, United States, Canada, France, Germany, and Benelux.

Amongst these countries discrimination would be ended, accept against a persistent creditor, in practice this would mean the United States. Otherwise import restrictions could only be reinstated at times of extreme balance of payments difficulties. the other key proposal was that the United States would be asked to make available a 'very substantial fund for any member of the small group which found itself in balance of payments difficulties.'[103]

The acceptance by the Working Party of the Collective Approach demonstrated that the Treasury and the Bank of England were still in the driving seat in the making of convertibility policy. The Collective Approach was a development of the ROBOT plan which conceded that progress was dependent on collective action. Donald MacDougall has argued that it was A.P.U. that forced 'the Treasury off a crude ROBOT scheme and on to a considerably less dangerous set of proposals called the "Collective Approach" to convertibility.'[104] However, the Treasury would have to have supported collective rather unilateral action in order to secure the agreement of the Board of Trade and the Foreign Office in any case. The fundamental policy disagreement between the advocates of the Collective Approach on one hand and of the A.P.U. on the other concerned the desirability of introducing convertibility at a floating rate in the short-run because it would actually help to bring the balance of payments back into equilibrium. On this crucial point the Treasury and the Bank clearly won the argument. The Working Party rejected the position taken by Hall and MacDougall that further moves to convertibility should only be made from a position of strength.

Butler supported the Collective Approach proposals at the fourth meeting of the Commonwealth Conference Committee on September 4. His position was consistent with that he had taken during the ROBOT discussions. He said that 'the United Kingdom must work towards a multilateral system, we could not afford to carry on with our present policies- to run an inconvertible currency on inadequate reserves was damaging to sterling as a currency and to the reputation of the United Kingdom'. For Butler the attraction of the Collective Approach was that it retained the objective of convertibility at a floating rate and that it represented a way of getting the Foreign office and the Board of Trade to agree to these objectives. The problem was to get other countries to agree to collective action. In Committee, his arguments were tinged with a certain reluctance to move away from the option of independent action. While he conceded that the Collective Approach would solve the problem of other countries discriminating against sterling goods and causing a 'descending spiral of trade' he foresaw two problems with the new approach.

The first problem highlighted by Butler concerned the position of Canada 'who might find herself in the delicate situation vis-a-vis the United States, if the latter were discriminated against as a persistent creditor, while she herself was not...' The second problem was with the prospect of the negotiations and the necessary announcements causing embarrassment. Although he had been advised by the Bank that confidence in sterling was not likely to be impaired, he made it clear that 'for his part he would like to see the discussions with the United States and Europe... well advanced at the time of the next budget.'[105]

Despite Butler's conditional advocacy of the Collective Approach all the ministers present at the meeting expressed doubts about it. Maxwell Fyfe was alarmed by the effect on the internal economy envisaged in the official report. The President of the Board of Trade, Peter Thorneycroft, felt that 'it would be necessary to take many other measures before we could proceed to convertibility', Macmillan registered his agreement with Thorneycroft. Salisbury feared 'that the proposals would not be accepted favourably by other members of the Commonwealth'.

Only Lyttelton, who was not present, was in favour of the plan, although as

Eden informed the meeting, his written statement stressed that 'if the approach broke down, it would be necessary to reconsider whether independent action should not be taken by the United Kingdom as suggested in paragraph 115 of the same memorandum.' For his own part Eden lined up with Cherwell in supporting the A.P.U. proposals He felt 'that a leakage of information might lead to a dangerous run on sterling. This danger would be less if a more gradual approach- as in the Atlantic Payments Union were made.'[106]

The ministerial reception of the Collective Approach could hardly have been less favourable. Robert Hall recorded in his diary that after the meeting MacDougall was waiting for him 'in a highly excited state to say that ministers had more or less turned down the 'collective approach' to convertibility and only the Chancellor and Lyttelton were for it. The others seemed almost to prefer APU!' Hall himself had come to see even the APU as too rash an approach, he noted that it was 'a serious embarrassment to me. The fact is that I feel suspicious of all great new plans to set the world right- not that we don't need them but they each need six months examination.'[107]

Cherwell was inspired by the ministerial reaction to the Collective Approach to produce a further memorandum arguing in favour of the A.P.U. proposals which he submitted on 10 September. He saw it as being to his advantage to equate the Collective Approach proposals with those of ROBOT and to argue that the difference between himself and Butler was essentially the same as it had been over these proposals. The 'fundamental difference', he wrote, 'is that some think that we should plunge into convertibility at a floating rate even though our balance of trade and reserves are weak, while others consider that this would lead to disastrous results.' Cherwell repeated his objection to the idea of using the price mechanism to support the policy and to the reliance on 'hot money' to support the rate of sterling. He also doubted the possibility of the United States agreeing to a plan which entailed it being the only country against which discrimination would be allowed and the expectation that it would approve the abolition of the 'no-new-preference' rule of the G.A.T.T. 'And on top off all this', he added, 'the United States is to provide $5,000 million to help members of the group who get into balance of payments difficulties... Will the United States really do all this merely in order to make it possible to allow foreigners to convert their holdings of sterling or other currencies?'[108]

Butler himself doubted whether the American's would agree to the proposals. He had been sent a note by Hall who thought it 'very doubtful whether the U.S.A. would join a sort of inner group like this, or whether a substantial number of countries would agree to forswear quantitative restrictions, except against the United States.' Butler wrote 'V. Sensible' in the margin next to this remark.[109] However, though Butler still hankered after independent action he had little choice but to accept the conclusions of the working party and advocate the Collective Approach, even if he suspected that it might be fatally flawed. The Approach still represented a step forward and embodied the principles of the ROBOT plan.

Butler was able to overcome the hostile response the Collective Approach initially received from Eden and other Committee members. His victory was due primarily to his skill in persuading the Committee that the Collective Approach represented the only possible way forward. In spite of his own doubts, Butler made the convincing argument that progress on revision of the no-new-preference rule of GATT was only possible if these proposals were tied in with the Collective Approach. He 'felt that once the United Kingdom was shown to be ready to discard quota restrictions and discrimination, the United States and the other Commonwealth countries as well would agree' with the government's tariff proposals. 'Without this, however, he doubted if it would be possible to make progress.'[110]

Although Butler persuaded the Committee to support the Collective Approach, he was faced by a further difficulty. While the officials who had prepared a time table for the introduction of convertibility had envisaged revision of the I.M.F. and G.A.T.T. taking place after convertibility, ministers insisted that this revision should take place before or concurrently with convertibility.[111] It was noted that 'if we plunged into convertibility before the G.A.T.T. was revised, we should not be able to persuade other countries to agree to essential changes to it.' On the basis of these new conditions Eden felt able to recommend that the Collective Approach should be suggested as a possible course of action at the

Conference of officials.[112]

Butler was faced with predictable differences of opinion amongst his main economic advisers. While Rowan and Brittain were strongly in favour of the new approach, Bridges reported to Butler that Edwin Plowden remained cautious. Like many ministers Plowden felt it 'essential that we should not be committed to a time-table, i.e. that we do not move to convertibility until the necessary conditions have been fulfilled. Their fulfilment will involve hard bargaining with other countries, particularly the U.S.A.'

Plowden also feared that ministers would not accept the internal measures necessary to adopt convertibility, although he did accept 'the necessity for strong internal measures - in present circumstances - whether we go convertible or not.' Hall went much further than Plowden and objected to the very direction in which Government policy was heading. He doubted 'whether it would be right to commit ourselves to a policy which would involve taking such severe internal measures - measures which he thinks would probably set up severe social stresses because they would be so deflationary. he wants to reach convertibility, but does not think we can move so quickly as he thinks would be required by the collective approach.'

Bridges himself expressed no doubts, he pointed out to Butler that cut backs in Government spending would be necessary if he were to meet only his objectives for the internal economy, let alone his external ones. He argued that 'we are bogged down in a vicious circle of too high expenditure which leads in turn to crushing taxation, which again makes it impossible for individuals or companies to save, and for the economic life blood of the country to flow freely. Hence too, the shortages which lead to the maintenance of controls and the burdening of the administrative machine and to the lack of opportunity for individual initiative.' he concluded that 'we cannot do so many of the things which your Party was returned to office to do, until we lighten the burden on the economy.'[113]

Although Butler was faced by a hardening of opinion amongst his advisers he was still able to secure the outcome he wanted without having to confront those who opposed him. The way he did so was illustrated by what Robert Hall wrote in his diary with regards to the new conditions. He noted that 'a good deal of trouble has since come on the interpretation of this stipulation, which O.F. want to whittle down and MacDougall to stiffen. It seems likely that the Chancellor gave a different interpretation of what was meant by this to Rowan and Plowden.'[114] This deviousness on Butler's part had a certainty of purpose. When the memorandum recommending, in the light of the meeting of Commonwealth Officials, that the Collective Approach should be put forward at the Commonwealth Prime Ministers Conference was introduced to Cabinet by Eden it envisaged convertibility being introduced before rather than after the policy for the removal of quantitative restriction on trade and 'the progressive removal of discrimination as the world dollar problem is solved.'

The Cabinet discussion turned on the fundamental difference of opinion between Cherwell and Butler. While Cherwell did not dissent from the view that the 'ultimate objective must be a system of multilateral trade involving convertibly of sterling.' He felt that 'before this objective could be attained, the economic position of the United Kingdom must be strong...' On the other hand, Butler believed 'that convertibility was not an end in itself. It was simply one of the methods by which we might advance to a multilateral trade and payments system which would support our own economic position and extend the scope of our trade.'[115]

While several ministers shared Cherwell's apprehension about a premature move to convertibility and a multilateral system, Churchill summed up the meeting in favour of Butler. The decision represented a final victory for Butler over his Cabinet opponents. The government was now committed to convertibility at a floating rate. The losers took the decision badly. Cherwell, who is often thought to have had the ear of the Prime Minister on these issues, regarded the decision 'as a put up job between Butler and Churchill.'[116] In his despondency, Robert Hall recorded that Norman Brook felt that Ministers had accepted the Collective Approach 'without belief let alone enthusiasm, only because they cannot think of anything else.'[117]

At the Prime Minister's Conference itself the main difficulty arose over the proposal that Sterling Area countries should maintain fixed rates with sterling after sterling had become convertible at a flexible rate. The delegations of India, Pakistan and Ceylon all foresaw difficulties in committing themselves to such a link after convertibility. All of these countries wanted to reserve the right to peg their currencies against the dollar rather than the pound. Although the India Finance Minister Deshmuch had declared that 'there was a 95 per cent likelihood of India linking her currency with sterling.'[118] The Cabinet decided that the Collective Approach could not proceed without agreement by these countries. Eventually Butler and Deshmuch put together a compromise allowing a switch of allegiance to the dollar if the pound were floated in an emergency when heavy depreciation was expected.

Butler went to Washington in March 1953 to secure American agreement to the proposals. As he had feared, such agreement was not forthcoming. Frank Lee reported back in London on March 10. He told a meeting at the Treasury that Butler had made a good impression on the new American administration. Both by his mastery of the facts and 'his ability to use words like 'moral' and 'right' which the Americans thought quite proper though British civil servants could not bring themselves to use in a business deal.' Despite this the American's made no commitment whatsoever, they believed the approach to be premature. Lee also reported that the new administration was 'unduly afraid of Congress' and would not ask for the large loan of five million dollars the British wanted or for the lowering of tariffs.[119]

The failure of the Anglo-American talks marked the end of the Collective Approach as a policy for action rather than a collection of aspirations. Such failure had been predictable. The Approach had emerged as a last minute compromise when the Treasury and the Bank had failed to convince other Ministries, particularly the Foreign Office and the Board of Trade that unilateral action was the best way forward. The Collective approach was essentially Operation ROBOT without the sting of presenting other nations with a fait accompli. For Butler, the failure to get American agreement meant that his external financial policy had reached an impasse. He could not get his colleagues to agree to unilateral action, at least as long as a crisis was not imminent. An international solution to the problem, which had been difficult enough to secure Cabinet agreement to was now also impossible, at least for the time being. The irony was that the Collective Approach had been a response to tensions within the British Government rather than outside and had, in many ways, made international cooperation less rather than more likely. It was hardly surprising that Butler came back from Washington with, as Hall reported, a belief 'that he had been misinformed about the probable U.S. reaction.' There was also 'an undercurrent among some of his colleagues that his policy had received a severe set-back and should be abandoned.'[120] However, only a year later Butler again began to make progress towards his objective of floating rate convertibility.

Butler and De-Facto Convertibility

The American reaction to the Collective Approach forced Butler to change tack in his external policy. It has been suggested by Samuel Brittan that the Treasury should have pushed through the ROBOT plans in the more favourable conditions of 1954.[121] However, Butler's hands were tied by the commitment to the Collective Approach. While the acceptance of the Approach by the Cabinet had been a notable victory for Butler it also meant that important conditions were supposed to be fulfilled before the pound could be made convertible. Butler told the first meeting of the short-lived Cabinet Committee on External Economic Policy on July 9 1954 that 'over the last year or so sterling had in fact been sufficiently strong to have been made convertible. But the progress of the United States towards good creditor policies had so far been disappointing.' There were also political considerations, ministers agreed 'that there were strong political and economic arguments against attempting convertibility shortly before a General Election.'[122]

In spite of these hindrances Butler still wanted to make progress towards convertibility. He was supported by the Bank of England which argued that unilateral action was still possible. On November 4 1953 Cobbold sent Butler a long letter, skilfully couched in words intended to appeal to the Chancellor's thinking on economic policy, outlining a possible approach over the next two years. Butler's intention was to unite the objectives of internal and external economic policy, but as Cobbold pointed out, they were becoming increasingly separate. 'I think that H.M. Governments policy of freeing things up, removing controls and allowing the price system to work has now (perhaps just in the last months) crossed the Rubicon. Our exchange control arrangements are still geared to a controlled economy and are running behind our commercial and commodity arrangements.' For the Governor this meant 'getting the worst of both worlds' and he warned that if conditions deteriorated it might mean a return to physical controls and rationing. Since it was difficult to believe that any progress would be made in getting the Americans to agree to the commitments of the Collective Approach, Cobbold suggested finding some 'technical means of speeding up the time table'. As a first step he suggested that 'consideration might be given to a general simplification of exchange control practice towards non-resident sterling other than on American account, with a view to allowing a regular market alongside official sterling... This would bring us nearer to but would still leave to be faced, the next step of free transferability between American and other non-resident sterling.'[123]

The reaction in the Treasury to the first part of Cobbold's plan was largely favourable although it had two formidable opponents in Robert Hall and William Strath of the C.E.P.S. In August 1953 the Economic Section was moved to the Treasury from the Cabinet Office and Hall felt himself to be in a much stronger position. Both Hall and Strath believed that the scheme represented a risk to sterling's defences and argued that the operation should be put on hold.[124] Despite these objections Butler made a provisional decision to adopt the proposal after the Commonwealth Finance Ministers meeting in Sydney.[125]

At the beginning of 1954 Strath and Hall stepped up the pressure to stop the unification of sterling going ahead. Hall wrote to Gilbert asking 'whether in this period of increasing uncertainty in the balance of payments front there is any real need to press forward with the unification of non-resident sterling... I should have thought that this was hardly the moment to throw away yet another of our defences, limited though it may be.'[126] Both Rowan and Bridges argued that these controls were ineffective and not worth keeping. On March 2 Butler agreed to the reopening of the London Gold Market but took a further day to think over his decision before agreeing to the unification of non-resident sterling.[127]

Stage two of Cobbold's plan was for the coalescence of the official and transferable rates of sterling followed by a move to wider dealing spreads of \$2.70-\$2.90. In substance, as Robert Hall noted in his diary, these proposals were 'the same old ones he had brought nearly 3 years before' namely, the ROBOT plan.[128]

Butler was naturally attracted to these proposals, but the Treasury argued that such a move could not be presented as anything other than the introduction of convertibility without the conditions of the Collective Approach having been satisfied. Furthermore, the Government was now faced with the political uncertainty surrounding the timing of Churchill's retirement and the next General Election. The risks surrounding an early move to convertibility were too great for Butler to agree to it in a probable Election year.

Cobbold recommended the introduction of stage two on January 20 1955. On the same day Butler was presented with a report by the Programmes Committee which predicted a slight deficit in the balance of payments for the first half of 1954 and a substantial one for 1955.[129] As a move to stage two was not immediately possible for political reasons the Bank recommended the intervention to support the rate of transferable sterling, which amounted to de facto restoration of external convertibility, as part of a package to deal with the balance of payments problems and the weakness of the pound.

Both Rowan and Hall argued against the proposal which they thought was both unnecessary and premature. But Butler was minded to accept the advice of the Bank. Hall noted in his diary that Butler 'always feels that the Bank have to do the job and are his principal advisers on exchange rate and monetary questions, and he doesn't seem to be worried by inconsistencies unless it suits him to point them out, i.e. unless they appear in the case of people who want to do things he dislikes having to do.'[130]

Butler made the decision to support transferable sterling on 23 February. It was accepted by the Bank that any further moves would have to wait until after a general election; they did not have long to wait. In early April Churchill finally retired and was replaced by Eden who discussed the timing of the Election with Butler. It would appear that the issue of convertibility proved to be the decisive factor. In a note dated April 6 Robert Hall wrote 'I think that the general economic situation is much better than it was in 1952. Production has increased and we have absorbed the increased defence burden. The reserves are better and our overseas debts not so awkwardly held. Thus I think that the dangers of convertibility are much less now than they were then. But our policy of ending controls and rationing has made it much more desirable to have a floating rate as a means of adjustment, and I think that on economic grounds it is very desirable that we should take the remaining steps to convertibility very soon.'[131]

The Conservative's were returned with an increased majority and the Bank resumed its pressure for stage two. Butler himself approved of the Bank's plan which he called the 'January 20th proposals'. The plan included wider dealing spreads for sterling which would have been a good interim move towards floating. Hall noted in his diary that Butler thought 'he must have some freedom to balance his exchange now he has given up controls.' Further, Butler believed that the proposals represented the best chance of making progress. He argued that the proposal represented 'a "halfway house" which his colleagues might accept - he thinks they won't take the full Collective Approach now because of the consequences on the trade side.'[132]

However, all of Butler's senior advisers were against the move. Hall, who had favoured an early move to convertibility before the Election now appeared to have cold feet. He noted in his diary that 'none of us can see any difference between the Collective Approach and Jan 20th except that under the latter we would be acting alone... and all the fine words we have used about consultation would be shown to have been hollow... none of us feel that we ought to do something the world will recognize for what it is, and pretend that it is a good deal less than that (us=Treasury officials).'[133]

While discussions over stage two between the Bank and the Treasury continued, Bank representatives openly muted wider dealing spreads for sterling in the discussions over the future of E.P.U. held at Basle and Paris. Consequently, speculation against the pound increased as market operators assumed that it would soon be made convertible, and given the inflationary situation, open at the bottom of any spread. On July 19 Butler was pressured by Gaitskell and Roy Jenkins in the Commons on the question of whether he planned convertibility at a floating rate.[134] Butler parried these questions but the continued run on the pound forced him to deny that he planned to float the pound in a debate on the economic situation on July 26. This statement was motivated primarily by the need to reassure public opinion. Robert Hall recorded that the decision to deny the possibility of floating was 'taken more or less by chance' and without the Cabinet having been consulted. Rowan's comment that 'he did not believe that if we had to choose between fairly full employment and a fixed rate we would choose the latter' indicated that the decision was not intended to be final.[135]

Given the currency position Butler was forced to reject the Bank's proposal to announce a version of the stage two proposals at the Istanbul meeting of the IMF in September. Instead, the immediate task, as Butler later wrote in his memoirs, was 'to steady the pound, and this I did at Istanbul in September at the IMF meeting. With Sir George Bolton beside me, excitedly whispering into my ears, I repeated to the domes and minarets several times the incantation that the pound would not float but would remain within fixed margins and be steadily defended by our resources combined with still anti-inflationary measures. I felt that in the exigencies of the moment the Robot vision with which I begun my tenure of the Treasury was clearly inappropriate.'[136]

Conclusion

The ROBOT episode is often written about as if it were an aberration on the long road to the objective of fixed rate convertibility that was finally reached in 1958. In Years of Recovery Alec Cairncross writes that 'the alarms and excursions of 1952 were soon forgotten and when convertibility *de facto* came in February 1955 - only two and half years later - it took the form of support, at a fixed rate of exchange, for transferable sterling without the blocking or funding of any sterling balances.'[137] More recently, Edmund Dell has argued that the episode did lasting damage to Butler's reputation within the Government and that by 1953 'Butler had no policy' and 'the upshot was a divided Treasury under a weak Chancellor.'[138] Neither of these conclusions can be justified.

Butler pursued the objective of convertibility at a floating rate throughout his time as Chancellor. His decision to support de facto convertibility in February 1955 was intended as a move towards this objective. It was only the run on sterling that persuaded Butler to publicly deny that his objective was floating rate convertibility for reasons of short-term expediency. Dell's contention that 'the regrets that Butler expressed in The Art of the Possible about ROBOT's rejection 'do not seem to have been present in 1953 or after' is also incorrect.[139] Butler was still advocating the objectives of the plan when the pound was finally made convertible at a fixed rate in 1958. Robert Hall noted in his diary at the time that Butler felt 'betrayed by the Bank and O.F.' both of which were by then against floating..[140]

The postponement of ROBOT did no lasting damage to Butler's reputation. The fact that the Cabinet was to endorse Butler's policy in the form of the Collective Approach would indicate that Butler was quickly able to reestablish control over this area of policy. During his time at the Treasury Butler saw his public reputation grow enormously and by 1955 he was seen as the only serious rival to Eden for the succession to Churchill.

Butler made the running in the making of external financial policy during his Chancellorship to the same extent as Gaitskell had during his. It would be fair to conclude that they had taken policy in opposite directions. Gaitskell was motivated by the belief that the objective of convertibility was incompatible with that of a socialist economic policy. Butler saw convertibility at a floating rate as being central to the fulfilment of his objective of a free economy in which market forces were given greater play. The decision to go for fixed rate convertibility in 1958 was an outcome neither had wanted.

Notes:

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31. Alec Cairncross: Ibid; Edmund Dell: *The Chancellors: A History of the Chancellors of the Exchequer 1945-90*, HarperCollins, London, 1997.

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36. Ibid. col.1006.

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119. Cairncross(ed.): Op Cit. 11/3/53, p.270.

120. Ibid. 25/6/53, p.275.

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123. Cobbold quoted in Fforde: Op Cit.

124. PRO T 236 3937 'Unification of Non-Resident Sterling', Edward Playfair, 4/12/53.

125. PRO T 236 3937 'Unification of Non-Resident Sterling. Bridges to Butler 19/2/54.

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129. Ibid.

130. Ibid. 3/3/55, p.30.

131. PRO PREM 11 864 Note by Hall, 6/4/55.

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135. Cairncross(ed.): Op Cit. 24/11/55, p.43.

136. Lord Butler: The Art of the Possible: The Memoirs of Lord Butler, Hamish Hamilton, London, 1971. p.180.

137. Cairncross: Years of Recovery, Op Cit. p.265.

138. Dell: Op Cit. p.194.

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Chapter 8

'One-World' or 'Two-World'?

Discord and International Trade Agreements

Although the 'Proposals for Consideration by an International Conference on Trade and Employment ' were published in December 1945, at the same time as the American loan agreement, the negotiations had been conducted separately. The 'Proposals' were the culmination of negotiations between the wartime coalition Government and the American administration on the issue of postwar trade.[1] The 'Proposals' envisaged the establishment of a commercial world order of free trade based on multilateral agreement under the aegis of an International Trade Organisation.

During the negotiations the most critical issue had been the relationship between the reduction of American tariffs and British imperial preference. Although the Americans refused to agree to automatic across-the-board reductions in their tariff and would continue to negotiate by individual tariff, they insisted on the end of imperial preference. The eventual agreement committed the British Government to the elimination of imperial preference, although this was linked to progress in the reduction of American tariffs. It stated that 'In the light of the principles set forth in Article VII of the Mutual Aid [lend-lease] Agreement [1942], members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariffs preferences, action for the elimination of tariff preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document.'[2]

As well as the 'Proposals concerning an International Trade Organisation', the agreement also included 'Proposals concerning Employment'. These proposals were only added to the agreement after it had been fully drafted at the insistence of the Australian negotiators.[3] The employment proposals pledged the signatory states to take action to achieve full employment within its own jurisdiction, through measures appropriate to its political and economic institutions.'[4] No consideration was given to how the goal of full employment was to be achieved and the agreement put severe qualifications on how it could be brought about. The agreement stated that 'no nation will seek to maintain employment through measures which are likely to create unemployment in other countries or which are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production.'[5]

Over the next five years the Labour Government was to move away from the provisions it was pledged to support under the 'Proposals'. It became increasingly concerned that a one-world economy would lead to high unemployment and sought to include within international agreements guarantees of full employment abroad and of its protection at home. These concerns contributed to the eventual failure of the International Trade Organisation negotiations and to international agreement hanging by the thread of the General Agreement on Tariffs and Trade (GATT) which had originally been intended only as an interim measure.

As President of the Board of Trade Harold Wilson became sceptical about the desirability of a one-world economy based on multilateral trade agreements as a policy objective. He argued that as the worlds greatest creditor, the Americans should be prepared to make greater concessions and agree to unequal trade relationships. Wilson came to see Britain's future lying in increasing bilateral trade with Commonwealth countries through the strengthening of imperial preference.

The Conservatives came to power in 1951 pledged to extend imperial preference. The next four years saw the Party move to open support of a one-world trading system based on free trade. This remarkable turn-around was largely the work of Peter Thorneycroft, the President of the Board of Trade, and of Butler himself, with the tacit support of Churchill. While Wilson and Gaitskell continued to call for the extension of trade discrimination, by 1954 the Conservatives had become committed to the no-new-preference rule of the GATT.

The London Conference 1946

By the time the Preparatory Committee gathered to begin work on the Charter of the International Trade Organization (I.T.O.) in October 1946 the British Government had become worried about the prospects of an American slump. The proposals it made to deal with such an eventuality revealed a fundamentally different approach to the issues of international trade to that favoured by the Americans. For Cripps and his colleagues the prime objective of the conference was to 'achieve an agreement as to the manner in which the nations can co-operate for the promotion of the highest level of employment and the maintenance of demand and can bring some degree of regulation into world trade and commerce.'[6] For Clair Wilcox, the head of the American delegation, the prime objective was to achieve an agreement so 'the existing barriers to international trade should be substantially reduced, so that the volume of trade may be large.'[7]

The position taken by the British Government at the London conference seems to have taken informed opinion by surprise. *The Economist* had expected the main controversy to be 'between the "free trade" conception of the Americans with its goal of a maximum volume of trade in good years and the "full employment" conception of the Australian and other critics.' What it had not expected was 'the British Government, which is pledged to give support in principle to the American proposals and has hitherto seemed to be rather more than half converted to them giving strong support to the "full employment" school and emphasising the fact that it is not committed to a single clause of the American charter.'[8]

The proposals showed that the British Government did not believe an increasing volume of trade would be enough to maintain full employment. The correct internal policies would have to be adopted by member countries if a slump was to be avoided. The classical conception was that free trade led to greater demand, Hugh Gaitskell said at the time of the conference that for the British government the equation was the other way round: 'if you can maintain full employment in America, the prospects for freedom from trade restrictions are bright.'[9]

The British proposals were laid out in an annex to a memorandum by the

United Kingdom delegation. This memo began by stating that 'the maintenance of full employment is a vital element in the policy of His Majesty's Government in the United Kingdom. The objective of maintaining full employment in any one country may well be frustrated unless all other nations are likewise maintaining full employment. His Majesty's Government therefore fully support the proposition that this subject is one on which international action is necessary.' It continued with the warning 'that unless adequate steps are taken to this end, the results hoped for from the reduction of trade barriers will not be fulfilled.'[10] It was suggested that 'there should be convention covering International Employment policy which might either take the form of a separate convention or form part of a general convention which would also establish the International Trade Organization.'[11]

The British proposals could be broken down into three main components. The first was 'to take action designed to achieve and maintain full employment within each country.' The second was 'to correct a fundamental disequilibrium in the balance of payments, which by creating balance of payment difficulties for other countries prejudices them in the maintenance of full employment' and the third was 'to participate in appropriate international action of a positive character to promote full employment.'[12] The final proposal included 'an invitation to the Economic and Social Council and the various specialist agencies to consider what positive contributions they can make to the maintenance of full employment internationally.'

The justification offered for the first proposal by the British government was that the maintenance of full employment was 'a duty which each government owes not merely to each own nationals, but to the world as a whole.' The British argued that the fulfilment of this goal could not be brought about simply through the right international conditions, in fact, 'the adoption of effective domestic measures for the maintenance of full employment is the essential basis. If all important countries adopted effective policies of this kind, no international depression need ever develop.'[13] Despite American objections, the draft of the Charter prepared for the Geneva negotiations did include the statement that 'each member shall take action designed to achieve and maintain full and productive employment and large and steady growing demand within its own territory.'[14]

The second British proposal entailed the obligation on member states to 'take action... to correct a fundamental disequilibrium in its balance of payments which persistently creates balance of payments difficulties for other countries and so prejudices them in the maintenance of full employment.'[15] This put the onus squarely on creditor countries, principally the United States, to do something about its surplus. 'A country may be persistently buying from aboard or investing abroad appreciably less than it is selling abroad. Indeed, the excess of its sales of exports may be the means whereby it is maintaining its own employment. This is, however, likely to exercise and to intensify their problem of maintaining their own employment.'[16] The Americans also gave way on this issue and the draft charter contained a commitment on the part of surplus countries to make 'their full contribution to action designed to correct the maladjustment.'[17]

The British Government also contemplated the idea of an 'escape clause' which would release the United Kingdom and other countries from the multilateral obligations in the event of a slump in order to protect full employment. In the end it turned out that such a safety clause was not necessary as the draft charter allowed 'members to take action within the provisions of this charter to safeguard their economies against deflationary pressure in the event of a serious decline in the effective demand of other countries.'[18]

The Overseas Economic Policy Committee of the Cabinet declared itself to be happy with the outcome of the London conference. The Committee recognised 'that there were limits to the extent to which it would be possible to ensure the carrying out of these provisions. It was difficult to imagine, for instance that the United States, with an economy geared to export, would be able to devise fully effective means to ensure full employment at home at a time of international depression,' However, it was still considered 'an considerable advance to have secured international recognition that the maintenance of full and productive employment and of high and stable demand should be a matter of concern to all nations and the responsibility which they owed to each other.'[19]

The London Conference had accepted the British proposal that the Economic and Social Council of the United nations (ECOSOC) should consider ways to maintain full employment internationally. The focus of British attempts to secure international full employment now shifted to ECOSOC as practical methods were sought for fulfilling this objective.

ECOSOC

In March 1948 ECOSOC asked the British Government to fill out a questionnaire on employment policy. The Economic Section was given the task of preparing draft answers to these questions. In response to the questionnaire's seventh question: 'Should unemployment develop as a result of a deficiency in effective demand, what programmes and provisions are available to off set it?' the Economic Section's reply included various explicit commitments. These included the variation of Government orders of consumer goods; the expansion of public investment if private investment should fall off and the exercise of a wide influence over building and civil engineering.[20]

Asked to comment on the draft, Bernard Gilbert complained that the Economic Section's response went much further than stated government policy. He wrote that the answer gave 'much more substance to proposals for off-setting a deficiency in effective demand than was given in the White Paper on Employment Policy, or so far as I can recall, in any subsequent ministerial speeches. If the subject is now to be written up ministers would no doubt have to give careful and detailed consideration to what was said, and move over anything that was to said to Parliament here before it is said to the United Nations.'[21] All of the explicit commitments were written out of the final reply to the questionnaire to the satisfaction of Gilbert who wrote that it went 'no further than what is said in the White Paper on Employment Policy in 1944.' He added that even the suggestions of 1944 'may not prove to be as effective as we then thought.'[22] However, the answers to the questionnaire did represent a detailed expression of British employment policy. The idea that Governments should give information on there employment policies was institutionalised in the form of semi-annual reports.

To help combat the balance of payments problems inherent in the I.T.O the British Government initiated the idea of an experts committee on 'national and international measures to achieve full employment.' The committee included two American economists, J.M.Clark and A.Smithies; one British, Nicholas Kaldor; one

French, P.Uri; and one Australian, E.R.Walker. The committee's report made a number of radical suggestions for government action. It proposed that governments should:

'(i) announce a full employment target;

(ii) announce a programme for directing all relevant aspects of policy to the continuous achievement of full employment;

(iii) adopt and announce a system of automatic and compensatory measures to operate in case of failure to maintain employment;

(iv) announce its anti-inflation policies;

(v) adapt its legislative, administrative, and statistical procedures to the implementation of full employment.'[23]

On the international side the committee recommended moves to: '(i) establish a programme involving statistical exercises, conferences, and a permanent expert advisory commission, to eliminate the present structure disequilibrium in world trade;

(ii) stabilise the flow of international investment;

(iii) stabilise external disbursements in the face of internal fluctuations in effective demand.'[24]

On receiving the expert committee's report Douglas Jay immediately expressed his enthusiasm. He wrote to Cripps, now Chancellor of the Exchequer, declaring that it was 'a really outstanding contribution to the basic - sterling dollar - and in fact world economic problem.' He felt that the chances of the report's recommendations being put into practice were helped by the 'support of the two distinguished and fairly orthodox American experts.'[25]

In a further letter to Cripps Jay expressed his hopes for the committees recommendations. Jay argued that the presence of the two Americans on the Committee was a 'great tactical advantage...which may not recur' therefore the Government had to push the recommendations to the hilt. 'It may then be - one cannot tell - that these proposals might assume later on really major importance, comparable with Marshall Aid. As Marshall Aid dwindles, the sections of U.S. opinion which support it are likely to be looking around for some method of aiding the rest of the world economy.'[26]

An inter-departmental working party was set up to advise on the report. While praising the ideas behind the report the inter-departmental committee saw many obstacles in the way of its implementation. On the seemingly straight forward suggestion of fixing a full employment target the committee concluded that there were significant difficulties, 'unemployment figures and percentages are not internationally comparable. The scope and definition of unemployment differ considerably between countries.' The working party advised that the Government should say that 'the recommendation has obvious attractions if it is possible but that it raises a number of practical questions that require further considerations.'[27] The working party found similar problems with all the expert committee suggestions.

Jay was dismayed by the tone of the working party's report. Although he was 'in general agreement with the report' he stressed that 'it is vital that we take a positive attitude in ECOSOC and avoid even the suspicion of using detailed criticism to cold-shoulder the proposal.'[28] Gaitskell went further than Jay in criticising the working party, he wrote that he 'did not agree with the working party's anxieties on the technical difficulties.' Gaitskell believed that the British Government had to be positive for there to be any hope of international action. 'The real difficulty' Gaitskell agued, 'is political - to persuade the other Governments to intervene by direct controls to prevent inflation, and in the case of the U.S., to take the necessary action to offset the surplus in their balance of payments.'[29]

At the ECOSOC meeting in August 1950 the British delegation supported the principles of the Experts Committee while not advocating the explicit schemes for international action. However there was strong American opposition and little support for the British position from other delegates. The only aspects of the scheme to survive were the employment standard and the idea of annual reports on economic plans and prospects. The Americans were not committed to any plans to restore equilibrium to their balance of payments.

The Economic Steering Committee under the Chairmanship of Edward Bridges decided that the employment standard should be in the form of a ceiling figure, above which 'it would be a "continuing objective of policy" to prevent unemployment rising.' The figure suggested was 4%, The logic behind this suggestion revealed a certain disregard by the committee for what ministers wanted the employment standard to achieve. The figure was based on an estimate of the effects of a decline in exports and drew on the experience of the pre-war American recession of 1937-38. This example was deemed to be useful partly because of the 'rapid recovery, due to a large extent to prompt change in the United States government's monetary and fiscal policy.' However the use of this example in setting the standard meant that officials had assumed that American policy would not change. Officials even allowed for a fall in exports of 12%, 2% higher than in 1937/8.[30]

Gaitskell, by now Chancellor, did not agree with the thinking behind a figure of 4% for the unemployment standard. He decided that the ceiling should be 3% as this was more likely to perform the function intended by ministers. Gaitskell argued that 'the main practical advantage of the publication of national standards will be to encourage the United States to publish and (when the time comes) to observe a reasonable standard and for this purpose... the lower we can put our standard the better.'[31] Gaitskell was successful in getting the ceiling figure for the standard lowered to 3%. The figure was officially announced in March 1951. It was the first time the Government had made a public commitment to an unemployment standard.

The Geneva Conference 1947 and the Havana Conference 1948

The American negotiator, Will Clayton, and his colleagues badly needed success at the Geneva conference of 1947. This conference was held to negotiate the General Agreement on Tariffs and Trade (GATT), intended as an interim measure while the International Trade Organisation agreement was finalised. The concessions granted to the British at the London conference meant that Congress had to be appeased. They entered the negotiations with authority for a 50% reduction in tariffs. In return they thought the conference would be a success 'only if the Imperial Preference system is thoroughly wrecked beyond hope of repair.'[32] However, Cripps and his Cabinet colleagues were unwilling to give the kind of concessions Clayton was looking for. Cripps told the Cabinet that Clayton 'regarded the concessions offered as inadequate...[Clayton] felt it a matter of personal prestige to obtain a much wider elimination of preferences.'[33]

To achieve this objective Clayton had suggested the process of reduction could be spread over ten years and would not begin until 1950. On the other hand, Cripps felt that the British had already conceded enough. It had been estimated that British offers already made covered a volume of trade of $160 million a year, as compared with United States offers covering only $81 million a year. On top of this Clayton's offer was not viable because Cripps felt 'it would be wrong for His Majesty's Government to pledge a wider field in 1950, since it was impossible to foresee what conditions would be at that date. Moreover, the tariff reductions offered by the United States Government would last for a period of three years only, and it seemed only fair that His Majesty's Government should retain the right to consider in 1950 what further eliminations of preferences they were willing to offer in the light of the proposals of the United Stated Government with regard to tariff levels after 1950.'[34]

At the Geneva Conference Harold Wilson served notice that rather than agreeing to the elimination of preferences Britain was looking at ways to strengthen trading links with the Commonwealth. He also argued that Multilateralism was a distant goal: 'The methods we may have to use in the intervening months and years may appear to be opposed to the principles of the Draft [I.T.O] Charter. Many of us will certainly have to assist our position by agreements with particular countries, some of whom are represented here... in our case we shall find it necessary and desirable to have ever closer economic co-operation with other countries in the Commonwealth.'[35]

Wilson echoed these sentiments in the Commons debate on the G.A.T.T. agreement. He argued that it was 'essentially a long-term scheme' and that in Empire development; bilateral trade agreements and co-cooperation with western Europe 'this country has set its programme for the immediate future.'[36]

In the Commons debate Peter Thorneycroft was the only member of the Conservative ranks to offer open support for the agreement. He argued that international trading rules were a necessary development. 'The issue here is not free trade of discrimination, but whether we are to have a limit to nations imposing quotas and discriminating just as they will, and whether we are to trade with our Dominions and the United States according to the same rules of the game. We ought to lay down the rules of the game.'[37] Thorneycroft also pointed to what he saw as the 'strange inconsistency in the Government asking for relatively free world economics and wanting an over-planned economy at home. I cannot see how the two stand together. It is blatant hypocrisy to talk about a system based on price mechanism to govern the export trade, and then talk about planned economy at home. The Geneva Agreement is only a machine, but it is a machine which has to be used. I support the main principle of it, but I want to see the Government take steps which will make it possible for manufactures in this country to use that machinery....We want steps taken to restore the price mechanism. What is the good of adopting a trading system when there is inflation in the domestic economy? How are we going to find exports when we have that amount of inflation? Those are the kind of things that want to be done. We criticise the Government not for signing the Agreement, but for failing to take steps which will enable manufactures and adventures in this country to put their plan into full effect.'[38]

Thorneycroft's open support for the objectives of the Geneva agreement is notable given the fact that Churchill was to appoint him President of the Board of Trade three years later. His enthusiasm stood out so much in the debate that when the Labour M.P. J.S.C. Reid argued that there had been no unqualified support 'in any part of the House except perhaps in the Liberal Party.' His Labour colleague Iain Mikardo interrupted to ask: 'what about the hon. member for Monmouth (Mr P. Thorneycroft)?'[39]

At the final drafting sessions of the I.T.O. Charter British negotiators sought to modify the rules applying to non-discrimination. It was feared that the planned review of discrimination after 31 December 1951 would be far too early. The British delegate, Sir James Helmore, argued that 'for the countries advancing this Charter to take it upon themselves to say that by 31st December 1951 all discriminations will be wrong when we have admitted that throughout 1948-49-50 some of them may be right, seems to me to be attaching to ourselves altogether too much importance.'[40]

The United States was forced to accept more flexible rules governing discrimination, known as the 'Geneva Option'. This meant that countries no longer had to discriminate in the use of quantitative restrictions in a manner equivalent to the exchange restrictions permitted under the International Monetary Fund.

At the Havana Conference of 1948 the British Government, hardened by the dollar crisis, proposed the extension of the period of suspension to the end of 1952 and also attempted to remove from the final version of the Charter the principle that discrimination was only a transitional device. Although it failed in both these objectives the final rules on discrimination were a mess. The date for the review of discrimination was set at 1 March 1952. However, the scope for discrimination during the transitional period was much wider than before. This made it even more difficult to bring discrimination to an end.

The position the British government had taken at the Geneva and Havana conferences had revealed increasing doubts about the feasibility of the trade provisions of the I.T.O. and about the desirability of multilaterlism as a policy objective. The government declared that it would ratify the agreement only after the Americans had done so. Wilson expressed his own doubts about the I.T.O in a memorandum he submitted to Cabinet in September 1949. He posed the question:'Why is it that the results of this postwar economic planning have been so relatively disappointing?' Although he admitted that the main cause was the size of the task he still thought that 'an important contributory factor... has been the consistent tendency of the United States to expect too large or too quick a return for the contribution they have felt able to make, and which has in fact proved unattainable.'[41] Wilson wrote that throughout the I.T.O. discussions 'there has been a the greatest difficulty in reconciling United Kingdom and United States points of view - United States pressure for tight control over discrimination and United Kingdom desire for latitude.' Wilson argued that the Americans would have to make further concessions if Parliament was to ratify the Charter. They would have to agree to 'a suspension of non-discrimination rules for a period of, say, two or three years, with provision for subsequent extension if need be.' However Wilson admitted that getting this would be 'a tall order.'[42]

Richard N. Gardner has given a clear and concise explanation as to why the

I.T.O. was 'still-born': 'The two major sponsors of the I.T.O. sought to incorporate in the Charter a detailed statement of their favourite economic doctrines. The United Stated pressed formal undertakings for the elimination of Imperial Preference, quantitative restrictions and discrimination of all kinds. The United Kingdom pressed equally detailed undertakings to protect domestic policies of full employment. The result was an elaborate set of rules and counter-rules that offered imperfect standards for nation policy. These rules and counter-rules satisfied nobody and alienated nearly everybody. They grew into a mountain of complexity that the I.T.O. finally collapsed of its own weight.'[43] When the American administration quietly announced on 6 December 1950 that it would not ask Congress to ratify the I.T.O. the future of International trade rested on the G.A.T.T. agreement. This had only been intended as an interim agreement and was still perceived as such.

The Torquay Round 1950

The Torquay Round of G.A.T.T. negotiations was the first to be held after the American decision not to ratify the I.T.O. Charter. Wilson told the Cabinet Economic Policy Committee that in the light of 'the United States Administration's statement of intention to support the continuation and strengthening of the G.A.T.T.' in the I.T.O.'s stead, he would 'probably be recommending to my colleagues in the near future that we seek to get a substantial easement of the "no-new-preference rule" in the G.A.T.T. or any permanent organisation we are asked to join.'[44] The no-new-preference rule prevented the granting of any new preferences to Dominions and Commonwealth countries. In his speech to the Torquay conference Wilson echoed his words in Geneva, arguing that in the Commonwealth trading system 'there lay a measure of stability and a potential for expansion which would benefit the entire world.'[45]

However, Wilson's main concern during the Torquay round itself was with ongoing bilateral negotiations. In these he planned to continue to put pressure on the Americans to play an unequal part because of the balance of payments situation. He wrote that the objective was 'to make further inroads into the United States tariffs to increase the competitive power of our dollar export drive.' This meant securing 'an agreement "unbalanced" in our favour.' In return Wilson felt able to recommend 'as part of the final settlement, concessions on some items of major preferential interest to other Commonwealth countries.'[46]

Wilson was only willing to give ground on this matter if the Americans were prepared, as he later put it 'to recognise her position as the worlds creditor' and 'be prepared to offer more than it gets from debtor countries.'[47] Otherwise he did everything in his power to protect Britain's preferences. A prime example of this was his attitude to the negotiations between Canada and America during the Torquay round. In return for the further opening up of the United States market to Canadian goods the Americans were putting pressure on the Canadians to reduce their tariff. Wilson told the Economic Policy Committee that the Canadians were 'actually offering or actively considering... reductions in the preference enjoyed on some of our most important exports to the Canadian market.'[48]

Wilson became preoccupied by this issue during the Torquay round even though Robert Hall stressed that preferences were only part of the picture. 'Devaluation', he argued, 'did us far more good in the Canadian market than the preferences... I don't think the situation need cause us much alarm.' Hall also thought that it was 'doubtful whether a protest would do us any good.'[49] Even so, representations were made to the Canadian Government via the High Commissioner but, as Hall had predicted, these had no effect. This outcome only increased Wilson's anger. In a letter to the Prime Minister he described the situation in some detail. While the Canadian Government had promised to inform their representative in Torquay of the British Government's position it had, Wilson wrote, 'merely told him that the United Kingdom High Commissioner had been seen by the Canadian Minister of Finance.' While virtually accusing the Canadians of deceit he did concede that it was doubtful 'whether any useful purpose is to be served in asking the High Commissioner to pursue this matter with the Canadian Government- at least at the present.'[50]

One Board of Trade official at the Torquay negotiations felt that Wilson was going too far in his attitude towards the talks between the Canadians and the Americans and suspected that the letter to the Prime Minister was 'altered at the last moment, perhaps by the President himself. The only comment I have is that it might slightly mislead Ministers into thinking, wrongly that the Canadian's are buying concessions from the U.S. entirely at our expense in the form of reductions in our (non-contractual) margins in Canada. This is, of course, by no means the case.'[51]

The row over Canadian preferences was only the most prominent indication of the impasse that had been reached at Torquay. The Americans were not prepared to accept Wilson's demand that they should not get full reciprocity for a reduction in their tariff. Although the Americans had suggested that the British 'put pressure on Australia and New Zealand to agree to a reduction of the preferences they enjoyed in the United Kingdom market' imperial preference was not the main stumbling block. Wilson told the Economic Policy Committee that the United States negotiators had also suggested that agreement might be secured if there was 'a sufficient relaxation of the United Kingdom tariff on United States goods.'[52] Wilson had not been willing to accept this compromise either.

There was a certain amount of foreboding in the conclusion drawn by the *Board of Trade Journal* from the Torquay negotiations. It stated that 'the significance of tariffs as instruments of national economic policy is increasing and the difficulties encountered in lowering rates of duty are probably greater than at any time since the war.'[53] This was an official indication that the British Government did not expect any real progress in the foreseeable future. *The Economist* was in no doubt that it was Wilson who was to blame for this impasse: 'it seems still to be British policy to pull down the shutters, to seek the cosy security of exchange control and import licensing. It seems to be too readily forgotten that Britain's signature is appended to a succession of solemn undertakings to work with like-minded nations for a reduction of tariffs and the elimination of discrimination in international trade.' Given the British government's position the *Economist* thought it would be reasonable for the American's to ask in what circumstances 'Britain would consider it safe to implement those agreements. It might then at least be easier to judge how far Mr Harold Wilson carries his new economic nationalism.'[54]

The Conservatives and External Commercial Policy 1951-3

The Conservative Party was openly committed to Imperial Preference when it won the 1951 election. The election manifesto contained a implicit commitment to repeal the no-new-preference rule in its promise to 'retain Imperial Preference and uphold the Right to grant and receive such preferences as are mutually agreed with Empire countries.'[55]

Imperial preference continued to occupy an important place in Conservative ideology. An appeal to imperial sentiment had been central to the Conservative cause since the establishment of a mass electorate.[56] An important charge made against the Labour Government while the Conservatives were in Opposition was that it had neglected the opportunities for developing Commonwealth and Dominion markets and this had resulted in the continued dollar gap. At the 1949 Conservative Party Conference Julian Amery accused the Government of not exploiting these opportunities, 'Instead of developing new wealth and new resources in the Empire the socialists have preferred to import borrowed goods which we could not possibly earn and to pay for them with borrowed money which we could not possibly repay. The result is that we find ourselves today on the verge of bankruptcy.'[57]

In fact, there was a good deal of agreement between the imperialists in the Conservative Party and the Labour leadership that increased trade discrimination was crucial to national survival. In The Awakening, published in 1948, Leo Amery, the leading intellectual force amongst the imperialists, wrote that 'we shall, in fact, very soon find ourselves back in the position in which we shall be compelled to jettison all mid-Victorian conceptions of holding our own on the basis of mere price competition, and to revert to the historic policy of national power and policy economics by which our prosperity was originally built up. Whether we actually conduct our trade through individuals or through the State we shall only be able to keep in existence by unreservedly using the controlling and bargaining power of the State in order to protect our standard of life and pay our way in the world.'[58] Although Amery preferred the use of indirect guidance through inducement and discouragements to direct state control of imports and exports, he concluded that direct state control was better than no discrimination at all, 'Socialism is preferable to starvation.'[59]

Once in Government the balance of payments crisis of 1951-2 led some Conservative ministers to question whether the establishment of a one-world economy as envisaged by the G.A.T.T. was feasible. In particular, Peter Thorneycroft, the President of the Board of Trade, argued that ministers should consider the possibility that Britain may have to break with the agreement.

On March 26 1952 the Economic Policy Committee of the Cabinet considered a memorandum presented by Thorneycroft which questioned the tenets of British external financial policy since the war. The original draft of the memorandum, prepared for Thorneycroft by Board of Trade officials, had focussed on advantages and disadvantages of staying in the G.A.T.T., with particular reference to the 'No-New-Preference' rule. However, Thorneycroft saw this question extending to 'even wider and more general issues.'[60] In his notes on the draft he outlined what he saw as the wider issue: 'Are we likely to move towards a world in which dollar and non- dollar world balance. For it is that equilibrium which is the key assumption of G.A.T.T. and all that goes with G.A.T.T. If that assumption is false then clearly the case for retaining G.A.T.T. in its existing form will fall and attention must be directed to alternative policies.'[61] He instructed his officials that 'he wished any paper which he might submit to his colleagues to be drafted on broader lines than a mere proposal for a review of the G.A.T.T. He thought that he would have to refer to some of the fundamental assumptions upon which international activity in the fields covered by the Havana Charter, G.A.T.T. and the I.M.F. agreement had hitherto been based, and to suggest that these assumptions needed thorough re-examination in the light of our experience of the way in which international trade and payments have developed since the war.'[62]

The memorandum Thorneycroft submitted to the Economic Policy Committee did examine the fundamental assumptions of trade policy. After an initial discussion of the pros and cons of the G.A.T.T. the memorandum went on to deal with the assumptions on which it was based. 'The I.T.O. and G.A.T.T project', Thorneycroft explained, 'was worked out, first with the U.S. and then in international conferences in the wartime and immediate postwar years, when it was assumed that the ideal of "one-world" must and could be brought into being in the economic sphere as in other spheres, and the magnitude of postwar world economic problems was much underrated.' With regard to G.A.T.T. 'it was assumed that the U.S. would participate in a generous rather than a hard-bargaining spirit in postwar efforts to reduce trade barriers and that a stable payments equilibrium between the dollar area and the rest of the world and a "one-world" system of trade and payments- characterised by convertibility under a modified form of gold standard, by non-discrimination in import restrictions, and by rapid progress towards the removal of such restrictions- could be attained, by strenuous but not impossible efforts, within a few years. These assumptions, the falsity of which is now evident are implicit throughout the G.A.T.T.'

This fundamental change in circumstance meant that Thorneycroft now believed that 'we should consider carefully whether it is wise to go on working in an economic world which is and may necessarily remain divided in two by a ring-fence of discriminatory restrictions against dollar goods, within a framework of an international agreement based on the "one-world" idea.'[63]

Since the G.A.T.T. envisaged completely free multilateral trade within a short space of time, Thorneycroft argued, it ruled out 'various forms of policy which might possibly play a valuable role in creating conditions for, and enabling a smoother passage to, an ultimate stable equilibrium in the world balance of payments.' He gave two examples of such policies, firstly, 'the G.A.T.T. does not recognise that if balance of payments crises resulting from the disproportionate economic strength of the U.S. are not to be endemic, a new pattern of world trade must be created, and that preferential trade groups (such as have been suggested at the Council of Europe) might conceivably contribute to this end.' Secondly, G.A.T.T 'recognises no possible intermediate stage between that on the one hand of a country using the rigid means of import licensing and exchange control to cope with balance of payments difficulties, and on the other of a country which was completely emerged from these difficulties... It appears to me that it would be well in this connection to examine the question whether the means used to regulate the flow of imports in periods of balance of payments difficulties must always take the form... of rigid import licensing systems. There might for example be some more flexible means- possible through fiscal as opposed to licensing techniques, and not necessarily consistent with the terms of G.A.T.T.- whereby, when faced with a situation such as the current deficit with E.P.U., we could slow down the flow of imports without dislocation, arbitrariness and administrative burden of screening all proposed transactions and dividing them into the permitted and the forbidden...'[64]

Although Thorneycroft considered the preferable course of action was to amend the G.A.T.T. to take the change in the international situation into account, he did think that leaving G.A.T.T. was an option that should be considered. He proposed that a small committee should be set up to consider the United Kingdom's commercial policy and chose from the alternatives 'those best calculated to promote the national interest.' The committee would report on '(i) whether or not considerations of long term policy call for the adherence of the United Kingdom to an international instrument of the character of G.A.T.T.,

(ii) if so, what amendments in the terms of the G.A.T.T. it would be desirable to seek to make it an acceptable instrument; and

(iii) if not, what is the form of commercial policy we can most advantageously pursue.'[65]

As Robert Hall noted in his diary, Thorneycroft's review would tread 'completely on the Robot toes'[66] Butler was keen to prevent the review from compromising his own plans for external economic policy. At the Economic Policy Committee meeting Butler agreed to Thorneycroft's review going ahead but he made one crucial amendment. Butler told the committee that he would arrange for a committee of officials being set up 'in the first instance' to prepare the agenda for the meeting of ministers 'focusing attention on the issues on which decisions of policy were required.'[67] This procedure, which was agreed by the committee, was designed to narrow the scope of the review. Even so, the next few weeks were marked by a turf fight between the Board of Trade and the Overseas Finance Division of the Treasury over control of external economic policy. The Overseas Finance Division wanted to keep control of external economic policy, not only to maintain its own power, but also to ensure that convertibility and multilateralism remained the objectives of British policy.

The Overseas Finance Division wanted to confine the scope of the review to external commercial policy only and keep it away from the broader issues of external economic policy such as convertibility. However, Frank Lee, Permanent Secretary at the Board of Trade 'urged that the enquiry would have to be a comprehensive one, in the sense that it was quite illusory to suppose that one could detach something called "Commercial Policy" and reach conclusions about that without involving much wider issues affecting the whole of our external political and financial relationships with overseas countries.'[68]

Leslie Rowan, head of the Overseas Finance Division, was not about to allow the Board of Trade to investigate what he called 'our business and not theirs'. Instead he asked 'Otto' Clarke to come up with several different hypotheses for the review to work from.[69] Clarke produced these hypotheses but he remained 'extremely dubious about the possibility in practice of confining Sir Frank Lee's review to an analysis of the commercial policy implications of these various hypotheses.' Clarke discerned that the divisions on these issues went much deeper than most would care to admit, he wrote that the 'truth is, of course, that there is an almost total disagreement within Whitehall on the nature and causes of the present situation.' He expected 'the review of commercial policy to be deadlocked on the first day between those who think that it is all the fault of the Americans and those who think that the real trouble is the failure of the United Kingdom and the Sterling Area to look the facts in the face.'[70]

Clarke came up with only four hypotheses for the review to consider. These hypotheses were heavily skewed in favour of the adoption of ROBOT and the objective of a one-world economy. The conclusion Clarke clearly intended to be drawn was that the only alternative to ROBOT was long-term inconvertibility. The first hypothesis, A, envisaged the system continuing as it existed at the time with a fixed rate and inconvertibility. Clarke felt it necessary to point out that it was improbable that this situation could continue. Hypothesis B saw a narrowing of claimants on the reserves but with everything else remaining the same. Hypothesis C involved the 'extension of pooling and integration within the non-dollar world. This holds [sic] fixed rate, but in extreme form would extend [sic] sterling area to cover e.g. whole of O.E.E.C. and some countries outside...' This was another form of permanent inconvertibility, although one working in the opposite direction to hypothesis B.

Hypothesis D was a short outline of operation ROBOT including a floating exchange rate and convertibility. Clarke added that 'the full-fledged "one-world" system of fixed-rate convertibility can best been envisaged as an extreme case of this, in which, after renewal of import and exchange restrictions, the rate could ultimately be stabilised.'[71]

Although Rowan endorsed the use of these hypotheses he wanted it 'to be made quite clear that some, at any rate, of them are not assumptions that O.F. for its part would regard as being either reasonable or workable. They are merely hypotheses which provided a groundwork, and not considered alternatives which we in O.F. would be prepared in any sense to recommend.'[72]

Despite the efforts of O.F. to confine the scope of Thorneycroft's review it soon became clear that this would be as difficult as Clarke had anticipated. Clarke was alarmed at the inclusion of Cherwell's economic adviser Donald MacDougall and John Leckie of the Board of Trade on the Official Committee and by the fact that the Secretariat was drawn from the Board of Trade. He thought that it would be necessary at the outset for him to say that the Treasury favoured a 'floating rate and convertibility as [sic] system.'[73]

Thorneycroft asked for graphs and other background material illustrating the course of the United Kingdom's balance of payments to be provided for the first meeting of the ministerial committee. In theory, Clarke felt that this might be quite useful but he was aware of a deeper motive. 'It is quite clear', he told Rowan, 'that the President of the Board of Trade, at any rate, visualises this whole exercise as a major Governmental examination of external economic policy, conducted in effect by the President of the Board of Trade.' In these circumstances Clarke thought that it would have to be made clear that it was for the Treasury to decide what background material should be selected for this exercise. In doing this he suggested 'that we give them background material in a suitable form which would set the stuff out in a way which pointed towards "one-world" concepts, rather than away from them.' Clarke felt increasingly uneasy about the whole exercise since he felt it was bound to develop into a major review of external economic policy as a whole, outside the Chancellor's immediate purview.'[74]

Indeed, the official committee decided not to follow Butler's instructions that it should prepare an agenda which focused attention on issues where decisions of policy were required. Frank Lee was under considerable pressure from Thorneycroft to follow his instructions.[75] He wrote that the committee doubted 'whether it would be profitable to proceed by way of drawing up a list of separate issues to be discussed independently of one another and on which, at any rate in theory, separate and unrelated decisions might be taken. In fact, as we see the position, all the main issues involved in a consideration of our future external commercial policy are closely inter-related and could only be considered satisfactorily against the background of a general review of the whole field.'[76]

At the first meeting of the official committee on April 30 the Economic Section was asked to prepare some preliminary papers for the committee to consider.[77] These turned out to be pessimistic about the prospects of the postwar economic institutions ever working. One, presented on June 16 concluded that 'the kind of world in which the basic arrangements of the new organisations would operate has never emerged. We cannot really tell whether they would have worked or not because they never really had a chance.'[78] The Section saw the fundamental problem as being the instability of the dollar supply. Another paper argued that 'in the absence of substantial changes in international policies an equilibrium in the United States balance of payments will not be achieved in the next few years which would permit a removal of controls and a return to non-discrimination. Moreover, even if by concerted policies to increase United States imports and replace United States exports, an equilibrium were reached which would permit a relaxation of controls, the system could not be expected to endure unless there were a far more adequate system of stabilisation than exists now.'[79]

On July 10 1952 the Cabinet Committee on Commercial Policy was superseded by the Commonwealth Conference Committee by order of the Prime Minister. The new Committee was chaired by Eden and its membership included Butler, Thorneycroft, Maxwell Fyfe, Cherwell, Swinton, Macmillan, Sailsbury and Lyttelton. A memorandum by a group of officials was circulated to committee members arguing that the United Kingdom's policy should be based upon a reaffirmation as a long-term objective of the establishment of a multilateral trading and financial system covering the free world.[80]

Thorneycroft objected to the tone of this memorandum which he considered too abstract. In his own memorandum Thorneycroft expressed his 'fear that if we talk of these abstractions as long-term objectives we shall be in real danger of becoming deluded into thinking of them as ends desirable in themselves.'[81] In Committee he made it clear that such abstract objectives were of little value and that 'survival was only possible on the basis of a considerable amount of discrimination, and our problems could best be solved and discussed with the other Commonwealth countries, empirically, and without committing ourselves to theories with which our actions were not likely to correspond.' Thorneycroft only accepted the conclusion of the officials report when it was pointed in discussion that it 'had been compiled as the basis for a decision about United Kingdom policy, and not for communication to other members of the Commonwealth.'[82]

Thorneycroft now concentrated his efforts on reform of the G.A.T.T. specifically, of the 'No-New-Preference' rule. In a memorandum to the Commonwealth Conference Committee Thorneycroft outlined the three main disadvantages of the present arrangements. Firstly he argued that 'preference is to the Empire in some sense what a tariff is to the nation, namely one of the methods whereby production and trade within the group is encouraged at the expense of imports from outside it.' He also referred, in this context, to the 'considerable criticism, not least from within the Conservative Party that no Government which believes in the development of the Commonwealth should bind itself not to increase preferences.'[83]

The second disadvantage was that, in conjunction with the obligations under the Ottawa Agreements to admit most Commonwealth goods duty-free the 'no-new-preference' rule effectively bound the U.K. tariff to its present rate. The third disadvantage came from the Japanese application to join the G.A.T.T.: 'any Commonwealth country according most-favoured nation treatment to Japan which wished in the interests of its own industries to take protective measures against cheap Japanese imports would be compelled by the No-New-Preference rule to apply pari passu correspondingly measures against our goods.'[84]

Thorneycroft's conclusion was that 'the best solution to these problems is to get rid of the No-New-Preference rule.' However, he admitted that 'this will not be easy.' The Commonwealth now attached far less value to preferences since the demand for raw materials had increased. Indeed Thorneycroft told the Committee 'that it was very likely that we should fail to get the agreement of the other Commonwealth countries to the policies which we thought necessary.' There was, however, the political dimension which made it imperative to be able to say that the government had discussed the question with the other Commonwealth countries and show that they had taken all possible measures to secure acceptance of them.'[85]

In the likely event of the Commonwealth not agreeing to a concerted approach to the Americans to remove the No-New-Preference rule, Thorneycroft did not think that a unilateral approach should be made as 'the chances of success' would 'be greatly reduced in these circumstances.' Instead he recommended that 'we should take the opportunity of the Commonwealth Economic Conference to explore the possibility of a second and compromise course. This would be to get Commonwealth concurrence to our seeking a limited relaxation of the No-New-Preference rule so as to permit the United Kingdom to increase duties on foreign goods.' Although this would not solve the problems of the Colonies it would solve the domestic tariff problem.[86]

The reaction of the Committee to Thorneycroft's proposals was mostly favourable although Salisbury, the Commonwealth Secretary, thought that 'in view of the known Commonwealth reactions it would not make any difference what was said in the course of the preparatory meeting.'[87]

Butler persuaded the committee that it would be easier to get American and Commonwealth agreement to Thorneycroft's proposals if they were tied to his own for the Collective Approach as 'the United Kingdom was shown to be ready to discard quota restrictions and discrimination.' Without this linkage, however, 'he doubted if it would be possible to make progress.'[88] Thorneycroft had originally opposed the adoption of the Collective Approach, arguing that 'it would be necessary to take many other measures before we could proceed to convertibility.'[89] Now he saw his plans for G.A.T.T. reform tied in to what was essentially an extension of Operation ROBOT and involved the speedy restoration of a one-world economy.

While Thorneycroft had thought it necessary to consider alternatives to the G.A.T.T. given the continued dollar deficit, Macmillan saw the situation as providing an opportunity to put forward a positive vision of a two-world commercial system. In June 1952 he presented a memorandum to Cabinet arguing that the solution was not to increase exports to the dollar area, as Butler thought, but rather to find substitutes for dollar goods. Macmillan argued that substitutes for dollar goods could be found from domestic supply and from the Sterling Area. He wrote that 'the whole list of dollar imports must be re-examined and considerable hardships accepted in the short-term, American films are not necessary. American tobacco must be replaced.' Apart from these specific items he generally thought that control by tariff would not be enough and 'in our present critical circumstances, we shall also have to resort to more drastic forms of control by discriminatory quota and licence. Nor can we overlook the strong attachment of many raw material producers in the Commonwealth to long term contracts.' But the precise methods, Macmillan argued, were not the issue. What he stressed was that strengthening Sterling Area trade should not be viewed as a temporary measure to deal with the dollar gap but as a permanent arrangement. 'What matters', Macmillan wrote, 'is that priority should be given to sterling produce as a declared permanent policy. This, of course, involves exercising our right to free ourselves from the limitations imposed by G.A.T.T.'[90]

In his memoirs Macmillan recalled that the strengthening of the Sterling Area was 'only one aspect of the policy.' He also asked 'could we not now take the lead in Europe? If reciprocal trade and currency arrangements could be made with European countries, by the creation of something like a merger, or at any rate a close co-operation between European currencies and sterling, could we not take the first steps to build a vast new market, in which we would develop our strength and assert our independence?'[91] In his memorandum Macmillan argued that the 'emphasis should be less upon exports, and more upon balanced production and investment' and that this should be 'concentrated on Britain herself, on the sterling area and on any other areas which we can attract into our sphere of influence.'

It was clear that Macmillan saw this vision as having the same potential as a rallying cry for the Conservatives as tariff reform had in the past. The rest of his memorandum was filled with arguments reminiscent of Leo Amery. He wrote that 'We are faced at home with a steady intensification of class divisions and that sense of frustration which leads to the rejection of all established institutions; we may have to face at the same time the break-up of the Commonwealth and our becoming a second-rate power. I see no escape from these dangers except by the fearless proclamation of a policy which will reinspire the masses and restore their pride and confidence.' Macmillan went as far as describing his vision as 'the march to the third British Empire.'[92]

The importance of imperial policy was stressed again by Macmillan in a further memorandum on July 4 which he produced as a reaction to Butler's second attempt to secure agreement to ROBOT. Macmillan argued that 'convertibility should be the culminating point of the grand design when Britain is set upon a new and upward path. It should not be risked at a moment of apparent decline.' The rhetorical flair with which his policy was presented would be part of the solution to sterling's continued problems. 'Our Imperial policy should not be hidden under a bushel, it should be widely proclaimed in England and overseas. The knowledge that Britain is setting about this constructive and ambitious plan will, I think, give more security to sterling then a policy confined to cuts and restrictions of productivity to artificially planned limits.'[93]

Macmillan laid out more of the details of his plan when discussion of external commercial policy was more to the Cabinet Committee on Preparation for the Commonwealth Economic Conference at the end of July. On top of the abandonment of G.A.T.T. and the building up of preferences Macmillan proposed an ambitious investment programme to be supported by the launch of a 'Commonwealth Development Trust.' This would not be 'organised on the old basis of loan capital only (at fixed interest rates), but as an equity investment (in part or in whole).' He also proposed that the loan element would be guaranteed by all Commonwealth governments. He also wanted the Bank of England to become the 'Bank of the Commonwealth and Empire.'

It was only if progress was made on these issues at the Commonwealth Economic Conference that he felt that the relationship between the O.E.E.C. and the Sterling Area should be discussed. However, he did add that 'the ultimate participation of European countries in the development of all the overseas areas (sterling or non-sterling) may have great political as well as economic significance.'[94]

Macmillan's proposals received a cool reception in Committee. As he himself recalled he was accused of trying to set up 'an artificial system of exchanging high-priced goods in a new form of autarchy.'[95] In discussion, members of the committee specifically rejected the idea of a Commonwealth Development trust, 'doubts were expressed whether other Commonwealth countries would be likely to welcome a proposal on these lines, and whether the establishment of such a trust would not act as a deterrent to foreign investment in the sterling area.'[96]

The doubts expressed in committee about the possible Commonwealth reaction to Macmillan's proposals could have been extended to the British proposals concerning imperial preference. The attempt to gain agreement for a concerted attack on the 'No-New-Preference' rule found 'no support' in the course of a preparatory meeting of the Commonwealth Economic Conference. In his report to Cabinet Butler argued that the Government should press on and put its plans forward at the Conference to be held in November 1952. Although the proposals were unlikely to be accepted he stressed that 'the United Kingdom Government should not be the first to turn their backs on the system of Imperial Preference.'[97]

At the conference only Australia and Southern Rhodesia were willing to support the British proposals for a general extension of Imperial Preference. It was pointed out in Cabinet that 'this meant that Imperial Preference was no longer to be regarded as an effective instrument of Commonwealth economic policy.'[98]

Even with the further extension of Imperial Preference effectively ruled out the no-new-preference rule still caused considerable problems for the Government. As Thorneycroft told the Cabinet the operation of this rule, in concert with the Ottawa agreement on preferences, had 'the effect of freezing the United Kingdom tariff.'[99] This was particularly important because it was the Government's policy to replace the blunt control of quotas with tariffs. Thorneycroft was particularly opposed to quotas. He later told the Conservative Party Conference that 'there is something worse for an exporter than a tariff, it is a quota, a quota which is an absolute barrier to his goods.'[100] At the Commonwealth Economic Conference in 1952 the Government had persuaded the other Commonwealth powers to support a move in the G.A.T.T. to permit 'the United Kingdom to raise tariffs against foreign countries and at the same time to give freedom of entry to Commonwealth goods.' It was argued that this 'could be represented as an interpretation of the G.A.T.T. rules.'[101]

If such a freedom was not granted to the British Government Thorneycroft was prepared to break the rules. He told the Cabinet that 'it would be politically impracticable to carry legislation to raise duties on imports from Commonwealth countries as the provisions of the G.A.T.T. would require us to do.' The course he favoured was 'to remove the quota restrictions and to make the necessary tariff increases without making the corresponding increases in the rates of duty on Commonwealth products which would be required by the "no-new-preference" rule.' He argued that 'almost all the members of the G.A.T.T. had at one time or another committed breaches of the Agreement and the United States Government, in particular, were following certain policies which violated it flagrantly.'[102] On this issue Thorneycroft was opposed by Anthony Eden who favoured the negotiation of waivers of the rule in respect to individual commodities. Thorneycroft argued 'there was no real prospect that any such individual waivers would, in fact, be obtainable.'[103]

In the event Britain did secure a general waiver 'which gave us a general dispensation from the obligation to impose duties on Commonwealth goods in cases where we imposed or raised most-favoured-nation duties on foreign goods to protect United Kingdom industries.'[104] Thorneycroft pointed out that this waiver was 'limited by conditions more stringent than those which we had proposed.' However, he did admit that 'it conceded the substance of our claim.'[105]

The Collective Approach and the G.A.T.T. Review

The Conservative Government's position on the no-new-preference rule reflected the impasse in the G.A.T.T. that had been reached at the Torquay round of negotiations in 1950. However, the G.A.T.T. acquired new significance with the adoption of the Collective Approach to convertibility in the Autumn of 1952. In this plan a nucleus of countries moving together towards convertibility would be linked through the I.M.F. and G.A.T.T. The plan was first publicly mooted by Butler at the Commonwealth Prime Ministers Conference at the end of 1952. Its significance was not lost on Eric Wyndham White, the Executive Secretary of the G.A.T.T.. He suggested that Britain could inject some positive ideas in to the eighth session of the G.A.T.T 'by giving an outline of its proposals and the role that G.A.T.T. would be called on to play.'[106] Officials within the Board of Trade advised the postponement of such a discussion 'until we have decided exactly how far we are prepared to go to secure freedom from the no-new-preference rule in order that our tactics on the two matters can be brought into accord.'[107]

Ministers were faced with a dilemma, the use of the G.A.T.T. as an instrument for convertibility meant that it had to be accepted as a permanent institution. If this was to be the case then a final solution to the issue of the no-new-preference rule and the future of Empire trade had to be agreed.

This was the first time policy on the G.A.T.T. agreement had been linked directly with that on convertibility. This conjunction fitted in perfectly with the view Thorneycroft had put forward in the Commons back in January 1948, that international agreements ought to provide 'the rules of the game.'[108] The meeting of the contracting parties in 1953 agreed to a comprehensive review of the G.A.T.T. and this provided Thorneycroft with the opportunity of resolving the no-new-preference issue once and for all.

In a memorandum to Cabinet in April 1954 Thorneycroft outlined why he thought that a review was necessary. 'If we are to accept and defend the G.A.T.T. as a more or less permanent instrument which will bind us and other nations, we shall have to satisfy ourselves, by a through examination of its provisions and of the policy implicit in them, that it is as satisfactory as we can make it.'[109]

Thorneycroft was mainly concerned that the review should strengthen the rules of the G.A.T.T. especially with regard to quantitative restrictions, discrimination and the use of export subsidies. Such changes were necessary precisely because G.A.T.T. was now seen to be 'crucial to our commercial policy in relation to convertibility - as the Chancellor has put it succinctly, progress towards freer currencies must go hand in hand with progress towards freer trade.'[110] An official committee and a Cabinet committee were set up to prepare for the G.A.T.T. review. The Home Secretary, Maxwell Fyfe chaired the Cabinet committee, which also included the Commonwealth Secretary, Swinton; the Colonial Secretary, Lyttelton; and the Economic Secretary, Maudling.

The first meeting got off to a very bad start for Thorneycroft. He had circulated a memorandum setting out the details of a report on 'certain studies which I had arranged to have made within my Department of the situation from the general limitation of the G.A.T.T. of the extension of existing, or the creation of new tariff preferences.' The purpose of the report, Thorneycroft continued, was 'to provide an objective analysis' of the situation. He argued that the report provided 'a comprehensive and detailed analysis of this important topic such as has never before been attempted in Whitehall or, so far as I am aware, outside, and will I think, be of interest to my colleagues.'[111]

The report was against any further attempts to circumvent the no-new-preference rule and argued that 'any further consideration within the Commonwealth of extending Imperial Preference would seem bound to lead to the same negative conclusions as those reached at the Commonwealth Economic Conference in December 1952.' It also ruled out 'the concept of widening the existing system of Imperial Preference to include Western European countries through the creation of secondary preferences, as advocated by Sir Robert Boothby, Mr Amery and some others.' Such a move would entail granting important concessions to the Europeans 'for the sake of sharing in new European Preferences of doubtful value to our trade and probably no value to the rest of the Commonwealth.'[112]

Despite Thorneycroft's assertion that this report was fully objective it was regarded as anything but by Maxwell Fyffe, who was a supporter of the European movement. Although Maxwell Fyffe conceded that the report 'contained powerful arguments against trying to make major extensions of Imperial Preference.' In order to get a wider picture he thought 'that the Committee should also be presented with the opposite point of view, favouring Empire Free Trade.'[113]

Such strong opposition from the Committee Chairman put Thorneycroft firmly back to square one. He also had to face more reasoned dissent from Swinton and Lyttelton. Swinton, who had been President of the Board of Trade in the 1930s and a supporter of tariff reform, suggested that 'the line to be taken in the Commonwealth discussions, and the line subsequently to be taken in the G.A.T.T. review should be considered separately.' He felt there might be a change from the 1952 position at the Commonwealth discussions. 'India and Pakistan might feel disappointed with the slowness of the United States Government to adopt better trading policies, and might be anxious to consider an alternative policy.' Swinton argued that a general waiver of the no-new-preference rule was a definite possibility, citing 'the countries in the European Coal and Steel Community' who 'had secured a waiver from the G.A.T.T.'[114] Lyttelton added to the pressure on Thorneycroft by agreeing with Swinton and adding that 'to appear to favour supporting the G.A.T.T. in its present form could cause serious difficulties with the Colonies.'[115]

However, Thorneycroft was not willing to give any ground to his colleagues. He made it clear that he thought that they were being unrealistic and that a clear choice had to be made. 'Either we could continue with arrangements similar to those existing at the present under the G.A.T.T., or we could decide to leave the G.A.T.T. and to adopt a policy of Empire Free Trade. There was very little room for manoeuvre to obtain additional freedom within the G.A.T.T. because we could not hope to get enough support to allow us to extend Imperial Preference.' As for the comparison between the Commonwealth and the Coal and Steel Community it did not hold because the Commonwealth was not a customs union. 'If the Colonies were prepared, or able, to enter into a customs union with the United Kingdom then we should be in a position to put forward a similar case to the G.A.T.T.'[116]

Fortunately for Thorneycroft the Cabinet Committee on the G.A.T.T. review met only once, although, in response to Maxwell Fyfe's request, Thorneycroft had circulated a paper by the Empire Industries Association and British Empire League by the time it was dissolved.[117]The Committee functions were transferred to a new Cabinet Committee on External Economic Policy under the Chairmanship of the more sympathetic Butler.

At the second meeting of the new committee Swinton and Lyttelton repeated their attack and were backed up by Macmillan who argued that 'some freedom on Imperial Preference is necessary.' In summing up, Butler appeared to steer a middle course, rejecting Swinton's request for a wholesale attack on the no-new-preference rule but arguing 'some freedom on Imperial Preference was desirable... in Colonial trade and trade which would be effected by the accession of Japan to the G.A.T.T.' He decided that Lyttelton and Thorneycroft should 'circulate memorandum dealing with these cases.' He also made sure that the Committee didn't get bogged down in the issue of Imperial Preference. He pointed out that 'there were at least two other important issues... the use of quantitative restrictions, both for the balance of payments and protective reasons and the question of subsidies.'[118]

Both of these issues had to be clarified if the G.A.T.T. was to provide the rules for convertibility On subsidies the committee decided that the rules needed to be strengthened, Thorneycroft said, 'to get as near as we could to the prohibition of export subsidies. The United States would certainly refuse to allow complete prohibition.' On the issue of quantitative import restrictions it was with future arrangements that the committee was most concerned. Thorneycroft said 'In our present economic circumstances the existing quantitative restrictions were adequate. But at the review we would have to try to establish permanent rules to cover the period after convertibility of the major currencies.. For that period we had two objectives, first, stricter rules to govern the use of restrictions for balance of payments purposed, and secondly, the elimination of discrimination. Both of these would be necessary to prevent restrictions or discrimination being imposed against sterling after convertibility.' This meant the establishment of a new rule so that 'from a fixed date balance of payments restrictions could only be imposed or retained for a period of one year, with a possible extension in particularly difficult cases for a further year. It would be agreed informally that this rule would take effect one year after convertibility.'[119]

The committee also managed to agree a bargaining position over Imperial Preference. Lyttelton argued that since there could be no frontal attack on the no-new-preference rule 'we should continue to rely on our existing right to seek specific waivers to increase preferences on selected colonial commodities.' Although Thorneycroft objected, arguing that 'it would be difficult to negotiate waivers for all the commodities', Butler summed up in favour of negotiating 'case by case the particular concessions we required.'[120]

Butler thought that preserving a degree on discrimination may be a necessary weapon. The prospect of Japan becoming a signatory of G.A.T.T. had set alarm bells ringing in Whitehall. Butler recognised that Japanese competition could be very damaging to British interests in the Commonwealth. He pointed out that Australia, New Zealand and South African were all 'heavily discriminating against Japan by tariffs and quotas to our advantage. We should want them to have the right to continue existing tariff discrimination in order to protect injury to our trade from disruptive Japanese competition.' He also feared Japanese competition in the British market itself: 'we... want the right to take emergency action if Japanese trade practices or Japanese competition become intolerable.'[121]

Butler was also more concerned by the Empire Free Trade supporters in the Conservative Party than Thorneycroft. When he returned from a meeting with the other Commonwealth Finance Ministers in October 1954 he reported that there was still no support for an attack on the no-new-preference rule. In spite this he still reminded the Cabinet that 'a number of Government supporters were undoubtedly sincere in their belief that the present provisions of the G.A.T.T. and its restraints upon Imperial Preference operated to our disadvantage'. Having discussed the matter with Thorneycroft he decided that 'it should be the Governments aim, so far as possible, to steer a middle course.'[122]

However, Thorneycroft was in no mood to compromise. Back in April 1954 he had told the Cabinet that once the Government's position over preferences had been established, they could begin 'the important and difficult task of securing a better public understanding of the position.'[123] This meant taking on the Empire Free Traders within the Party. Although the Cabinet had expressed the view, on October 1, that Thorneycroft would never be able to defeat the Imperial Preference supporters at the forthcoming Conservative Party Conference, Churchill had insisted that they should 'let him try.'[124] Butler had been so certain that

Thorneycroft would fail that he prepared his own speech in this expectation and then 'had to adjust at the last minute.'[125]

At the Conference Thorneycroft spelt out the hard realities of the position to the delegates by pointing to the results of the Commonwealth Finance Ministers meeting in Washington. He told them 'that at Washington there was not one Finance Minister from a Commonwealth country who was prepared to pledge support for an attack on Article I of the General Agreement on Tariffs and Trade.'[126] Thorneycroft scored a major triumph by defeating an amendment by Sir Victor Raikes, a long-serving Conservative backbencher, calling for the restoration of 'freedom of action in respect of Imperial Preference.'[127]

Butler remained cautious in spite of Thorneycroft's victory. Robert Hall recorded that when *The Economist* attacked him for moving too slowly towards convertibility he 'was very much annoyed and wanted to cancel his subscription but as he had cancelled it about 6 months ago he was not able to - however he goes round telling everyone he has.' Hall recognised that 'the Chancellor is in a difficult position and needs all the help he can get... he now has to carry the country along to something like a free trade world when neither of the great parties is temperamentally in favour of it. No one quite realises the implication of the commitment made in 1944/45 to I.T.O. and now G.A.T.T. However I think it can be done. The Chancellor said yesterday that he got a vote for free trade from the Conservative Party Conference at Blackpool, although no one knew what they were doing. Now he wanted to play it quietly and that is why he dislikes *The Economist* so much since it is trying to exacerbate the troubles.'[128]

The leadership of the Labour Party made it perfectly clear that it was more than just temperamentally against any further moves to free trade. Harold Wilson maintained his opposition to the no-new-preference rule even after the Commonwealth Economic Conference had made it clear that there was very little support for the extension of Imperial Preference. In the Commons in October 1954 he asked Thorneycroft to instruct the British delegation to the G.A.T.T. review 'to ensure that no steps will be taken to make the agreement permanent until the provisions banning new or additional Commonwealth preferences are removed therefrom.'[129]

Gaitskell also continued to voice opposition to the government's trade policy, although he accepted that Commonwealth opposition meant that a wholesale widening of preference was not possible. in the debate following Butler's return from the Commonwealth Finance Ministers meeting in Washington, Gaitskell argued that faced with a dollar shortage 'the essential thing is to discriminate and frankly to discriminate.'[130] In explaining how this was possible, Gaitskell turned to the issues raised by the Australian wheat surplus. He quoted with approval a spokesman for the Finance Ministers Conference who had said that although "'they were limited by the provisions of the General Agreement on Tariffs and Trade, preferential trade of another kind was feasible not by tariff preferences but by commodity agreements, under which members of the Commonwealth would buy more from one another.'[131]

Gaitskell concluded that the problem was caused by the insistence of the Government to hand back the importation of wheat to private firms. His point was that the use of quantitative controls was the only way to bring about the necessary degree of discrimination and that the Government was planning to scrap these controls. 'It is clear that what the Government intend to do... is to get rid of import licensing throughout the whole of the Sterling Area - what we call quantitative controls and restrictions - and to retain Imperial Preference as it is today.'[132]

Gaitskell had given a fairly accurate summary of Thorneycroft's position by this time. Thorneycroft felt that this policy was necessary if convertibility was to be brought about. However, Gaitskell also cast doubt on the desirability of convertibility as an objective. He expressed his belief that 'our economic future is closely bound up with the Sterling Area. We do not think it would be a good thing to bring the Sterling Area to an end. Although convertibility does mean that.'[133]

When the G.A.T.T. negotiations opened in November 1954 *The Economist* noticed the change in the British Government's stance, it reported that Thorneycroft had 'stressed at the outset that the British Government was not only "for the General Agreement," but for a stronger version that exists today. "We want it both for its direct advantages and as the necessary basis for any move in the direction of convertibility." The President's speech went well beyond the generalities that usually pass muster in the opening stages of a meeting of this kind.'[134]

In his speech, Thorneycroft was blunt in his rejection of further exemptions to the G.A.T.T. agreement and firm in his support for further moves towards free trade. 'There is', he said, 'I suppose, not a country here that is not under pressure to take some step to protect some industry in a manner inconsistent with the G.A.T.T. But if we attempt to legitimise any breach of the agreement extant or intended we shall create great difficulties for all. Always at any time there must be a number of countries faced with problems of this kind, but we would do better to seek their reduction and elimination rather than to torture the agreement in order to accommodate them. We should be trying to stop gaps rather than to open loopholes... the exceptions will not be limited to one country or to one commodity and any country which starts us on this road will bear a very heavy burden of responsibility.'[135]

By December 11 *The Economist* reported an 'extraordinary narrowing, amounting to virtual elimination, of the gap which has on previous meetings of this character separated the views of the United Kingdom on the one hand and those of the United States and Canada on the other. On the general philosophy of multilateral trade, the expressed abhorrence of quantitative restrictions and abomination of discriminatory devices, there is now little to choose between the three countries... Indeed, the leader of the American delegation has confessed to a feeling of genuine embarrassment at the number of occasions on which he has had to express his "entire agreement with what has just been said by my colleague from the United Kingdom."'[136]

However, the negotiations were not going as well as Thorneycroft had hoped. He had found the low tariff countries of Scandinavia and Benelux unwilling to renounce the use of protective quotas 'unless other countries accept some satisfactory commitments to negotiate for the reduction of tariffs which, they argue, as so high in some cases as to restrict trade in the same way as quotas.' Thorneycroft was willing to see embodied in the G.A.T.T. grounds on which the low tariff countries could 'seek authority to use retaliatory quotas in case other countries refused to <u>negotiate</u> on tariffs [emphasis in original].'[137]

Even this move towards accepting the case of the low tariff countries was not enough for Thorneycroft to secure the outcome he desired. He reported that although 'the rules against the abuse of quantitative restrictions were rather tighter than before, though not as tight as we had originally judged necessary for conditions of convertibility. However, sterling was not yet convertible, and there would be opportunities in the future to review the rules further [emphasis in original].' On the question of export subsidies he reported that 'the slightly improved rules' were 'as much as could at present be hoped for.'[138]

His overall assessment was that 'the revised G.A.T.T. was not very different from the former Agreement, but was a little stricter on quantitative restrictions, and a little easier on tariffs, which was in accordance with the United Kingdom policy.' Britain also managed to secure, under the colonial waiver, the right to 'impose countervailing and anti-dumping duties, grant subsidies, and apply quantitative restrictions on commodities produced in the Colonies as if they had been produced in the United Kingdom. We could also increase the preference for Colonial products by getting the consent of a simple majority of the Contracting Parties instead of getting a waiver from Article I which required a two-thirds majority.' Thorneycroft had originally protested that no progress could be made on this issue, he now conceded that 'this represented a substantial advance.'[139]

Conclusion

Although politicians on both sides of the debate wanted to protect the existing system of Imperial Preference from American attack, the battle over G.A.T.T. exposed a division at the heart of British politics over the desirability of establishing a one-world economic order. The speed with which the Conservatives were converted from the Party of Imperial Preference to that of free trade represented a crucial victory for those in the Cabinet who saw the establishment of a liberal world economic order as essential to Britain's future.

Gaitskell's and Wilson's arguments against multilateralism had much in common with those of Leo Amery and other supporters of an imperial trading system in the Conservative Party. Both groups agreed that the only way to deal with the imbalance in world trade was to extend trade discrimination either by preferences or quotas. Within the Conservative Cabinet only Macmillan had articulated a similar position.

Having fought for the acceptance of a one-world economic order by the Cabinet and the Conservative party it is not surprising that neither Butler nor Thorneycroft supported the idea of Britain taking part in the negotiations, which came out of the Messina Conference of 1955, which led to the establishment of the EEC. Included amongst the proposals were plans for the imposition of a common external tariff. While Butler was dismissive about the significance of these negotiations, Thorneycroft was behind the development of the British proposal for a European free-trade area.[140]

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Chapter 9

The Expanding Role of Budgetary Policy

It has been argued that the process by which the Budget became central to general economic management was on the way to completion by the time Butler replaced Gaitskell as Chancellor in the autumn of 1951. Alec Cairncross has written that 'From 1947 onwards the Budget was seen increasingly as a governing element in the pressure of demand. The view gained currency that if the pressure were reduced the need for most controls retained by the government would disappear. The pressure did in fact subside from 1946 to 1950 as various measures of excess demand testify; and the controls did eventually disappear. But the changeover to economic management was a very gradual one and was not completed when the Labour government lost office.'[1]

During his time at the Exchequer Cripps had certainly put the emphasis on fiscal policy in his overall economic strategy. During his 1950 Budget speech Cripps argued that Budgetary policy was 'the most powerful instrument for influencing economic policy which is available to the Government.'[2] However, it has already been seen that the scale of decontrol during the Labour Government has been greatly exaggerated. Decontrol had been limited mainly to the consumer goods market and it was only here that the Budget had taken on the role of balancing demand with supply. Although Cripps stressed the importance of indirect methods of economic management, the debate over the Full Employment Bill revealed that the Labour government had no intention of dispensing with controls over such areas as building and imports, so there was no need to widen the scope of fiscal policy.

The replacement of Cripps by Gaitskell as Chancellor resulted in an important change in the emphasis given to fiscal policy. Gaitskell wanted to use his 1951 Budget speech to restate the limited role of fiscal policy in economic planning.

Gaitskell saw the Budget as only one of a whole range of measures to influence the economy. He conceived of it having a highly specific purpose, to ensure that the demand for consumer goods equalled the supply.

Gaitskell's conception of Budgetary policy created tensions within the Treasury. He disagreed with Robert Hall and the Economic Section's view that price rises should be allowed to feed through in order to deflate the economy in preference to tax rises. Gaitskell also had a more fundamental disagreement with the official Treasury's views on taxation and subsidy. The Treasury was conscious of the need to reduce public expenditure and direct taxation and saw a reduction in food subsidies as the best way to ensure this. Gaitskell and other Labour ministers saw direct tax payers as the best able to pay for the government's social programme and believed that subsidies had a social purpose.

It was only when the decontrol programme pursued by Butler began to take effect that Budgetary policy become central to economic management. As the Budget became more important the tensions between the financial concerns of Treasury officials and the wider economic concerns of the Economic Section became apparent. The deficiencies of economic forecasting were also highlighted as Butler became the first Chancellor to attempt to steer the economy by indirect methods.

Within this context of advice from the official Treasury and the Economic Section, Butler pursued a fiscal policy of which he was the principal author. He sought to reduce the burden of taxation on the economy by making reductions in public expenditure. The active use of interest rates allowed him to pursue a fiscal policy which put the emphasis on the encouragement of productive investment and economic growth.

The 1951 Budget: Gaitskell and the limitations of fiscal policy

The role of fiscal policy in the 1951 Budget was surprisingly limited. The retention of important physical controls, most notably over imports and building, meant that fiscal policy was essentially restricted to the control of consumer spending. Gaitskell made this remit clear in his Budget speech. The role of the Budget, he stated, was to ensure that 'after taking into account any rise in money incomes, including that automatically generated by the rise in production, that what is spent at home is enough, but no more than enough, to buy at prices which cover their costs, the goods and services we can afford to consume at home.' In a controlled economy this amount could be calculated by finding out 'what is left over after adding what is to be imported and taking away what is required for exports, home investment and defence.'[3]

Another aspect of Gaitskell's attitude to fiscal policy discernible from his speech was its short-term nature. I.M.D.Little noted that 'it appears that he was concerned with equalizing supply and demand for the current year - already three months old when he introduced his Budget.'[4]

Gaitskell rejected an early draft of the part of the Budget speech concerning the role of Budgetary policy by the Economic Section. This draft stated that given the urgent need to transfer production from consumption to rearmament 'the task for fiscal policy is to ensure that this reduction in the claims of current production is effected in an orderly and equitable way.'[5] The passage Gaitskell substituted for the Economic Section's draft harked back to a speech he had made in the Defence Debate. Gaitskell wanted to emphasise the role of physical controls in the process of transferring production. In the final Budget speech Gaitskell stated that 'fiscal and monetary policy alone is not sufficient to achieve this transfer and physical controls are also needed.'[6]

One of the major bones of contention during the preparation of the 1951 Budget was how the Government should react to the inflationary pressure that would be caused by the worsening terms of trade. Robert Hall and the Economic Section saw a rise in prices having a deflationary effect as the terms of trade moved against the UK. It was therefore important to allow these prices rises to feed through into the economy. In its first note to the 1951 Budget Committee on 'The Internal Financial Situation' in July 1950, the Economic Section pointed out that a deterioration in the terms of trade was likely and that this would indicate that further expansion of exports was needed if the balance of payments were to 'remain healthy.' The Section did not recommend any further intervention by Government. The note stated that 'Given no change in fiscal policy a continued rise in import prices will itself create the internal conditions necessary to permit a further growth of exports.' As if to drive the point home the note continued 'It is important that we should do nothing to interfere with this process.'[7] This view was later embodied in the Economic Survey for 1951.[8]

The need for inflationary pressure was part of the doctrine that Gaitskell and Jay laid out in their memorandum 'Economic Planning and Liberalisation'.[9] They saw inflationary pressure as necessary to maintain full employment but argued that controls should be used to contain it. Their view had its roots in the policy Dalton had pursued as Chancellor. After Gaitskell and Jay had presented their memorandum Dalton himself summed their doctrine up. He wrote that in order to maintain full employment it was necessary to 'always have a bit of inflationary pressure, but use physical controls to prevent it breaking through.'[10] However, the kind of inflationary pressure Gaitskell encountered was of a different kind to that Dalton had used physical controls to contain. It was cost-push rather than demand-pull inflation. Nevertheless Gaitskell and Harold Wilson wanted to use price controls to contain it.

In a paper to the Economic Policy Committee in October 1950 Wilson called for a subsidy on utility clothing and other goods that would add up to £100 million in extra expenditure. He also argued for the extension and tightening up of price controls.[11] Wilson's agenda flew in the face of what the Economic Section had recommended in July. But Wilson was not alone in calling for further price controls. In a note to the Budget Committee at the end of October Gaitskell, now Chancellor, set out his thoughts on inflation. He put price control above controlling public expenditure and further taxation as a way of controlling inflation. Gaitskell thought that 'the first step should be... a letter to the President [of the Board of Trade] asking him to survey as a matter of urgency the whole field of price control with a view to deciding what commodities controls should be reimposed.' He continued to place great faith in this instrument stating that 'Past experience leads me to the view that these controls - difficult as they are to administer and enforce-did have a very valuable effect in the war in keeping prices down...'[12]

The inflationary pressure caused by the worsening of the terms of trade was added to by inflationary wage increases which resulted from the breakdown of the Crippsian policy of wage restraint in the Autumn of 1950. By June 1951 the Government decided to act by extending price control. At a press conference that month Norman Macrae of *The Economist* asked Gaitskell about the 'contradiction between the policy embodied in the Economic Survey- of allowing increases in prices to mop up increases in purchasing power- and the present evident trend towards price control.' Macrae later recalled that Gaitskell, 'who saw the point alright, wriggled most interestingly in his reply.' He suspected that Gaitskell thought that price controls were not an appropriate weapon to use against cost-push inflation and that his reply 'made it fairly clear that price control was coming, and equally clear (or so it seemed to me) that he personally did not like it.'[13]

Although Macrae was correct in spotting the contradiction between the policy outlined in the Economic Survey and the imposition of price controls he was wrong to conclude that Gaitskell was against the imposition of controls. Gaitskell anticipated the contradiction in a memorandum to the Cabinet Economic Policy Committee dated June 22 1951. Although he acknowledged that 'the rise in costs is probably having some effect on export prices and therefore improving the terms of trade' he also feared that the rise in prices caused 'a tendency on the part of the public to expect prices to go on rising- which in turn induces them, at least in some cases, to forestall this by spending more quickly. There is little doubt therefore that saving is diminishing, dis-saving increasing, and there is some danger of the whole process being accelerated.' This meant that 'rising prices at home may well retard the volume of exports of consumer goods. In short, the "costs" inflation seems to be accompanied by some "demand" inflation as well.'[14]

Gaitskell also anticipated the argument that wage-push inflation would be cancelled out by the rise in the price of consumer goods. He argued that such a view did not take into account 'the rapid worsening of the position of those with fixed incomes' which caused 'a great deal of social friction and adverse criticism.'

For Gaitskell price control had the extra benefit of pushing firms towards efficiency. The role of government in weeding out inefficiency in a controlled economy was that much greater than in one where the price mechanism is allowed to operate. He suggested 'that in present circumstances we should be prepared to use the weapon of price control to squeeze out inefficient firms. Only in this way can we keep down the high profits made by luckier or more efficient firms.' Seeming to act on profits was an important part of the process of encouraging wage restraint and as such Gaitskell suggested that 'some serious rows with some industries would probably do no harm.'[15]

Gaitskell's views about price control differed from those of Jay who shared the view of Dalton and Keynes that a small amount of inflation was to be desired as its principal victim was the rentier. During the discussion of the 1950 Budget Jay told Cripps that 'we should be striving after an impossible objective, and therefore getting ourselves into artificial difficulties, if we interpreted our disinflationary policy as designed to prevent any rise at all in the cost of living over these years. It is quite probable that a rise of perhaps 1 point or 2 points per year is a necessary implication of full employment, and does no serious harm. Such a gradual rise really means a slight transfer of national income is being made from the non-active to the active sections of the community; and that the dead weight internal war debt is being gradually diminished.'[16]

The other main cause of disagreement during the preparation of the 1951 Budget was over whether the final gap between projected revenue and the required Budgetary surplus of £50 million, which remained after the imposition of additional taxation, should be filled by even more taxation or by a cut in spending. At a meeting of the Budget Committee on February 6 1951 officials came to the conclusion 'that taxation was stretched to the upmost, and the only way to obtain the objective was by reducing Government expenditure.'[17]

Gaitskell inherited from Cripps Treasury concerns about the level of expenditure. In February 1950 the Budget Committee presented Cripps with a gloomy prediction of the Budgetary position for 1951-52. It stated that 'the economy is over-loaded. We are attempting to do more things than we can do with the resources at our disposal - The result is the continuance of inflationary pressure and a rigidity in the whole economic structure which makes it extremely difficult if not impossible to have any flexibility in planning.'[18]

The Treasury's traditional concerns about the level of government expenditure and taxation was dressed up in Keynesian language about the inflationary effect of dis-saving. The committee argued that increases in taxation would increase inflation. On direct taxation the committee warned Cripps that 'the present very high level of taxation is not only a deterrent against taking risks. It is also a deterrent against saving. Indeed from the point of view of inflation, we are in a vicious circle: and it is clear that an increase in taxation would lead private individuals to draw more on their capital, and business to save less.' Indirect taxation was also judged to be stretched to its limit. The Committee argued that the 'right way to counter the inflationary pressure and to restore a balance to our economy is by a reduction in Government expenditure and we recommend that the most strenuous and determined efforts should be made to this end.'[19]

As in previous years officials concentrated on food subsidies as the most likely source for cuts during discussions on the 1951 Budget. At the Treasury gathering at Roffey on 17 and 18 February great pressure was put on Gaitskell to agree to a cut. Gaitskell's reaction to this pressure sheds some light on how his attitude towards fiscal policy differed to that of his predecessor. Gaitskell had thought at the time that the cut in food subsidies, which Cripps announced in the 1949 Budget, coupled with a reduction in tax on beer had been Cripps' 'first serious political blunder for some time.' He wrote in his diary that at a dinner held the day after the Budget he had agreed with Bevan that the reduction in taxation on beer as well as that on petrol should not have been made. Instead the money should have been used to limit the reduction in the food subsidy to meat only. 'This', Gaitskell noted, 'would have been linked in people's minds with Peron and the Argentine negotiations [over meat supplies], and I think fairly easily accepted.'[20]

What emerged from Gaitskell and Bevan's discussion with Cripps at the dinner was that 'Stafford undoubtedly had been won over by Plowden and Co. into thinking that the food subsidies were a bad thing.' When Gaitskell and Bevan explained their alternative policy to Cripps 'his only objection was that this would not have shown that we were really opposed to going on with the subsidies.'[21] As Chancellor, Gaitskell showed that, unlike Cripps, he intended to support the continuation of subsidies and was not persuaded by the Treasury's arguments against them.

In the 1951 Budget discussions the arguments of 'Plowden and Co.' against subsidies were voiced by the Economic Secretary, John Edwards. He argued that the original purpose of food subsidies had been 'to stabilise the cost of living in order to help hold the wages front.' He thought that 'it was beyond doubt that this original purpose was not now served.' Given this, there were sufficient grounds for examining the apparatus of food subsidies 'quite apart from the Budgetary context.' 'Many people', he continued, 'shared the view that the food subsidies were an inefficient form of social service, in that they benefited equally and without regard to need, rich and poor alike.'[22] Edwards argued that food subsidies should be reduced by about £200 million. Because he anticipated a hostile public reaction regardless of the size of the saving, he argued that £150m of this £200m should be redistributed in the form of family allowances, with an overall saving of £50m.

Jay, the Financial Secretary, was clearly disturbed by Edwards' suggestion. He saw food subsidies in a completely different light, arguing that they were 'part of the long-term policy of the Government for the permanent redistribution of current income and they were therefore desirable in themselves.' Consequently 'it was not up to the proponents of the food subsidies to demonstrate that their existence was necessary, but up to the opponents to prove that a change should be made.' However, he did make a case against a change, arguing that it 'was beyond dispute ' that it would provoke wage claims. Jay shared the belief expressed by Gaitskell and Bevan in 1949 that tax cuts could not offset a reduction in the level of subsidies. He argued that the proposed compensations through taxation 'would benefit those better able to bear the burden, whereas the consequent increases in food prices would have to be paid for by, inter alia, people who did not pay taxes and would therefore receive a worsening of their financial position.' His main objection remained that food subsidies were part of a long-term Government policy of universal benefits and that therefore 'even if some of the reduction in expenditure thereby secured was given away in the form of other social benefits, etc, he would regard the proposal as wrong and would be opposed.'[23]

Jay faced a wall of official opinion in favour of a cut. Bernard Gilbert supported the Economic Secretary's call for a big reduction in subsidies. Edward Bridges 'thought that due to the distortion of the price structure the Government would be forced to consider some such step in the future.' Edwin Plowden thought that Jay's arguments on the redistribution of wealth 'were without serious foundation' while Robert Hall also agreed that a big reduction should be made. Wilfrid Eady added that 'the argument about the dangers of provoking wage increases might have been over-stated.' Of the officials and advisers present only Trend expressed any misgivings about cutting subsidies at that moment, he 'thought it was a rather doubtful operation at present.'[24]

The language Gaitskell employed when talking about the subsidies indicated that he shared Jay's view that they were a fundamental part of a social programme based on universality and that his thoughts on the subject had not changed since the 1949 Budget. He was 'not impressed' by Bridges' distortion of price argument and also 'thought it was quite right and proper that milk should be drunk by all classes of the community to as great a degree, within limits, as they wished, and any suggestion that the price of milk should be increased so that, for example, purchase tax could be decreased would seem to him quite unacceptable.'[25]

Although Gaitskell 'did not rule out of court some change' he concluded at the end of the meeting that 'it had not been demonstrated to him that the people who would "pay" the £50m., if food subsidies were reduced, were better able to do so than the people affected by the increase in income tax that had been proposed.' In addition he thought that the argument being put forward for a cut 'was the same as the argument which urged indirect rather than direct taxation.'[26]

In spite of Gaitskell's assurance that in making his final decision he 'would bear in mind the ímportance of not letting income tax rise in this year - a year of peace' it was clear that he preferred an income tax rise to a cut in government expenditure. In the end he put 6d on income tax at a time when many in the Treasury had argued that the burden of taxation was already greater than the economy could bear.

The debate surrounding the 1951 Budget brought out the main features of Gaitskell's attitude towards fiscal policy. The Budget speech, which he prepared, demonstrated that he saw the annual Budget as only having a limited role in economic planning. Earlier chapters have revealed the extent to which Gaitskell stressed the importance of direct controls, his fiscal policy should be seen in this context. Gaitskell's disagreement with the Economic Section's argument that price rises should be allowed to deflate the economy is also revealing. He was sceptical of the idea that allowing market changes to feed through into the economy could have a wholly beneficial effect. He was concerned about the knock-on effects of a rise in prices and turned to direct price controls to contain them. His clash with the official Treasury over food subsidies revealed an even greater tension. The Treasury remained essentially liberal in its economics. It wanted to remove subsidies because they increased the burden of public expenditure and distorted markets. For Gaitskell and other Labour ministers these arguments were anathema. The principle of universality in social benefits was an important one. When faced with a decision between cutting subsidies and increasing direct taxation, Gaitskell was naturally inclined towards the later course of action.

The 1952 Budget: 'Restriction and Austerity are not Enough'

Because of the systematic removal of physical controls the role fiscal policy played in general economic management increased markedly during the Butler Chancellorship. As I.M.D. Little succinctly put it in 1962: 'one may say that the internal problem is now to reduce general business fluctuations (if possible to the point of elimination), whereas formerly it was a matter of balancing supply and demand in a particular market with a variety of controls to limit the consequences of overshooting the mark.'[27]

The removal of physical controls increased the inter-relationship of markets. In a controlled economy it was possible to restrict the role of the Budget to the equalisation of the supply and demand for consumer goods, as Gaitskell did in 1951. However, the removal of controls, particularly those operating on investment and imports, meant that a change in the level of demand had wider repercussions. While controls could at least in part suppress the knock-on effects on investment and on the balance of payments, in a free economy this was not possible. These knock-on effects on investment and the balance of payments have a further knock-on effect on demand. With the removal of each control the significance of Budgetary policy increased and by 1954, when most of the controls had been lifted, the Budget had moved to the centre of Butler's economic strategy.

Discussion during the preparation of Butler's first Budget was naturally dominated by the sterling crisis. It might therefore appear surprising that in March 1952 Butler introduced a Budget that was mildly expansionary. Butler chose to follow the advice of the Economic Section's paper on the economic outlook produced at the beginning of the year. This paper argued that the rise in import prices was already causing mild disinflation and that this would continue.[28]

In the Budget Committee Robert Hall argued that 'the position facing the Chancellor in 1952 was very difficult.' The overall picture was a patchy one, despite the weakening demand for consumer goods which was causing a rise in unemployment 'home demand for investment and metal goods remained high.' However, he warned against planning for a larger surplus to help the balance of payments position. He argued that 'action to produce a larger surplus would increase unemployment, and was unlikely to help engineering exports.'[29]

Although the Budget Committee as a whole accepted Hall's conclusions some of its members were taken aback by the suggestion that the Budget should not be deflationary. In particular, Leslie Rowan and Frank Lee told the Chancellor at a meeting on 6 February 'that since the object of the Budget was to help the balance of payments, and in particular to improve confidence in the currency, it must be severe.'[30] Frank Lee had already put his concerns about the Budget

Committee's decision in a letter to Edward Bridges. He questioned the Economic Section's conclusions about the level of demand in the coming year. He argued that 'it is fundamental that , however regrettable it may be, investment must be curtailed if resources are to be freed for exports.' As a first step in this direction he thought that depreciation allowances should be deferred.[31]

What was implied in the arguments of Rowan and Lee was later stated explicitly by Peter Thorneycroft in a letter to Butler. It was clear to him that a choice had to be made between unemployment and the balance of payments. He argued that given this choice the Government should opt for the balance of payments. He noted Robert Hall's conclusion that '"there is no evidence of any general pressure on our resources - rather the contrary." If this is meant to apply to the current situation', Thorneycroft wrote, 'I find it a bit disturbing. I cannot forget that it was this conviction which led our predecessors from one disaster to another. It certainly deserves careful examination before we accept it too readily. An attempt to run the economy at full pressure may produce satisfactory employment figures but may hamper exports.'[32]

Butler did not agree with Thorneycroft's analysis; rather he agreed with Hall that a deflationary Budget would not be of any benefit to helping exports and would only result in increased unemployment. In his Budget speech Butler stated that 'many industries producing consumer goods are already faced with a slack demand at home. They now face further very severe cuts in their exports to the Sterling Area. They will have to increase substantially their exports to the non-sterling world - in difficult selling conditions - if they are to keep up their production and employment. To add to the difficulties of these industries by depressing home demand even further would result not in still higher exports, but in a further reduction of activity and employment, which we would all deplore.'[33]

As part of an alternative to deflation Butler did introduce some further import cuts. However, he argued in his Budget speech that 'this is not enough. We have felt the first rush of the storm and to lighten the ship we have had to throw a good deal overboard. We must now look to our rig and take in some sail. In other worlds we must divert some resources from use at home.'[34] Butler's alternative to the use of either controls or deflation for diverting resources to exports was to increase the Bank Rate. It was significant that Butler used his Budget speech to announce an increase in the Bank Rate from 2 ½ to 4%. In the speech Butler argued that 'this rise to a comparatively high level of money rates is, I believe, in present circumstances, an essential part of our campaign to fortify the currency. It will play an important part in our effort to improve our balance of payments... The use of the Bank Rate - and I must remind the Committee of the position in which our country is in regard to our resources - can make an important contribution towards the right economic climate, particularly towards the diversion of resources from investment, above all, to export.'[35]

As in 1951, the main proposal put forward by the Treasury for a cut in spending in the 1952 Budget was a cut in the food subsidies. The big difference between 1951 and 1952 was that there was now a Chancellor sympathetic to this aim, despite Lord Woolton's pledge during the 1951 election that food subsidies would not be cut.[36] Conservatives were not only attracted to the idea of cutting food subsidies because of the potential revenue saving, cutting subsidies also represented a more fundamental shift to liberal economics and selectivity in welfare. Subsidies created price distortions which accentuated the need for physical controls, cutting subsidies fitted in with Butler's general policy of decontrol and the return to free markets. Whereas Labour ministers had seen subsidies in the light of the idea of universality in welfare, Conservatives believed in moving towards a more selective benefits system.

The arguments in favour of cutting subsidies were made by Customs and Excise in a paper submitted in January 1952. The paper put forward the argument that a cut of £200 million would 'be a long step towards the abolition of the general "cost of living subsidies" and the end of the artificial arrangements under which a large amount of revenue has to be collected and then repaid to much the same people.' However, the paper argued that the costs of the scheme were not merely administrative. 'It seems probable... that the indirect consequences in the economic field resulting from such a serious distortion of relative prices are very far-reaching.' Or put simply, the artificial stimulus to demand caused by the subsidies 'must tend to postpone the possibility sooner or later of terminating the rationing system wholly or in part, and abolishing the expensive administrative machinery that it involves.'[37]

The operation to reduce the food subsidies was given the code name 'Operation Diogenes' and that to give compensation in certain cases was called 'Operation Senegoid.' At the end of February Butler had agreed to only a £110 million cut in the subsidies. The Financial Secretary, John Boyd-Carpenter, played the same role as John Edwards had in the 1951 Budget of voicing the arguments of 'Plowden and Co.' at the ministerial level. He called for a larger cut as the political reaction was unlikely to be affected by the size of the cut because 'there will be a tremendous row anyway.'[38] Both Boyd-Carpenter and Plowden himself called for an extra £50 million to be added to the cut so that food subsidies were reduced to £250 million. Plowden argued that 'this Budget has in large measure to achieve a psychological objective and this is to impress people at home and abroad with the Government's determination to be tough with the British economy.'[39] In the end Butler did decide to take £160 million from food subsidies.[40] His major concern was to limit the rise in the price of bread and he was also under pressure from the Prime Minister to limit the cut.

Butler concluded his Budget speech by arguing that 'restriction and austerity are not enough. We want a system which offers us both more realism and more hope. These are underlying purposes of the measures I have proposed, the deeper explanation of their character. We must now set forth, braced and resolute, to show the world that we shall regain our solvency and, with it our national greatness.'[41]

The drafting of the Budget speech continued until the very last moment because of the shift in the ideological purpose of the Budget which marked Butler's arrival at the Treasury. William Armstrong explained to Hall 'that all this re-writing and cutting out was due to the Tory belief that it was "Socialist Planning" to make forecasts at all: and that Salter had been working away at the Chancellor on this line. Hence all the troubles.'[42]

The day before the Budget the speech was re-drafted by Salter to take out nearly all the calculations. Robert Hall then 're-drafted it again and put them back.' On the day of the Budget itself Butler asked for 'the calculations about the effect of keeping taxation unchanged (net) on the inflationary position to be reduced almost to nothing.' Bridges and Hall carried out Butler's wishes, Hall later noted that 'I expect it will baffle the critics as it is hardly a calculation at all.'[43]

Butler explicitly presented his first Budget as an 'act of judgement'. Salter wanted this approach to be extended to the Economic Survey which was to be issued after the Budget as this had been brought forward. On his copy of Salter's paper Butler highlighted Section V which he noted was 'most useful'. In this section Salter argued that 'as we are now proceeding to an economy in which the price mechanism and competitive private enterprise play a larger part in determining economic adjustments, the old method of guessing economic developments and purporting to base policy on arithmetic conclusion from them become fantastically inappropriate.' Salter continued that 'to forecast economic developments under present and prospective conditions and then to base policy, or to purport to base policy on the arithmetical totting up of a number of quite uncertain items, will result in our deceiving both ourselves and the public and destroy confidence in our policy [emphasis in original].' Butler asked Salter to 'carefully renew the Economic Survey in the light of the note.'[44]

William Strath wrote to Plowden to object to the proposed changes. Although he conceded that 'quantitative forecasting is extremely difficult, and that it become the more difficult the less the control which the Government has on the economy' he argued that 'to deduce from this that we should abandon any attempt at quantitative forecasting is to mistake its true purpose. Quantitative forecasting is an aid to and not a substitute for judgement... The basic idea of the employment policy which was set out in the 1944 White Paper was that the Government would take appropriate action whenever the sum total of business decision was likely to be such as to produce either unemployment or inflation. Since Government action takes time to be effective, this means that the Government has to form some advance view on how it is going to behave and what scale of Government action is necessary is a matter of judgement but judgement cannot be based on pure intuition alone.'[45]

Although no changes were made to the Economic Survey the general tide of economic policy under Butler was turning against quantitative planning in any case. As I.M.D. Little has noted '1952 saw the first of the Conservative Budgets, and the first of the series of Conservative Economic Surveys in both of which the amount of prediction explicitly given rapidly declined, so that it soon became very hard to judge how closely events followed the Chancellor's thoughts.'[46] This change was not merely a superficial one of presentation as J.C.R Dow has suggested.[47] Although Butler did state in his concluding speech to the debate on his first Budget 'that my conclusions were reached after making full use of the whole machinery of economic forecasting that is available to any Chancellor of the Exchequer and was indeed, available to my predecessors when they were in office', the nature of these forecasts changed.[48] During the Budget Committee meetings leading up to the 1953 Budget Robert Hall estimated that 'as an act of judgement' the margin in the economy could be assessed at around £150 million. But 'he stressed that this figure was not one that would be reached by the semi precise mathematical processes by which the Economic Section had worked in previous years. If such processes were used this year, the margin would be considerably larger.'[49]

The new approach to forecasting was reflected in the Economic Survey. *The Economist* noted that the 'Economic Survey for 1953' marked 'the beginnings of a new approach to policy-making. In its final pages the economic prospect is discussed - not indeed fully and decisively, but with some attempt to set out the conflicting influences at work. There is more sign of Government policy being consciously shaped to the prospect. As the functioning of the economy is left in greater measure to market forces, the Government finds itself more, rather than less, able to "take a view" of its own. To set out this view, with evidence and explanation, should become increasingly the purpose of the annual survey; it is the foundation of a new technique of planning that could be considerably more effective than the old.'[50]

In the Commons the Labour Party attacked Butler's first Budget primarily on two fronts. The first of these involved describing the measures as being both deflationary and inflationary at the same time, to the bemusement of the Government benches. Douglas Jay echoed the fear Gaitskell had expressed while in Government that wage rates would rise in response to the cut in food subsidies. Jay argued that the 'whole spiral is being given a twist upwards without restraint, when restraint at this point is just what the United Kingdom's economic problem needs. Thus the Chancellor is abandoning all attempt to tackle the most serious of our internal economic problems. There is to be no dividend limitation, no restraint on prices, no restraint on wage and salary rates. For the first time since the war the Chancellor in his Budget actively encourages a cost inflation.' Jay found it 'really terrifying' that Conservative members did not realise that inflation and deflation could operate at the same time since 'that is precisely the classical cause of depressions and unemployment... The Bank rate operates by deflating demand, and this Budget is pushing up costs.'[51]

On this crucial point the Government and the Opposition seemed to talk passed each other in debate. Neither side accepted the other's economic assumptions. This was made clear during Oliver Lyttelton's contribution. He noted that Gaitskell had called the rise in the Bank rate 'a severe measure,' and then agreed with this opinion: 'I admit that it is a most drastic measure. But what becomes of the right hon. Gentlemen's argument that the Budget does not acknowledge the severity of the crisis?...'[52] To this Gaitskell responded: 'It is such an obvious point that I should not have thought that the right hon. Gentleman needed to be told. The Bank Rate could have been put up without the Budget. It is not part of the Budget.' Lyttleton felt that Gaitskell was differentiating in a 'peculiar way.'[53]

Labour's other line of attack was to argue that the Budget would increase social inequality. Both lines of attack would continue to be used throughout the Butler Chancellorship. In his speech Jay dwelt on one of the fundamental differences between the two parties recalling that 'the present Prime Minister, in one of these debates, described our policy of controls and fair-shares as being one of "equality of misery". If the right hon. Gentleman likes the word "misery", what his Government now offers is inequality of misery. If that is to be the economic choice we are on the side of equality. And if that is the Chancellor's political challenge, I can assure him that we are happy to accept it...'[54]

Jay defended food subsidies on the basis that 'they automatically assist every poor family just in proportion to its poverty. For the poorer the family, the larger the part of its income it spends on food. No other service can do that precisely because by any other method you have to define classes of needy person - old age pensioners, war pensioners, the industrially injured, and so forth - and no amount of administrative ingenuity can do that all over the field.'[55]

The 1953 Budget: 'A New Direction'

The 1953 Budget saw taxation reduced more substantially than in any previous postwar Budget. This reduction was possible even though a forecast the previous October had found that rather than the predicted Budget surplus for 1952/3, the Exchequer would go into a deficit of £250 million. On the note Bernard Gilbert had sent to the Chancellor containing this forecast Butler wrote that 'this is a dreadful position.'[56] Butler's immediate response was to consult the Prime Minister on the situation. Churchill recommended expenditure cuts rather than increases in taxation. He thought that 'we might try hard for no increase in civil expenditure' and did not 'see any case for increased taxation.'[57]

A preliminary Budget paper presented by Robert Hall in January warned that the economy was operating well below full employment and that there was considerable slack in the system.[58] Edward Bridges and other Treasury officials were dismayed by Hall's assessment given the Budgetary position. Hall noted that Bridges wanted him to take a less optimistic view about the possibility of relaxing fiscal policy and tried to prevent him 'from saying that I think there is a margin in hand.'[59] Hall himself found it 'a curious trend' that while in the past there had been horror at the Economic Section's recommendations that tax should be increased there now 'seems to be nearly as much horror at the idea of giving anything away, especially on the part of B. Gilbert who propounded the doctrine that we should either accept the Section target, or aim at a substantial surplus above the line, whichever was the bigger.'[60]

Bridges' reaction shows that Treasury officials were not prepared to allow the Budget to go into deficit above the line. Their main objection was the expected psychological impact. Hall's answer to this objection was that the public needed to be educated. He wrote to Bridges to tell him that he knew there was 'a good deal of anxiety about the expected failure of the Exchequer to get the surplus forecast last March. It will need a certain amount of education to persuade the experts that we need a <u>less</u> austere Budget next year even though our experience with this one has been worse than expected [emphasis in original].'[61]

Bridges, like the Chancellor himself, was torn between the fear of a Budget deficit and a desire to reduce the burden of taxation. On a note covering Hall's paper he wrote that 'The heavy burden of Government expenditure has resulted in the continuance over many years of high levels of taxation which have hampered initiative and constricted our productive industry. It is the Government's duty to use whatever elbow room it has in 1953 to lessen this crushing burden on industry and to take further steps towards removing the distortions from the economy.'[62]

The Budget Committee therefore accepted Hall's estimate that £150 million was available for tax cuts, although this meant an overall deficit a surplus of just under £100 million was maintained above the line. On top of a 6d. reduction in income tax Butler decided to give concessions that would encourage private investment, as Hall had recommended. These concessions were the restoration of initial allowances and the abolition of the Excess Profits Levy. Abolition of the levy had been more than officials had even hoped for, Bridges had only recommended a concession on E.P.L. One of the benefits of both these measures was that the cost would not be felt until the following tax year.

Butler presented his second Budget as one with a new look. He pointed out that on taxation 'this Budget moves for the first time for many years in a new direction. It does so because the economic circumstances show this to be the right course. The path of restriction has been so firmly fixed in people's minds that it now tends to be regarded as the inevitable line of conduct. But we can now look to a more hopeful way. We can lighten our load and liberate our energies. The fact that we have not been getting the best out of our productive capacity springs in part from our terrible burden of taxation, which is about the highest in the world. Even after this Budget we shall not have "let up" to a level which can be called moderate.'[63]

The Economist characterised this new look as 'not an exercise in national income accounting - in reckoning how money consumers need in order to promote full employment; it is an exercise in psychology. It expresses a belief that if the Chancellor is optimistic and encourages industry to be optimistic, production will rise and the optimistic assumptions of the Budget will thereby be justified.' Although the *Economist* conceded that this was an 'attractively expansionist' doctrine, it also noted that 'by its very nature Mr Butler's policy is risky.'[64]

In the Commons Gaitskell again centred his attack on the use of monetary policy which he thought 'was deliberately intended to create an atmosphere of pessimism and uncertainty.'[65] However, he also spoke at length on the subject of profits taxation. He welcomed the removal of the Excess Profits Levy, which he called 'absurd and bad' but also noted that 'when the Chancellor brought in the Excess Profits Levy,' the previous year 'he reduced the Profits Tax. He has not said anything about replacing this Profits Tax when he takes off the Excess Profits Levy. I ask straight away: Does this mean there is to be no replacement at all; that, in fact, not only are we to have the removal of the E.P.L. but a lower level of Profits Tax than existed before it was imposed?'[66] Later in his speech he linked this question to that of dividend limitation: 'The first striking feature of the Income Tax concessions is, of course, the great benefits which are to accrue to shareholders; £45 million of the £117 million will go to undistributed profits... The right thing would have been to sweep away the Excess Profits Levy, reimpose the Profits Tax and introduce dividend limitation at the same time.'[67]

In reply John Boyd-Carpenter said that Gaitskell showed 'how fundamentally different was his approach to the subject of taxation.' His wish to increase Profits Tax and impose dividend limitation was 'very revealing... because it seemed to indicate that the right hon-Gentleman regarded high taxation upon industry not as the necessary means of raising the national revenue, but as something that was good in itself and that it was wrong even though it might be financially possible, to lighten the burden on industry.'[68]

Reginald Maudling gave a more considered response to Gaitskell's opposition to using monetary policy to deal with inflation. He argued that it was preferable to rely primarily on monetary policy rather than fiscal policy to deal with this problem. 'The truth is that in the changing condition we have had to meet, with the disappearance of the world seller market, a more flexible economy has been essential. The policy of the Labour Party was to tackle inflation by a Budgetary surplus based on high and excessive levels of expenditure while ignoring the efficacy of the monetary weapon. There was no doubt that it was a courageous move particularly the move by Sir Stafford Cripps in maintaining the Budget surplus, but it was the wrong thing to do... Not only is the monetary weapon more flexible, but the point is that the cost of dear money is a great deal less than the cost of a vast surplus... Surely it is only sense if we want to restrict monetary demand in the country that we should restrict spending of borrowed money by tighter credit policy rather than by restricting the amount of money available by taking it away from our people in the form of higher taxation...'[69]

The 1954 Budget and expenditure cuts

Discussion of the 1954 Budget highlighted the Conservatives belief that the burden of taxation on the economy was too great. As Butler agreed with the Treasury that a Budget deficit was undesirable he launched a concerted campaign to reduce the level of government expenditure. The 1954 Budget was also the first in which economic growth became a major concern of fiscal policy. Robert Hall, in his first assessment of the Budgetary problem in 1954 warned that 'even if there is no recession in the United States, we cannot expect any large expansion in the

United Kingdom next year.'[70]

In general the Budget Committee was more concerned with the Government's Budgetary position than with the problem of growth. In the discussion of Hall's paper Bernard Gilbert argued that it could not yet be said, as Hall's paper said, that 'there was little likelihood that further taxation would be required in next year's Budget. One could only say at present that the Budget might have to preserve the same impact on the economy, which was a different question.' In general the Committee felt that 'any change in the forthcoming year should if anything be restrictive rather than expansive.'[71]

Butler came to his meeting with his officials on 5 February clearly worried by Hall's assessment. He remarked that 'the forward look was far more pessimistic than he had hitherto believed.' Officials argued that 'the only possibility of securing a margin for remissions in taxation would be by reductions in expenditure. And the only fields in which immediate reductions of significance could be sought appeared to be Food and Agricultural subsidies.' Butler assured the committee that reductions could be made in this area.[72]

Nevertheless the committee advised against tax cuts. Edward Bridges was still primarily concerned to avoid a deficit and told the Chancellor that tax cuts were not possible primarily because 'there was no money to give away.' Butler was also discouraged from making tax cuts by Hall. Although Hall argued that 'it was important to judge the aim of a budget by reference to the general state of the economy and not necessarily by looking at the figures' he advised against concessions 'not on the grounds that they would produce a deficit above the line, but because he thought that the present budgetary position was about right from the economic standpoint.' He went on to say 'that nothing he had said detracted from his view that taxes were too high and that it was economically desirable to reduce them.'[73]

The official Treasury line continued to be that allowing a Budget deficit would have disastrous results. When the latest figures in March showed a deficit above the line of £57m., a Budget meeting with the Chancellor concluded that 'it was generally agreed that the aim in planning the Budget should be to get rid of this deficit. The psychological effect of any departure from the policy of a balanced Budget might well be disastrous; it would be taken by Spending Departments as a sign that the Treasury was prepared to relax, and through its effect on overseas opinion it might well react on the balance of payments.' The Treasury continued to argue that the weight of public expenditure was too great for the economy to bear and 'that any attempt to reduce the deficit in 1955/56 ought to follow the line not of increasing taxation but of another assault on expenditure. The policy should in fact be to break away from the position under which the yield of increased productivity in the U.K. was mortgaged in advance, year by year.'[74]

Robert Hall did not dissent from the view that a deficit was not appropriate that year because he thought investment was the main area that required stimulus. He argued that 'a Chancellor who encouraged a deficit in the hope of stimulating investment would come under heavy pressure from his colleagues and from the public also to incur deficits from all sorts of other reasons.' However he defended the idea of deficit finance in the appropriate circumstances of recession. He pointed out that this was contemplated in 'the Employment policy White paper and the speeches of Sir Stafford Cripps.' He dismissed 'any psychological effect' as really being 'due to ignorance of what was the economic reality.'[75]

Butler's decision not to cut taxation in the 1954 Budget added to the mounting concern of his Cabinet colleagues about the burden of taxation on the economy. In a memorandum submitted to the Cabinet in March 1954 Woolton argued that if capital projects, whose benefit accrued over a period of years, were financed by loan, money could be found to cut taxes. In Cabinet Woolton added 'that it should be a main object of Government policy to reduce the current level of taxation. This would bring political and social, as well as economy advantages. National prosperity depended on a comparatively small number of people who could exploit inventions, open up new markets and devise means to increase production. The present level of taxation was curbing their initiative and their willingness to take risks. It was also denying industry the opportunity to accumulate reserves for new ventures. And, by the pressures which it exercised towards tax evasion of various forms, it was tending to undermine business morality. If the present level of taxation were to continue indefinitely, the prospects for our commercial and industrial prosperity would be bleak. He therefore suggested that the Government should set themselves the aim of reducing taxation to a point at which no one would be required to pay more than 15s. In the £.'[76]

The Cabinet rejected Woolton's specific suggestion, Butler told his colleagues that 'although he had not closed his mind to the possibility of financing certain services by borrowing, the present would not be an appropriate moment at which to resort to this device. There was no economic advantage in having recourse to it in a period of relative prosperity: indeed, it would then have the positive disadvantage of encouraging inflationary tendencies.'[77]

Butler presented the Cabinet with a stark choice between cutting expenditure or raising taxation. He argued that 'the level of public expenditure would shortly become a major political problem for the Government. The combined cost of current policies on defence, social services, agriculture and housing was more than the national economy could bear. If these policies continued unchanged he would be faced, when framing the 1955 Budget, with a choice between reducing expenditure or increasing taxation. Of these alternatives he would wish to choose the first, and he would welcome opportunities for a dramatic reduction in public expenditure. If, however, he was to avoid increasing the level of taxation in 1955, early consideration would have to be given to policy changes designed to secure substantial reductions in public expenditure, particularly on the services he had mentioned.'[78]

The Cabinet agreed that a way must be found to reduce public expenditure, political advantage was not the only consideration behind the move. In discussion it was argued that 'British industry was likely to find it increasingly difficult to maintain current earnings from exports, and the high level of taxation was one of the main obstacles in the way of an expansion of our exports.'[79]

Butler was invited by the Cabinet to submit proposals to the Prime Minister on the procedure to be followed in discussing the policy changes needed to bring about the necessary expenditure cuts. By the end of March Butler had brought forward plans to set up two Cabinet Committees, one to review civil expenditure and one to review defence expenditure. He proposed that the Committee on Civil Expenditure should be instructed to formulate recommendations for a £100 million saving in expenditure and that the Committee on Defence Expenditure should have a corresponding target of £150 million. Butler's proposal was accepted by the Cabinet.[80]

In the light of increases in expenditure forecasts, the Committee on Civil Expenditure, chaired by the Commonwealth Secretary Swinton, actually recommended reductions in expenditure amounting to £113 million. However, there was Cabinet opposition to some of the recommendations, in particular, the suggestion of a levy on flour which would increase the price of 3 ½ lb. loaf of bread by 1d. Monckton, The Minister of Labour, argued that this would increase the pressure on wage claims. Crookshank suggested that an increase in the price of sugar would be preferable.[81]

Butler fought hard to get the Cabinet to accept the levy. He argued that 'The tax-payer would not accept indefinitely the continuance of agricultural subsidies on their present scale.' In contrast to his Labour predecessors position on subsidies Butler argued that it was not, 'in his view, good social policy to continue to keep down the price of bread and milk at a time of full employment and high wages.'[82] In spite of the force of Butler's arguments, Churchill felt that the issue required further consideration. A week later the Cabinet decided to put the plans for a flour levy, as well those to raise the charge for school meals and to increase prescription charges on ice. As an alternative the Cabinet agreed to an increase in the price of sugar.[83]

In response to Butler's call for economies in defence expenditure, The Lord President, Salisbury, told the Cabinet on July 27, that the Defence Policy Committee had reviewed existing expenditure in the light of the 'new strategic appreciation by the Chiefs of Staff taking account of recent developments in the evolution of thermo-nuclear weapons.'[84] The service Departments revised their programmes to take into account the new emphasis on a policy of nuclear deterrence. These changes represented a highly significant saving for the Exchequer, leaving expenditure only £50 million above Butler's target for defence.

Faced with a stand-still Budget for 1954 Butler still wanted to find a way to encourage investment. The most important measure included in the Budget was the introduction of investment allowances. The idea of using tax allowances specifically in this way was initiated by the Chancellor himself, and not by Robert Hall as Cairncross and Watts have suggested.[85] Butler told a Budget meeting in December 1953 that 'the important task in the forthcoming year would be to provide some impetus for the expansion of home productive investment.' Later on in the same meeting he speculated that 'it might be possible to step up productive investment at home by increasing initial allowances and thought that this might be done selectively.'[86]

In response to Butler's suggestion Robert Hall brought forward a scheme proposed by John Jukes for an investment allowance, which was a tax credit for investment outlays.[87] The plan received general approval from within the Treasury but strong opposition from the Board of the Inland Revenue. Although the Board did raise economic objections to the proposed allowance, specifically that it was an expensive way of encouraging investment, its main objection was that it would change the role of the Inland Revenue. A note to the Budget Committee dwelt on this objection. It pointed out that other allowances were 'designed to write off against profits no more that the actual expenditure incurred.' However the effect of the new allowance would be that a trader could 'deduct from his net profits <u>more than the amount he had spent.</u>' This feature 'distinguishes the investment allowance from the initial allowance and from all other taxation allowances ever granted in this country in respect of capital expenditure... In essence, <u>the investment allowance would be a subsidy paid through the tax machine.</u> [emphasis in original]'[88]

Butler skilfully avoided direct confrontation on the issue, telling a Budget meeting attended by Sir Eric Banford from the Inland Revenue that 'he could see that there were disadvantages in the scheme but he leant towards supporting it and he would keep an open mind on the subject.' He put the pressure back on Banford by concluding that 'it seemed relevant to him that Inland Revenue seemed unable to suggest any other variant or any other scheme to help investment.'[89]

As Samuel Brittan has noted, the decision to include the investment allowance in the Budget was 'one of the few really severe defeats that the Revenue has suffered.'[90] It could also be said that it was a defeat that would not have been possible if Butler had not been a forceful Chancellor.

The April 1955 Budget: 'Invest in Success'

The introduction of the investment allowance in the 1954 Budget did not dispel Robert Hall's concerns about the level of private investment. In July 1954 he presented a paper on 'The Problem of Economic Expansion'. In the paper he argued that the 'problem is in part one of psychology. The rate of progress we can achieve depends, in the end, on the initiative of business itself. If industry has confidence in the future it will invest more. If it is confident it can expand, it will also be quicker to improve efficiency and cut prices, and thus realise an increase in sales which justifies this confidence. Probably the main reason for the United States economy being more progressive than ours is that the American business man's expectations are geared to an expanding economy. The way in which Budgetary policy is presented could do much to create a working faith that our economy is on a rising trend.' Hall added that 'it seems unlikely that consumption or investment will increase at an adequate rate without some positive stimulus.'[91] The same thinking lay behind Butler's call at the Conservative Party Conference that year to 'Invest in Success.'[92]

Debate during the preparation of the April 1955 Budget was influenced by the perception that a high level of confidence in the economy had to be maintained and by the feeling that this would have its own reward. However, the Economic Section's initial assessment of the economic situation was that it did not justify a reduction in tax.[93] On the other hand, Edward Bridges felt that taxes should be cut. He told a meeting in December 1954 that 'the rare opportunity provided by the surplus should be used to reduce the standard rate of income tax by 6d.'[94]

The significance of this opportunity to cut taxation was heightened by the likelihood that the 1955 Budget would be the last before a General Election.

Treasury officials believed that the burden of taxation on the economy remained too high and the possibility of the return of a Labour Government meant that the opportunity to reduce this burden could not be wasted. Bridges was certainly conscious of this factor and it played an important role in his thinking.[95]

By February the economy was running into balance of payments difficulties. In response the Chancellor raised the Bank Rate and imposed restrictions on hire-purchase transactions to constrain consumer spending. Budget discussions following this move centred on the question of whether or not the measures were working. The effectiveness of the measures was still unclear when senior officials met at the beginning of March. It was agreed at the first meeting on 8 March, attended by Edward Bridges, Bernard Gilbert and Robert Hall that 'In general the deflationary measures have not been taken as seriously by the City as has been intended.' However, when the meeting resumed the following day it was speculated that, on the assumption 'that recent measures were not failing, a standstill Budget would have a strong disincentive effect.' Again the key factor was seen to be confidence. The meeting concluded that 'It should not be forgotten that the gold and dollar reserves existed to be used. It would be a mistake to do anything which would impair the long term effects on confidence of the present high level of economic activity in the U.K.'[96]

At the beginning of April a Budget meeting with the Chancellor also concluded 'that it would not be possible to have a completely standstill Budget.' It was also decided 'that the Income Tax proposals now favoured were the best concession to make.' Only Leslie Rowan objected, pointing to the inflationary effect of reduction in the standard rate.[97] However, Rowan had objected to the tax concessions in previous Budgets. Butler must have felt that he could proceed with tax cuts with the same confidence as in previous years.

Although the decision to give £140 million of the surplus back was not a political one, the decision to do so in the form of a 6d cut in Income Tax was. In December 1954 Butler received a paper from the Conservative Research Department by Michael Fraser and David Dean entitled 'Some tax suggestions.' On the first sheet of the paper Butler wrote 'This is first class stuff from my old chosen advisers.' On the third page he marked a particular paragraph with an 'X' to bring it to Bridges' attention. The passage read: 'For what it is worth the confidential report of the British Institute of Public Opinion for September 1954, showed that the reduction of income tax received more approval than any other thing the Government had done since it took office - even including derationing.' It was also argued that a reduction in income tax for the middle classes 'fits in with our general themes. Invest in success means not only investment in capital equipment, it must also be investment in the man behind it.'[98] Butler also corresponded with Ralph Assheton and received submissions from the Conservative Finance Trade and Industry Committee which recommended a reduction in Income Tax for the middle classes who were seen as having been badly hit in recent years.

However, there was nothing underhand in Butler's choice of concession. He saw its popularity to be its own justification. In the speech that closed the Budget debate Butler pointed out that a poll for the *News Chronicle* had found that voters of all parties thought that income tax should be the first tax to be reduced. He concluded that 'I therefore seem to have done something which is very sensible.'[99]

For Butler the April 1955 Budget was the crowning moment of his economic strategy. By raising interest rates at the same time as cutting taxation he believed that he could encourage saving and dampen down consumer demand at the same time as encouraging expansion and exports. In his Budget speech Butler argued that the action he had taken in February represented one of two choices. 'The first is to limit and control the supply of goods which the consumer at home can buy. But there is an alternative, namely, to check spending at home by more flexible methods. The former course would involve a return to controls on consumer choice, even perhaps a return to rationing. We do not believe in a policy of this kind.

'It is only by looking forward and outward, by expansion, by liberating the human spirit to give and do of its best, that our island people can survive. This is the road we prefer- an adjustment of fiscal and monetary policy which without cramping or distorting the natural vigour of the economy, maintains the disciplines which are essential to an expanding community.'[100]

In the Budget debate Ralph Assheton suggested that 'this Budget blows up the idea which has been propagated in certain parts of the press that there is such a thing as Butskellism... Both the measures taken by the Chancellor, first on 24th February... and secondly, in the Budget are sound Conservative policy and they both fit in together. The dearer money policy does two things. In the first place, it damps down excessive consumption and, secondly, it encourages more saving because the rate of interest is higher... The reduction of Income Tax gives encouragement to people to produce more and it also encourages saving. We know what Socialist Chancellors would have done under the same circumstances... They would have clamped down on imports and they would have increased taxation in the classical Socialist style.'[101]

Butler, Eden and the Autumn Budget 1955

The events of the summer of 1955 were to leave Butler badly isolated within the Government. In response to the continuing rise in bank advances Butler announced a package of restrictions in the House of Commons on July 26. The package included a thirty percent rise in hire-purchase deposits and a formal request to the banks themselves to cut advances. Butler had also proposed cuts in public investment and in bread and milk subsidies but these had been ruled out by Eden who was now Prime Minister.[102]

Butler believed the run on the pound, which continued through the summer, was primarily the result of rumours that convertibility at a floating rate was imminent. He believed that he could restore overseas confidence in the pound by pushing through the expenditure cuts he had proposed in July. These would also assist the measures to restrict credit which Butler told the Cabinet on 26 August were 'now working effectively.' He argued that 'the government could not expect the public to accept the need for credit restrictions unless it could be shown that these would also be applied to the nationalised industries and to Government expenditure generally.' It is therefore clear that he believed that his economic strategy was working and all that was required was a psychological boost to his package of credit restriction. He told the Cabinet that the loss to the reserves 'had been due largely to an outflow of short-term capital caused by the expectation that some change was likely to be made in the exchange rate.'[103]

Butler proposed a substantial reduction in local authority expenditure though a reduction in housing subsidies, and reductions in central Government expenditure by reductions in the defence programme, road building and maintenance, railway modernisation and school building. He also proposed the abolition of the bread subsidy. On the basis of cut in government expenditure, Butler agued that he would be able to 'appeal to industry to do their utmost to avoid increases in dividends, profit margins and prices.'[104] His measures also had the advantage of not involving any fiscal measures and therefore not requiring legislation, thus avoiding the embarrassment of an autumn Budget.

However, Butler did not receive the support he needed from the Prime Minister to force his measures through the Cabinet. Eden called for 'a balanced plan and should included measures to show that the Government were prepared to restrain profits. Politically, the Government were now in a position to pursue whatever policy was in the best interest of the country, and it was likely that firm action would command a large measure of public support.' In practice this meant fiscal measures requiring legislation and therefore a Budget. The Cabinet minutes concluded that 'the Government's plan for remedying the situation must hold the balance fairly between the various classes of the community. The view was expressed, and commanded support, that the Chancellor's present plan was not sufficiently balanced. If house rents were increased and the bread subsidy were abolished and if, in addition, a reduction were to be made in the subsidy on school meals, further restraints should be imposed on profits and dividends.'[105] Butler was therefore forced into an Autumn Budget by the Cabinet.

Butler had recommended only expenditure cuts even though Bridges had warned him in late July that if things continued to go badly the introduction of measures which did not require the authority of Parliament 'would not prove sufficient. It would be fatal if the third attempt to cut inflation failed by reason of inadequacy. We therefore come to the conclusion - and it is a very serious conclusion - that in the contingency envisaged, the proper course would be to have an autumn Budget even if it should mean bringing Parliament back in the Recess.'[106]

However Bridges and the Treasury provided Butler with no economic justification for fiscal measures. In the same memorandum Bridges wrote 'we are all agreed that if the position continues to deteriorate, the fundamental reason will be that opinion abroad has not been satisfied that we have got our internal position under control and that more is needed to get inflation out of our system.'[107] Policy was therefore being formed in response to market opinion. Bridges did not argue that Butler's policy was not working, rather that it was not seen to be working. His argument in favour of an autumn Budget was based purely upon this perception.

Butler also had Cobbold's assurance that 'The "credit squeeze" is working, in the somewhat limited field where it can operate.'[108] Cobbold felt let down by the size of the expenditure cuts introduced in July, he rather indignantly insisted that 'I do not think that the "credit policy" medicine will prove adequate unless at some time, pressure is effectively taken off the economy at the "public" end. In the second place, I am quite sure that H.M. Government, H.M. Treasury and the Bank of England will come in for a great deal of criticism if "private enterprise" sees itself increasingly squeezed with no evidence that the same thing is happening in the "public" field.'[109]

Butler had therefore been given no reason to believe that his economic policy could not be kept on course as long as expenditure cuts were made to reassure overseas opinion and to assist in the credit squeeze. It was not until September that Robert Hall warned that the internal situation was getting worse and required significant deflation. On 2 September Hall wrote that 'The pressure on resources has been increasing since the Budget: unemployment has fallen further, the number of unfilled vacancies has increased, prices have been rising and the balance of payment has been unsatisfactory. The causes of this pressure are difficult to diagnose, but there is as yet no evidence that the trend is changing.

It is possible that the intensification of credit policy will check demand. But with so much evidence of strain in the economy, it would be unwise to rely on this. The economy requires a decisive measure of disinflation. If we do not take action, we shall be running considerable risks. If we disinflate too sharply, we shall have ample opportunity to correct the situation later on.' Butler's dismay at the reversal of Hall's advice so late in the day was evident, he wrote on his copy of the memo 'As far as I am aware historically this is the first such warning I have had from Econ. Section [emphasis in original].'[110]

Butler was the first Chancellor to attempt to manipulate a free economy by the use of fiscal policy. Given the novelty of the policy it is hardly surprising that his advisers were still learning how the economy worked as they went along. The information that formed the basis for the forecasts made by the Economic Section was often inaccurate or outdated, Macmillan compared forecasts in his first Budget speech as Chancellor to 'last years Bradshaw.'[111] Butler was probably right to treat these forecasts with a degree of scepticism and keep in mind his overall objectives of cutting taxes and public expenditure and encouraging investment and economic growth.

Cairncross' and Watt's defence of Hall in The Economic Section does not hold water. Although they accept that Hall had been 'too slow' in 'grasping the full momentum behind economic expansion in 1954' they also argue that the April Budget of 1955 'is generally agreed to have been a blunder' and that 'The Economic Section was not the architect of that Budget.'[112] However, Hall had still been arguing that the economy needed further expansion in July 1954. Even if the assumption made by J.C.R. Dow and others is correct - that the crisis of the summer of 1955 was caused by the economy over-heating - Dow himself has pointed out that Butler would have to have moderated the whole pace of expansion since 1953 to avoid it.[113] The measures of the 1955 Budget would not have even fed into the economy by the summer of that year.

Hall was also inconsistent in his advice. In the paper 'The Problem of Economic Expansion' which he had presented in July 1954 Hall argued that faster economic growth was only possible if the Government could engender in business the confidence to invest more. He wrote that 'the way in which Budgetary policy is presented could do much to create a working faith that economy is on a rising trend.'[114] However, by September 1955 he was arguing that even 'if we disinflate too sharply, we shall have ample opportunity to correct the situation later on.'[115] He concerns about business confidence and the long-term problem of investment seemed to have been forgotten. Butler was clearly dismayed when he received this paper from Hall, he had every right to feel let down by his advisers.

Butler was unable to persuade Eden to allow him the abolish the bread subsidy as part of his package of measures. Eden thought that abolishing the bread subsidy would actually have an inflationary effect. At the beginning of September Butler told his private secretary Petch that 'there is still quite a job of education to be done with the P.M.' on this subject. Eden also 'put forward the idea of making the "package" a mixed one by putting in something to reduce the cost of living. The proposal he mentioned was a reduction in the duty on beer.'[116]

Butler sent Eden a commentary by Hall on his suggestions that explained, in the simplest terms possible, why a reduction in the bread subsidy would actually be deflationary. Hall explained that 'the reason for increasing taxes or reducing subsidies, is that this takes away some of the inflated incomes and thus reduces the amount people can buy and the excess demand for resources. But if we lower taxes, or increase subsidies, it certainly reduces prices and the cost of living: but at the same time it gives people more money to spend and thus increases the underlying causes of inflation [emphasis in original].'[117] In spite of Hall's arguments Eden continued to refuse to allow Butler to take any action over bread subsidies. As a result Butler was forced to take back through profits and purchase tax roughly the amount he had given away in April.

Butler continued to believe that the primary reason for his Autumn Budget was to placate overseas opinion. It is significant that Butler kept amongst his own papers an unsigned memo from a senior official, possibly Bridges, dealing with Butler's own draft of the Budget Speech. Butler did not keep many official Treasury documents amongst his own papers and the retention of this one suggests that he wanted to preserve proof that the form of the Budget was being forced on him. The official asked Butler if he would 'consider an alteration of the order in the first section of the speech as drafted it over the weekend? I have discussed this section with Sir Robert Hall and we both feel that it is a pity that the balance of payments considerations are dealt with twice over - once on pages 2-6 (mainly in terms of the strength of Sterling and the confidence factors), and a second time on pages 16-20 (mainly in factual and statistical terms).' It was argued by the official that one major disadvantage of this draft was that it appeared as if it was primarily 'because we are frightened of the confidence factor, that we are taking further measures.' Butler underlined this passage and wrote in the margin 'This is the truth'. It was suggested in the note that the passage on confidence should be removed from the beginning of the speech and amalgamated with the other passage 'towards the end of the section as a whole.' Butler wrote at the end of the note 'I am v. worried about this' and that it 'doesn't tell the truth.'[118]

In the end the Budget speech was structured in the way Butler wanted. Considered in the light of what was going on behind the scenes, the speech appears to declare to those in the know that Butler was introducing fiscal measures he believed were unnecessary. He started his speech by stating: 'As has been announced, our first business must be to deal with the economic situation, and as we are in the Committee of Ways and Means it will be clear to hon. Members that I have a variety of measures, including fiscal proposals, to put before the Committee. These Her Majesty's Government judge essential if we are to tackle the present situation throughly and effectively. The fact that my speech will include budgetary matters may lead hon. Members to think that things are more difficult than they had imagined. Actually, there has been a distinct improvement during the past month. Since I spoke at Istanbul at the meeting of the International Bank and Fund in the middle of last month, Sterling, I am glad to say, has strengthened; the loss of reserves has been effectively halted, and our current deficit in the European Payments Union has been greatly reduced.'[119] On previous occasions Butler had spoken of his Budget judgement, on this occasion he spoke of that of 'Her Majesty's Government.'

The Budget provoked Gaitskell's most virulent attack on Butler's economic policy. *The Observer* noted that 'there is a sense in which Mr Gaitskell's speech might have been composed by two people. The first part is by the man we all knew- playful, ironic and admonitory. The second is in quite a different key- vituperative, angry and relentless. The impression that most people carried away was that he was determined not merely to wound but also to kill.'[120]

Brian Brivati, Gaitskell's most recent biographer, has argued that the attack was the result of Gaitskell having learnt that 'the release of unexpected passion into speeches could have a profound impact.'[121] However, the intensity of the attack can be explained by the fact that for the first time Gaitskell could argue that the situation bore out his criticisms of Butler's policy and, by extension, justified his own economic thinking. As well as attacking the April Budget for being an electioneering one Gaitskell also attacked Butler's policy of liberalisation in general. He described this as the 'rash and reckless implementation of free-for-all Conservative policy.'[122]

Gaitskell pointed out that the whole of Britain's trade deficit had arisen in non-sterling and predominantly non-dollar trade. This, he argued, was 'a very serious consideration. It means that the proportion of our trade with the Commonwealth is falling, and falling fast. It suggests, to my mind at least, this consideration that the Chancellor may be making a grave mistake if he puts this down simply to inflation at home. Does it not also suggest that the liberalisation of dollar and O.E.E.C. imports may have had something to do with it?... I Think that this situation should have made the Chancellor pause, but it made him do nothing of the kind. He proceeded to advance further to convertibility last winter at a time when our dollar reserves were running down and at a time when the world dollar situation was changing unfavourably.'[123]

Gaitskell also attacked Butler's monetary policy: 'if one considers credit policy, surely it must have been clear to the Chancellor that the key to any success in this direction- assuming that it is, after all the main policy, as it is, on which the Government have been relying- must have been a reduction in bank advances. I made this point in the Budget debate and again in the summer... They have come down since then, but why did he not take action earlier and say to the banks straight away- "what we want you to do is bring down the advances?"'[124]

Conclusion

Jim Tomlinson has written at length on the way in which the role of the Budget as an economic weapon was superimposed upon a pre-existing annual Budgetary process during the war and in the postwar period. There is no economic reason why decisions affecting the economic management of the economy should be made at this time. As Tomlinson notes 'There is clearly no a priori logic in this, no reason to suppose that the rhythms of whatever private sector forces determined fluctuation in aggregate would match the rhythms of the annual Budgets.'[125] The reason why decisions were taken at the time of the Budget was because it fitted in with the administrative arrangements that already existed within the Treasury.

The experience of the Butler Chancellorship shows how little integration there was between these two roles of the Budget. The tensions between the two roles grew stronger as Budgetary policy began to play a greater role in overall economic management with the disappearance of controls. Treasury Mandarins still wanted to balance the annual Budget. They accepted Keynesian demand management in so far as it involved fine tuning of the economy around a high level of demand. They continued to refuse to contemplate a deficit.

Robert Hall and the Economic Section fought for the principle of deficit financing to be accepted. However, Hall did not force matters to a head, probably because he wanted to build up his influence within the Treasury so that he could persuade officials and ministers to pursue a policy of deficit financing when it was absolutely necessary. In 1954 Hall accepted the Treasury's case against incurring a deficit when only private investment needed to be encouraged. Later that year he did state the case for a deficit in circumstances short of a general depression. In his paper on the 'Problem of Economic Expansion' he argued that it might be desirable to incur a deficit in order to maintain expansion: 'a period of Budget deficits, after the heavy Budget surpluses of recent years, should not create unmanageable problems.'[126]

One issue about which Hall and the Treasury could agree was that the burden of taxation needed to be reduced. However, they reached the same conclusion from different viewpoints. Hall was concerned about the Budget purely as a method of macro-economic management while the Treasury was concerned primarily by the need to keep public expenditure under control and by the fear that government was doing too much.

Within this advice structure Butler pursued a very consistent strategy. He believed that he could achieve expansion without inflation or Balance of Payments problems by cutting taxation at the same time as allowing interest rates to rise to something like their market level. Butler was able to follow this strategy by accepting advice from various sources as and when it suited his purposes. The advice he received was pluralistic enough for him to be able to find intellectual support for his policy. The Economic Section's annual assessments of the economic situation were influential on Butler because they generally recommended an expansionist fiscal policy even though they were based on a pessimistic appraisal of the effectiveness of his monetary policy. The expansionist policy recommended by the Section fitted in with Butler's vision and he therefore chose to follow their advice. In 1952 powerful voices within the Treasury had called for a deflationary Budget but Butler ignored them because he had a more palatable alternative. Butler no more believed in Budget deficits than Bridges but he allowed a deficit above-the-line in 1954 because it fitted in with his general policy of expansion and greater economic freedom. When, in 1955, the Section's appraisal recommended some deflation Butler turned to Bridges who did not want to miss the opportunity to cut taxation. Butler was therefore not dependent on the advice the Economic Section and only accepted it when it suited him.

The content of the 1955 autumn Budget went against everything Butler's fiscal policy had stood for. It was a reversal forced on Butler by Eden and the Cabinet and went against his own judgement. He had wanted the abolition of the bread subsidy to be at the centre of a package of expenditure measures to deal with what he saw as a crisis of confidence. Abolishing the subsidy would have been consistent with his policy of reducing market distortions and cutting expenditure by moving towards selectivity in social benefits.

In his dislike of subsidies, as in so much of his fiscal policy, Butler differed from Gaiskell. Whereas Gaitskell conceived of the Budget as having a highly specific purpose within the context of a controlled economy, Butler saw fiscal and monetary policy as the two main ways of managing the economy. Both of these methods had the advantage of being indirect forms of manipulation that could be used within a free economy.

Notes:

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16. PRO T 171 400 Jay to Cripps, 2/3/50.

17. PRO T 171 403 B.C.(51)5th Meeting, 6/2/51.

18. PRO T 171 400 B.C.(50)15th Meeting, 22/2/50.

19. Ibid.

20. Philip M. Williams(ed.): The Diary of Hugh Gaitskell 1945-1956, Jonathan Cape Ltd, London, 1983, 11/4/49, p.108.

21. Ibid.

22. PRO T 171 403 'Government Expenditure: Note of Discussion at Roffey on Saturday and Sunday February 17/18', 1951.

23. Ibid.

24. Ibid.

25. Ibid.

26. Ibid.

27. Worswick and Ady(eds.): Op Cit.

28. PRO T 171 408 B.C.(52)8 'The Economic Outlook in 1952', note by Robert Hall, 30/1/52.

29. PRO T 171 408 B.C.(52)4th Meeting, 1/2/52.

30. PRO T 171 408 Meeting with Chancellor, 6/2/52.

31. PRO T 171 422 Lee to Bridges, 4/2/52.

32. PRO T 230 323 Thorneycroft to Butler, undated.

33. House of Commons Debates, 11/3/52, vol.497, col.1284.

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38. PRO T 171 409 Boyd-Carpenter to Butler, 3/3/52.

39. PRO T 171 409 Plowden to Butler, 1/3/52.

40. Lord Butler: The Art of the Possible, Hamish Hamilton, London, 1971, p.161.

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73. Ibid.

74. PRO T 171 437 Budget meeting with Chancellor, 1/3/54.

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76. PRO CAB 128 27 Cabinet, CC(54)14th Conclusions, 3/3/54.

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78. Ibid.

79. Ibid.

80. PRO CAB 128 27 Cabinet, CC(54)24th Conclusions, 31/3/54.

81. PRO CAB 128 27 Cabinet, CC(54)51st Conclusions, 20/7/54.

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83. PRO CAB 128 27 Cabinet, CC(54)55th Conclusions 28/7/54.

84. PRO CAB 128 27 Cabinet, CC(54)54th Conclusions, 27/7/54.

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Chapter 10

A Difference of Faith in Monetary Policy

Until recently monetary policy was one area of policy in which it was generally agreed by historians of the postwar period that the replacement of a Labour Government by a Conservative one led to a significant change in direction. Alec Cairncross is fairly representative in arguing that 'within a few months of the change of government monetary policy had been transformed. Bank Rate had been revived and a new emphasis put on control of the money supply.'[1]

More recent contributions to the literature have played down the importance of the reactivation of Bank Rate policy in November 1951. In particular, Susan Howson has argued that the change in policy might have occurred even if the Labour Party had won the 1951 election.[2] John Fforde has also questioned the significance of the move and has described it 'as the overdue removal of an absurd anomaly within the existing framework of monetary policy rather than as the inauguration of an entirely new approach.' [3]

The evidence suggests that Howson and Fforde's argument that the reactivation of the Bank Rate was an inevitable development cannot be justified. The extent of the disagreement between the Conservative and Labour Parties on the issue of monetary policy was greater than even Cairncross has recognised. By neglecting Gaitskell's attempts to introduce direct credit controls when he was Chancellor, Cairncross is able to argue that there was continuity in the policy of applying 'moral pressure on the banks.'[4] In fact, Gaitskell only resorted to persuasion because he was advised that he could not force the Bank of England to introduce direct credit controls.

As Chancellor Gaitskell rejected the Bank of England's requests to raise short-term interest rates. He saw interest rate policy as a blunt and antiquated instrument and doubted the psychological case that the Bank used in favour of reactivating the Bank Rate. Along with other Labour ministers Gaitskell also opposed to the Bank's request because it would lead to an increase in the Debt charge which had both economic and political implications. Gaitskell favoured the use of direct monetary controls which could be used in a more selective way and fitted in with his general policy of using direct controls on the economy. Gaitskell's views on monetary policy did not change and he continued to make the same arguments in Opposition.

In contrast to Gaitskell, Butler saw the reactivation of the Bank Rate as a central part of his economic strategy and consciously emphasised this fact. His moves to restore interest rates to something like their market level facilitated his policy of decontrol and allowed him to pursue an expansionist fiscal policy. Although interest rates remained at a relatively low level during his Chancellorship, Butler did pursue an active monetary policy. He was hampered by the Treasury, which was uncertain about the impact of interest rate changes on the economy, and by the Bank of England, which was more concerned with the status of sterling than with the domestic effects of interest rates. Butler only failed to raise interest rates during the 1955 sterling crisis because the Bank of England rejected such a move.

Background

In the 1930s John Maynard Keynes revolutionised thinking about interest rates. His monetary theory was centred around liquidity preference, the idea that interest rates were 'the reward for parting with liquidity', the rate of interest 'a measure of the unwillingness of those who possess money to part with their liquid control over it.'[5] Since a major determinate of the desire to hold money is future expectations, Keynes argued that it was pointless to use high interest rates to control a boom: 'The boom which is destined to end in a slump is caused... by the combination of a rate of interest, which in a correct state of expectation would be too high for full employment, with a misguided state of expectation which, so long as it lasts, prevents this rate of interest from being in fact deterrent.' He concluded from this argument that 'the remedy for the boom is not a higher rate of interest but a lower rate of interest.' For 'that may enable the so-called boom to last. The right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom.'[6]

The collapse of the Gold Standard and the devaluation of the pound in 1931 allowed the Chancellor to initiate the era of cheap money in 1932. Although cheap money was attractive to the Treasury as a way of reducing national debt, Susan Howson has found evidence suggesting that the main reason for the introduction of the policy was that the Treasury was convinced by the argument that it would aid economic recovery.[7]

At first the outbreak of the Second World War appeared to signal the end of cheap money. At the end of August 1939 the Bank Rate was raised above 2%. However the rise proved to be a temporary aberration. By November the Treasury had reverted to a policy of cheap money. Although the policy stayed the same its context and economic rationale had changed. 'The problem now was not to stimulate demand but to curtail it. It was held, however, that this task could be performed more effectively by methods other than the raising of interest rates. So long as the expenditure of the private sector was limited by rationing and other controls, income recipients would have little else to do with a large part of their earnings but to lend it to the Government.' [8]

At the end of the war the National Debt Enquiry, chaired by the outgoing Permanent Secretary to the Treasury, Sir Richard Hopkins, considered what interest rate policy would be appropriate to the transition to peacetime conditions. Keynes himself sat on the committee as did James Meade and Lionel Robbins from the Economic Section. Keynes presented the case for the retention of cheap money. He believed that 'it could be difficult for the authorities to set long-term interest rates at appropriate levels to encourage investment and economic growth in the longer term if variation in interest rates were used as an instrument of short-run demand management.'[9] However, both Meade and Robbins did not want to give up the possibility of short-term variations in interest rates. They attempted 'to counter some of Keynes' more extreme remarks... such that "productivity of capital and thrift have got nothing to do with the rate of interest" and his view that the rate of interest should no longer be used to control inflation or deflation.'[10]

However, Hopkins' report generally reflected Keynes advice which remained attractive to the Treasury. Although the final report did not rule out the possibility of interest rate flexibility it argued that in fixing nominal interest rates attention should be placed 'perhaps especially to the burden of interest charges on the Exchequer and other State funds and on Local Authorities.'[11]

From the election of a Labour Government in 1945 to the convertibility crisis of 1947 Hugh Dalton pursued a policy of cheaper money. This policy reflected the idea 'already current before the war, that monetary management was of relatively little importance in the control of the total demand for good and services, especially when more direct methods of regulating the expenditure of the public were available. Many of these controls on expenditure could in any case be made to play a useful part in the maintenance of full employment when the time came for that to be a problem. In particular, the limitation of investment expenditure in the private sector would effectively keep in reserve a number of unrealized investment opportunities so that a well-judged relaxation of controls would bring about the release of a substantial volume of investment demand whenever it should be required.' For Dalton the policy also had an additional benefit it that a 'lower rate of interest would in time have a quite considerable effect on the distribution of income... any redistribution would be at the expense of the rentier.'[12]

The economic crisis of 1947 and Dalton's resignation over budget leaks in November signalled the end of one aspect of the monetary policy he had pursued. For the rest of the Labour Government the yield on government securities was allowed to rise, however, both Cripps and Gaitskell refused to agree to the Bank of England's demand to reactivate short-term interest rate policy. To put it simply, policy had reverted from cheaper money back to cheap money.

Gaitskell and Monetary Policy

Although Gaitskell strongly supported a policy of cheap money he believed that it was only the foundation of a distinctly socialist monetary policy, not an end in itself. He also believed that direct credit controls were a necessary weapon. As has been seen, in the 1930s Durbin and Gaitskell's economic philosophy was influenced by Hayek's business cycle theory. Both men were to use Hayek's arguments to point to inadequacies in Keynes' monetary theory.

Following the publication of the General Theory in 1936 Durbin wrote to Keynes arguing that cheap money could not cure the problems of the trade cycle:'let us imagine the Trade Cycle boom to be sufficiently strong to reduce general unemployment to zero... Now you may have good reasons for believing that the trade cycle movement is quite different in kind from the larger inflations that accompanied the war. We know that it is possible for upward movement in monetary expenditure to proceed through the condition of full employment to a rise in prices. Unless there are such reasons- and I do not find them in the 'General Theory' you have given no reason for supposing that your 'cure' would not simply lead to an accelerated inflation, and ultimately rise in prices, and the continuous dilemma between allowing the movement to gain further impetus or checking it. And if the movement is checked the disappointment of expectations is the crisis and produces the depression... I fail to see how you propose to stabilize the boom without allowing the expansion of money to go on after full employment has been reached.'[13]

Durbin and Gaitskell were both members of XYZ, a dining club founded in 1932 by Labour sympathisers in the City, which became an important influence of future Labour Government policy.[14] To counter the deficiencies of a cheap money policy XYZ worked on a specifically socialistic monetary policy which involved a far greater degree of government control than envisaged by Keynes. In 1939 Durbin published the conclusions reached by XYZ's War Finance group, of which both he and Gaitskell were members, in a book entitled How to pay for the War. Durbin argued that large-scale borrowing to pay for the war was inevitable and that this should be 'directly from the only source of new credit - the ordinary banks.' This large-scale borrowing should be at a very low rate of interest and there 'was no good reason why the banks should make large profits from the Government.' To deal with the problem of cheap money leading to undesirable inflationary pressure in the economy Durbin argued that 'It is therefore of the first importance to control advances made to the public by the banks and the deposits resulting therefrom. It will in all probability be necessary to limit them to their present volume, if the velocity of their circulation increases. To do so is vitally necessary if the expansion is to be limited and controlled.'[15]

Therefore, both Durbin and Gaitskell believed that a cheap money policy could only work as part of a wider socialistic monetary policy which also involved the control of advances. Gaitskell thought that the policy of cheaper money that Dalton had pursued as Chancellor had been mistaken. He blamed Treasury advice for misleading Dalton. In a letter to the financial journalist Nicholas Davenport, who had been a close friend of Dalton's, written long after the events described, Gaitskell expressed his feelings on the subject. 'Dear Nicholas, I entirely agree with what you say, In particular, that Hugh [Dalton] was absolutely right to go out for cheap money, that he went too far but that was definitely on the advice of the Treasury experts. It is perhaps worth pointing out that even by 1951 interest rates were still comparatively low although I was prepared to let the long-term rate go up to 4%. The really crucial change came with the removal of the peg which the Bank wanted to do, which I had refused to do, and which the Tories did almost immediately after they came into power.'[16]

As Chancellor, Gaitskell stood by the policy of cheap money he inherited from Cripps and withstood increasing pressure from the Bank of England to raise the Bank Rate. Gaitskell own plans to deal with the inflationary problem by introducing selective credit controls were, in turn, blocked by the Bank.

Gaitskell first faced pressure from the Bank of England to raise the Bank Rate in September 1949, after the devaluation of the pound. The Bank argued that such a move would reinforce control of advances, and since long-term interest rates were rising, the Treasury Bill rate would have to follow. Gaitskell, Jay and Harold Wilson advised Stafford Cripps against allowing such an operation. Jay argued that not only was the case for a rise nonsensical on economic grounds but also that 'the underlying political assumption is surely intolerable- that we should at this moment, at the cost of adding £25m. to Government expenditure, admit the principle that following devaluation, banks have to be paid a higher price to fall in with the national needs, whilst we are most firmly and loudly refusing to admit this argument in the case of labour, industry and others.'[17]

Jay's argument against a rise in interest rates had several dimensions. It was partly influenced by what Burke Trend, in the Home Finance Division, noted as 'the probable reactions of the TUC, the effect on wages policy etc, etc.'[18] However, It was also the result of a concern about the cost of social expenditure on the capital side and a moral argument that a certain privileged group should not benefit from the cost of this expenditure. It represented a fundamental objection to the idea that Bank Rate policy should be revived.

Gaitskell made these points again when the Governor approached him as Chancellor for a rise in short-term interest rates in January 1951. At the meeting on January 5 Gaitskell said that 'he could not forget that an increase in short-term rates would impose a heavy additional charge on the Exchequer, the benefit of which would inure to big banks, foreign Governments, etc. i.e. to a small and restricted body of people which had not even asked for the increase.'[19]

In November 1950 Gaitskell asked his officials to review the whole field of credit policy, his objective was to introduce some measure of selective credit control. However, discussion within the Treasury became concentrated on the proposal made by the Bank at the same time for a ½% rise in short-term interest rates as a counter-inflationary measure. Opinion within the Treasury was divided. Trend had found the Bank's memorandum to be 'a very disappointing document.'[20] The Head of the Home Finance Division, Wilfrid Eady, wrote to Sir Kenneth Peppiat at the Bank to suggest a change in emphasis. He argued that the 'major part of your case rests on the psychological importance of creating a little uncertainty in the minds of people who have taken too much for granted easy money in all circumstances.'[21]

With the emphasis placed on this psychological effect of a change in the rate Eady became convinced by the Banks case and joined with Hall, Plowden and Bridges in recommending the move to Gaitskell. In his note to Gaitskell, Bridges stressed that the recommendation could be seen as the conclusion of the review of credit policy that Gaitskell had requested. Any other ways of tightening credit were listed as 'possible alternatives' to this recommended course.

Gaitskell did not agree with his advisers. At a meeting on January 5 1951 with Bank and Treasury officials, he argued against using interest rates and moved attention back to the kind of credit controls he had wanted the review to concentrate on in the first place. He attacked what he called the 'indiscriminate' nature of the interest rate weapon in dealing with the problems of inflation. He was particularly worried about the disincentive effect on stockpiling in the private sector that a rise in interest rates might have.[22]

As an alternative Jay recommended an intensification of the techniques of credit control which had been employed over the last two or three years. 'What', he asked 'for example, would be the result if we asked the banks to put up their rate for advances or to discriminate in other ways between different types of borrowing?' In reply Cobbold stated that 'the distinction between borrowing for essential purposes and borrowing for less essential purposes had already been pushed to the limit as a matter of administrative practicability at the Branch Manager level.'[23]

In the light of Cobbold's response Gaitskell wondered 'what the purpose or effect of the Bank's proposals would be.' The distinction between essential and non-essential or luxury goods was fundamental to his economic thinking. Since control of the importation of non-essential goods was available elsewhere the 'difficulty which remained was the difficulty of preventing traders from buying internally, the supplies which the Government felt they should not acquire but to allow them to buy those supplies which they ought to have in order to co-operate with Government's policy on, e.g., rearmament. the problem was, therefore, essentially one of differentiation between one type of borrower and another.'[24]

At this point in the meeting Robert Hall tried to help the Governor out by arguing that the increase in Interest Rates would 'supplement and reinforce, the direct powers of control and therefore help the Chancellor in his rearmament objectives'. After further pressure from Cobbold and Sir Wilfrid Eady, Gaitskell conceded that 'leaving on one side the question of the additional cost to the Exchequer... the other arguments were nicely balanced, and he had not yet finally made up his mind.'[25]

Susan Howson has used Gaitskell's comment as one important piece of evidence to back up her suggestion that he would have eventually allowed the Bank Rate to be made effective if Labour had won the General Election of October 1951. However, Howson's interpretation of Gaitskell's comment cannot be sustained. Later in the same meeting Gaitskell flatly refused to confirm that the short-term rate was not frozen indefinitely. He argued that 'no Chancellor could, so far as the future was foreseeable, be willing to increase the Debt Charge.' As has been seen, the question of the additional charge to the Exchequer was a fundamental one for Labour ministers and was unacceptable for both economic and political reasons.

While Gaitskell might have thought that the arguments for an interest rate rise were 'nicely balanced', he clearly agreed with Jay that if credit control was needed the case for using more direct credit controls was overwhelming. He doubted whether the Bank Rate 'was as suitable an instrument as it used to be' and wondered whether 'even if a restriction of credit were necessary, there was no way of achieving it other than by the Bank's proposal.' By this he meant that the Treasury should consider Jay's suggestion 'that the rate for advances should be stepped up.'

Other comments Gaitskell made at the meeting show that he that he viewed interest rate policy as a blunt instrument and favoured a more selective form of credit control. He said that 'he believed that a great deal of investment ought not to be curtailed, and that in so far as some restrictions might be desirable, a combination of physical factors- e.g. raw material shortages, new controls, etc. was working in the Governments favour.[emphasis in original]' He went on to say 'that he felt that there had been a much stronger case for the proposed increase in interest rates three or four years ago, when controls were being relaxed, then there was now, at a time when there were being re-introduced.' In other words, physical controls were the front line of investment restriction.[26]

The pressure brought to bear on Gaitskell to accept Cobbold's proposal at the meeting on January 5 forced him to be at his most diplomatic. In his diary Gaitskell described the meeting as having been 'rather sticky.' Only the night before the meeting Gaitskell had told Dalton that 'he despised the Bank and thought the Treasury did too.'[27] In his own diary Gaitskell wrote that 'because he [Cobbold] resists other direct methods of credit control he presses for what I am personally convinced is a completely antiquated instrument.' He described Cobbold as 'simply not a very intelligent man.'[28]

The use of the word 'antiquated' in describing Bank Rate policy reveals Gaitskell's true feelings on the matter. He believed that using the Bank Rate to manipulate the economy had been superceded by more direct methods in a modern socialist state. Direct forms of credit control should be used if the

Government was to maintain full employment and fulfil socialist objectives.

The other aspects of Howson's argument also fall apart under closer examination. She points to the fact that Gaitskell agreed to the Banks suggestion of a new funding loan at 3% 'without discussion'. In fact at the time Gaitskell argued that the authorities could accept the slight risk of long-term interest rates from rising as 'we do *not* want any decline in interest rates at present.'[29] In practice Gaitskell's policy on long-term interest rates was a continuation of Stafford Cripps' cheap monetary policy in which 'the yields on government securities were to be allowed, in the main, to look after themselves.' The failure of Dalton's cheaper money policy, had been confined to that part of the policy concerning the forcing down of long-term rates. 'The reduction in short-term rates, which was so smoothly carried out in 1945, continued to give benefit to the Exchequer in the servicing of the floating debt right up to the fall of the Labour Government in October 1951.'[30]

The final part of Howson's argument concerns the intellectual climate of the times. In the introduction to British Monetary Policy 1945-51 she writes that 'By the time Gaitskell became Chancellor of the Exchequer outside opinion on the utility of monetary policy, in Britain as in many other countries on both sides of the Atlantic, had swung away from the attachment to cheap money of the immediate post-war years. Several other countries made major changes in their conduct of monetary policy at the beginning of the 1950s. Gaitskell was a professional economist (the second to have become Chancellor of the Exchequer, Dalton having been the first); one wonders whether and to what extent his views on macroeconomic policy in an inflationary world would have changed in the same direction as those of other British economists including his friends and colleagues in the Labour party. Since the return to a "flexible" monetary policy took place immediately after the 1951 general election would it have taken place anyway if Labour had been re-elected?'[31]

The simple answer to this question is no. There is no evidence to suggest that Gaitskell changed his mind on monetary policy during his time as Chancellor. In fact, as will be shown, he carried his views on short-term interest rate policy into Opposition. To argue as Howson does that the general intellectual climate over monetary policy had changed says nothing about Gaitskell in particular. In addition, it is not clear that the intellectual climate had changed in the way Howson suggests. Although newspapers attacked the Government's financial policy the evidence suggests that Gaitskell's 'friends and colleagues in the Labour party' were not moving away from cheap money.

At the beginning of 1950 Anthony Crosland wrote an attack in *Tribune* on what he called 'The Mumbo-Jumbo of the Orthodox Economists'[32] Rather than arguing that the Government should reactivate the Bank Rate in response to inflationary pressure, Crosland argued that inflation was not the cause of the balance of payments difficulties and that the best way to deal with these problems was through controls rather than an increased use of market mechanisms. Crosland began his article by noting that 'every week in such papers as the *Economist, The Times*, the *Manchester Guardian* and the *News Chronicle*, a flood of criticism against the Governments financial policy pours forth... The main charge usually is that in some way or other, inflation is responsible for the continuing balance of payments crisis. No greater gibberish was ever talked, and the reason is that most of the so-called orthodox economists don't want to understand the economics of a controlled, full employment society. In short, they don't and won't *think*. [emphasis in original]'

Crosland argued that deflation would not help the balance of payments position and would only lead to unemployment. On the subject of the volume of imports he wrote that 'this was already held so low by controls that to restrict it still further by lowering incomes would have involved a degree of deflation and unemployment at least equal to that which prevailed in an average pre-war year.' Devaluation, argued Crosland, had not proved necessary because of inflation but because of the changing structure of world trade. 'This', he wrote, 'essentially, was the reason for devaluation - not that inflation had caused our prices to move out of line with dollar prices, but that as soon as conditions returned to normal in the dollar countries it became only too clear that to have kept our prices in line was not enough in the changed conditions of the post-war world; a sharp reduction relative to dollar prices became urgently necessary - and a reduction on such a scale was the only alternative to deflation of the most brutal kind.'[33]

The strength of Gaitskell's own feelings on interest rates was demonstrated in the draft letter to Cobbold he prepared after the meeting on January 5. Although it is not clear who wrote the first draft of the letter, Gaitskell was clearly unhappy with it. He crossed out much of it and replaced it with sections written in his own hand. Gaitskell argued that 'the main, indeed almost only argument for the change in Bank Rate was the psychological effect which you are convinced it would have. In this you may be right, but I cannot feel sure myself how lasting this effect could be. Nor am I satisfied that very much the same, and perhaps more striking results, could not be achieved in other ways.' Gaitskell suggested first seeking 'the co-operation of the Banks in restricting the increase in advances...' However, he was not even entirely happy with this proposal because it suffered from the disadvantage of being indiscriminate in its effect.

In the rest of the letter, which he wrote out himself, Gaitskell suggested other possible courses of action. He thought 'that we should also re-examine the possibility of selective credit controls- on the lines adopted in the last war. In this connection it is, I believe quite likely that the government will shortly be obliged to reintroduce certain physical controls which would of course operate in a selective manner. it is important that our credit policy should fit in with and not run counter to these.'[34]

Gaitskell's officials were not pleased with this last paragraph, not only because it was not entirely clear but also because its tone would further antagonise the Bank. Trend told Bridges that he was not happy with the paragraph, 'partly because I am not sure what the Chancellor has in mind when he speaks of "selective credit controls on the lines adopted in the last war" and partly because, if these controls include (as I think they must) selective Bank Advances they ought to be more closely linked with what is said earlier in the letter about restricting the increase in Advances.'[35] Eady suggested an alternative paragraph, noticeably softer in tone, which took the matter to the level of an official investigation. This alternative stated that 'I should like to have examined between the Bank and the Treasury the question whether any further directions should be given to the Capital Issues Committee, the principles which might be applied by the Banks. These directions would be as before, guidance on certain principles by which applications should be considered, and these principles could be made to fit with the discriminatory policy which will have to be applied in the establishment of the certain physical controls.'[36]

Edwin Plowden also objected to the last line of Gaitskell's original paragraph which stated, with regards to physical controls, that 'it is important that our credit policy should fit in with and not run counter to these.' Plowden thought that 'this by itself is a truism, but in the context if this paragraph I do not think it is relevant. A general restriction of credit surely does not run counter to a more selective administrative control; it would in fact support it.'[37]

After consulting Jay, Gaitskell agreed to the change suggested by Eady but refused to take out the last sentence as Plowden had suggested. Clearly, Plowden had missed, or pretended to miss, the point Gaitskell was making, that credit policy should be designed to fit the policy on physical controls. The relationship should not be the other way round.

Robert Hall became increasingly frustrated by the line Gaitskell was taking and his reliance on wartime techniques. In December 1950 he noted in his diary that Gaitskell was 'as out of date in his beliefs about how the money system is controlled as I was two years ago, and talks glibly of changing reserve ratios, directing the banks to put up overdraft rates etc.'[38] Straight after the meeting on January 5 1951 he wrote to Gaitskell, outlining what he saw as the problems with his policy. He wrote that it was his 'own strong feeling ...that we should need a very large increase in the staff of Government departments if we were to make effective use of either raw material control or of building or machinery licensing to stop expansion of fixed investment goods.' That was not the only problem, even if such an increase in staff was possible 'it would take quite a long time before they were operating at all smoothly. It would be a very large undertaking in order to deal with the size of the problem with which we shall be faced, since it is not at present a question of a major diversion of engineering output to the war effort.' There was, therefore a clear suggestion in Hall's argument that the kind of economic management that Gaitskell envisaged might have been right at the time of the last war but was in no way suitable at the present, even with the war in Korea.

Hall also criticised Gaitskell's plans for selective credit control. The Bank of England had always argued that 'banks can only operate this if they are given plain instructions, capable of being interpreted by branch mangers.' Hall added that it was 'impossible to lay down general principles about whole groups of economic activities without causing intolerable hardships' and, therefore, in order to make it operate effectively 'we should need nearly as big an official staff as to operate direct controls effectively thought material allocation or machinery licensing.'[39]

The division between the Bank of England's insistence on the reactivation of the Bank Rate to fight inflation and Gaitskell's insistence on selective credit controls hardened over the next few months. When Cobbold again requested a rise in short-term interest rates as a matter of urgency on May 31, Gaitskell firmly rejected the proposal.[40] The tone of Gaitskell's reply suggested that his decision was intended to be final. He argued that tightening of credit, over which the Treasury and the Bank were agreed was '...only a means to an end. The end is a fall, or at least, a check to the increase in deposits, accompanied by a fall in some, at least of the clearing banks assets.' To meet this objective he doubted that a small rise in short-term interest rates would be any use at all and dismissed the psychological effect claimed for it. He argued that 'it is no means clear why this very slight change in the present procedure would necessarily lead to a reduction in advances.'[41] Instead he suggested a 'simpler and more effective way ' of achieving the same objective. This would be to tell the banks to take up an increased quantity of Treasury bills or T.D.Rs at the current rate of interest. This would have the effect of reducing the reserve base. Another alternative would be to give the banks 'direct instructions about the level of advances... and adjust their cash reserves accordingly.'[42]

Eady wrote in a letter to Bridges about Gaitskell's note that 'Trend agrees substantially with the note, except the implication on page 4 that the Bank should be told that they had to provide whatever T.D.Rs the Government may need.'[43] For his own part the Governor reacted angrily to Gaitskell's suggestion that he should issue direct instructions to the banks. He told Bridges that 'his Court would never stand' for such directions 'and that if this policy was pursued it could only be through a first class row.'[44]

Eady did enquire with the Treasury Solicitor if the Bank could be ordered, under Section 4 of the Bank of England Act 1946, to issue such instructions. The

Treasury Solicitor replied that, in his opinion, there was no such power. He added that such a power was not intended at the time of the Act, and that the evidence Dalton was prepared to give at the time before the Select Committee indicated no such power. Dalton had concluded that in giving instructions to the banks 'the initiative [will] rest with the Bank throughout.'[45] However, it is far from clear that Dalton did not intend the Treasury to have such a power over the Bank. In July 1949, during the devaluation crisis, Gaitskell, Jay and Dalton agreed that the banks should be told to reduce personal advances. When Jay said that Eady was obstructing such an instruction, Dalton replied that it could be done 'if necessary under my Bank of England Act.'[46] The fact that the Treasury had inquired about these powers suggests that either Gaitskell was under the impression that it might have them or that his officials wanted to inform him that he did not.

As Gaitskell was advised that he could not force the Governor to issue direct instructions to the banks he had to resort to persuasion. In July Gaitskell told Cobbold that he was 'most anxious to have a tighter credit policy without the Government paying any more for short term borrowing.' However the Governor 'seemed doubtful whether credit should be much tighter than it was.' Gaitskell made the suggestion that he should meet the Chairmen of the clearing banks and 'both give them my views and listen to what they have to say on the general credit situation.' After 'some resistance' Cobbold agreed to this request but thought that the meeting should be put off until the Autumn. Gaitskell agreed to this and added that the second half of September would be a good time, after his return from Washington.[47] However, the General Election campaign intervened and Gaitskell never got to meet the bankers.

Gaitskell continued to take the same line on monetary policy in opposition. Butler reactivated short-term interest rate policy as part of a series of emergency measures in November 1951. Although Gaitskell welcomed some of these measures, especially the imposition of certain physical controls, he reserved most of his criticism for the raising of the Bank Rate. He said that Butler had 'simply accepted the mumbo-jumbo idea that if you have higher short money rates somehow or other it will keep credit down.' He concluded that he was 'sorry that so early in his career the right hon. Gentleman should have made such a serious mistake.'[48]

When Butler put interest rates up again in his first Budget of March 1952 Gaitskell followed through his own logic to assert that speculation against the pound was unlikely to be effected by the putting up of the cost of short-term borrowing by 1 or 1.5 per cent. He argued that speculators would be more influenced by the expectations and would conclude that 'the gains to be obtained from not holding sterling and from holding dollars will far exceed any extra cost in the rise in interest rates.' Instead of using interest rates he recommended more direct methods to control speculation against the pound. He argued that 'it would be a good thing if the six months during which British exporters may collect and convert their dollars earnings should now be reduced to four months.'[49]

Gaitskell's opposition to the raising of short-term interest rates continued to be only one aspect of his position on monetary policy. He continued to argue that monetary weapons, whether direct or not, could only be effective in conjunction with physical controls. In his Commons speech on Butler's emergency measures of November 1951 Gaitskell criticised the reliance on monetary measures. In the debate on the economic situation in January 1952 he argued that 'in dealing with the balance of payments situation and in preventing inflation it was necessary to adopt both physical and monetary controls.' The use of monetary policy alone was not enough and 'if we were to rely on that there might be a real danger of unemployment developing.'[50]

Gaitskell outlined his position in more detail during the Budget debate in April 1955, by which time the Conservative Government's decontrol programme was already well advanced. He argued that the Chancellor, in abandoning direct controls, was faced with a very real dilemma: 'If he turns the credit screw hard enough to slow down the demand for imports, he damps down production and creates unemployment. If he keeps full employment he risks a balance of payments crisis. If he imposes direct control of the less essential imports he eats a whole mouthful of words. So, in this situation, he asks his right hon. Friend the Prime Minister to have an early General Election.'[51]

It is quite clear that Gaitskell sincerely believed that monetary policy could not be relied upon if the objective of economic policy was to maintain full employment, the use of physical controls was essential. Without these controls the Government was faced with a choice between unemployment on the one hand and inflation coupled with a balance of payments crisis on the other. Gaitskell supported the restriction of credit by the imposition of selective controls, not by the use of the bank rate. This policy fitted in well with his general economic approach that emphasised the importance of selective physical controls to economic planning. Throughout Butler's period as Chancellor Gaitskell retained a position on monetary policy which Robert Hall had dismissed as long ago as 1951 as being out of date and only suited to a war time economy.

Butler and Monetary Policy

Butler's decision to sanction an increase in the Bank Rate from 2% to 2 ½% in October 1951 signalled a significant change in the direction of economic policy. The Conservatives had decided to make use of the interest rate weapon and return monetary policy back to the heart of macro-economic management. As John Fforde has noted it was 'part of the Conservative Government's alternative to a policy of planning and controls..'[52] As such it is difficult to see how Fforde can also argue that the reactivation of interest rate flexibility is best seen 'as the overdue removal of an absurd anomaly within the existing framework of monetary policy rather than as the inauguration of an entirely new approach.' Fforde's view that the reactivation of the Bank Rate was inevitable accurately reflects how officials in the Bank of England believed policy should evolve but it is simply not borne out by the evidence. If Labour had won the 1951 election the evidence suggests that the Bank Rate would not have been raised and controls would have continued to play a central role in economic policy. Indeed, the reactivation of the Bank Rate can only seen as the 'removal of absurd anomaly' because the Bank had consistently blocked Gaitskell's attempts to introduce selective controls. Fforde's conclusion reflects the view from Threadneedle Street rather than the overall picture.

The Conservatives had attacked Gaitskell's refusal to harness interest rate policy while they were in Opposition, particularly during the 1951 Budget debate. For example, Ralph Assheton, had put the issue of monetary policy in the context of a more general attack on the policy of economic planning. He argued that 'We are trying to do too much at the same time. The planners are now finding out what a lot of sensible people knew before, that we cannot fully plan the economy of this country because we cannot plan the economy of the rest of the world upon which we depend. For instance, we are suffering from the inflation of credit not only in this country but in the United States of America. The Council of the O.E.E.C. passed a resolution on 10th March urging the adoption "of such credit and other measures as may be necessary to keep demand within the limits set by available resources." This can be done in two ways, either by the wartime method of widespread physical control or by a more stringent fiscal and monetary policy coupled with a minimum of direct controls... If we are to be driven back to the first method it would be disastrous, And I do not think it would work... We must aim at a more natural system. We must reform our monetary policy. Artificially cheap money is a short-sighted policy. The discipline of the rate of interest is essential in the end.'[53]

A lecture by Professor Lionel Robbins, who was close to the Conservative party, given in November 1951 reflected the criticisms of Labour's policy and gave added weight to the Conservative attack. Robbins argued that the continued occurrence of periodic balance of payments crises was due to the failure of the government to ensure that internal economic policy was compatible with the requirements of external equilibrium. Robbins was not saying that the administration had been completely blind to this but it was 'clear that there had been more than one objective and that, when considerations of external equilibrium have clashed with domestic policy they have usually had to go by the board.' In its attempts to secure harmony between internal and external condition the government had relied completely on the budget and the direct control of investment. 'The mechanism of monetary control has been out of action. the supply of money and credit has been almost completely passive to the so-called needs of business.' Robbins recommended the revival of 'a monetary policy which was conducted with full regard to the external balance.'[54]

Seen in this light it is clear that the revival of interest rate policy heralded a return to financial orthodoxy. As such it also saw a move from full employment to external equilibrium as being the primary goal of economic policy. Robbins had pointed out how external equilibrium had been seen as secondary to the maintenance of full employment by the Labour Government, under the Butler the relationship reversed.

What the revival of interest rate flexibility would mean in practice was the subject of much uncertainty at the time, and it was not clear that it would 'allow greater freedom while maintaining the bipartisan commitment to full employment in a free society' as Fforde argues. Fears that higher interest rates would lead to unemployment were not confined to the labour benches in the House of Commons, but found expression in the Treasury as well.

Of the measures announced by the new government in October 1951 to deal with the sterling crisis the decision to raise the Bank Rate was the most politically significant. The other remedies used, such as import cuts, would have been used by the former Labour Government. Eady appears to have been more sensitive to the political difficulties involved in reactivating the Bank Rate than Butler himself. Eady's concerns were a product of the high degree of political consciousness civil servants tend to develop as a result of protecting their ministers. Although he thought that on its 'merits' the rise 'should come first, because of its healthy shock at home and abroad', Eady argued in a memo to Bridges that this would be 'politically' difficult for three reasons. First, he observed that 'the Prime Minister has no love for the Bank of England and may not like to see them so ostentatiously in the front line.' Second, 'Gaitskell will attack some parts of the story, and the reply, in the nature of the business, cannot be immediately destructive.' He also feared that the 'extreme Trade Unions (Miners, NUR, Electricians, etc) will shout deflation and slump and Bankers Ramp.' Eady concluded that it might, therefore, be advisable to mention other measures, such as the import cuts, first so as to make Churchill and Trade Unions less difficult. Opposition from Gaitskell was clearly unavoidable.[55]

Butler was advised about the political implications of the interest rate rise by Trend, who was now finally convinced of the necessity of the move. He argued that the raising of the treasury bill rate from ½ per cent to a level fluctuating between 3/4 and 1.5 or even 2 per cent was bound to create political difficulties because of the increased cost of Government borrowing. He explained to Butler that the 'policy of the previous Government was to rely on advice and exhortation to the banks, urging them to observe restraint and discrimination in their advances policy; but to place no obstacle in the way of their financing Government borrowing as cheaply as possible.' He also informed the new Chancellor that his predecessor had 'envisaged that, if more stringent measures became unavoidable, it would be necessary to isolate the short-term sector of the monetary field, to inform the banks and the discount house to continue to take up whatever Bills the Government offered at .5%, and then to operate credit restriction on the rest of the banks assets.'

In answer to Gaitskell's alternative policy Trend advised that 'it is not, in fact possible to isolate one sector of the monetary field in this way, unless some measure of compulsion is used.' As Gaitskell had been advised under the Bank of England Act of 1946 the power to do this was conferred to the Bank of England only.

In fact this issue did come up in the Debate on the Address on November 7 1951.[56] Gaitskell argued that Butler should be prepared to go to the clearing banks and 'say to them "you have to control the level of advances and not allow them to go beyond a certain figure; they must not go beyond that."' Butler, in return, reminded him about his powers under the Bank of England act by asking him if he thought 'that the dictatorial language he uses fits into that picture?'[57] Trend also included a section in his memorandum on 'External effects' which noted that the main effect would be on confidence since the change marked 'the dawn of a new era' Butler underlined this last remark and wrote at the end of his copy that it had been 'a most valuable note.'[58]

Butler wanted to stress that the rise in the Bank Rate represented a major departure in economic policy. He told Eady to change his draft statement to the House so that the rise was not 'presented just as a technical modification, but, as a change in direction.'[59] Robert Hall also argued that a ½ per cent rise in interest rates was 'likely to be criticised by informed observers because it may well be represented as the act of a Government "willing to wound, but not to strike."'[60] Given Butler's position Eady advised that the Treasury should urgently consider a rise in the rate to 3%. Butler added in a separate note to Bridges that Eady had written 'a convincing note' and that he 'did not want to slip by ½% raised towards a higher rate.'[61] However, in the Bank's opinion there was no point in a rise greater than ½% since the real change was in breaking away from the concept of a fixed 2 %. If the Chancellor wanted a rate which would have an effect over and above this a minimum of 4% would be required.

By February 1952 the Bank had changed its mind on this crucial issue. On February 23 the Governor asked for a rise in the rate to 4%, principally because the reactivation of Bank Rate policy had not had the anticipated psychological effect on borrowers that had been anticipated. Cobbold argued that the rise to 2.5% had 'made the banks much more careful about lending, but have not had much effect on the attitude of industrial borrowers. A further increase in rates on thee lines proposed is likely to do some shaking out of the inefficient firms and to discourage borrowing for less remunerative development.' But he assessed that it was unlikely 'to have violent deflationary effects on essential activity or employment.'[62]

The change in the Bank's argument reopened the debate in the Home Finance Division about the merits of the new monetary policy. In particular, Trend found many faults with the Bank's reasoning. In a memorandum circulated to both Eady and Bridges, Trend pointed out that the rise would mean a considerable cost to the Exchequer in interest payments. He also compared the Bank's argument to that it had used the previous November when it had asked for the 1/2% rise. Then it had argued that the rise would have more effect on borrowers than on lenders since it could no longer be assumed that the rate would remain static. Now the Bank was conceding that the rise had little effect on borrowers but that clearing Banks had become much more careful about lending money. The Bank, therefore, proposed a new rise primarily to discourage borrowing. but the ½% rise had led the Banks to raise their own rates 'to a greater extent then was justified by the actual rise in Bank Rate.' The Bank was arguing that because of this a further rise to 4% 'will mean only a pretty moderate increase in the Bank's rate', but, Trend argued 'in that case is there any reason to suppose that the new increase would have any more deterrent effect on potential borrowers than last November's increase?'[63]

In short, Trend felt that 'the Governor's memorandum could be clearer and more convincing on this fundamental question of Bank credit.' However, Trend's criticism went much further than this. He also questioned the relationship between the rise and the proposed contents of the Budget with which it was suggested the rise should coincide. The Budget was going to put costs up, particularly through the removal of food subsidies. As a result it was 'almost certain to touch off a new round of wage claims as a result. It is, therefore, potentially a cost inflationary Budget; and even if the effects are mitigated in many cases by increased social benefits and remissions of Income tax, a good many people are going to be hurt.'

If a rise in the Bank Rate were on top of this, and if it was effective it would 'offer considerable resistance both to wage claims and to the increase in costs generally.' Although manufacturers would probably survive 'something will have to give way somewhere.' this meant that ' a good many more people will get hurt, and they will probably be people in the lower income ranges.' It would mean unemployment and although from an 'abstract economic point of view' a 'moderate degree of unemployment would be welcome provided that it were moderate and provided that it were transitional' this could not be guaranteed.

Trend's arguments were reminiscent of those used by Gaitskell both in office and in Opposition. He pointed out that a rise in the Bank Rate was 'essentially indiscriminate in effect' and it could not be used in such a way as to produce unemployment in those places and industries from which labour could be easily switched to arms and exports. If it could not be guaranteed then, he concluded that 'abstract economics will I think, find themselves at odds with politics.' If it were decided that the rise in the Bank Rate was unavoidable then 'the rest of our planning of the internal economy, including the Budget, must be coherent with it.'[64]

Eady took issue with much of Trend's argument. On the question of the cost to the Exchequer Eady retorted that 'in the context, both of this years Budgetary policy, and the expected surplus for 1952/3, an extra charge of £100 million gross is not more than an inconvenience.' The rise would effect industry and discourage investment and lead to resistance to wage claims but that was entirely a good thing. Saving on investment would let some resources free for work on exports and also lead to resistance to wage claims which 'had been entirely lacking since 1946.' The shock of the combined effect of the Budget and the rise in Bank rate would 'not be one of dismay but of encouragement.' Eady put this in to the context of the O.F. paper on 'Emergency Action' and the danger to the reserves. With this background it was important to take action 'while we are still in control, and as an act of control.'[65]

Butler did announce a rise in the Bank Rate to 4% as part of a Budget which was in substance the same as Trend had anticipated. The policy appeared to be a success. A balance of payments surplus was achieved in 1952, the drain on the reserves was halted and confidence in sterling was restored.

Douglas Jay tabled an amendment to the 1953 Finance Bill concerning the effect of the Government's monetary policy on the debt charge. Butler decided against taking part in this debate and left the responsibility to John Boyd-Carpenter, the Financial Secretary. Boyd-Carpenter was briefed by Edmund Compton, who had succeeded Eady as Head of the Home Finance Division. Compton argued that monetary policy should not be judged in isolation 'but as part of our economic strategy.' This was to check inflation and improve the balance of payments. 'The new decision', he continued, 'taken by this Government was to use the instrument of monetary policy in support of economic and fiscal measures.' Although Compton conceded that 'there can be argument in the event of how much of the success was due to the monetary weapon.' He nevertheless stated that 'there can be no doubt that monetary policy made an essential contribution.'

Compton also advised Boyd-Carpenter to attack the Labour Party's alternative policy which had been recently laid out in the pamphlet Challenge to Britain. This pamphlet stated that '"Labour's Budgets were planned to keep down spending so that enough investment could take place without inflation."' Compton's commented that the 'experience of the years before 1951 is that they might plan this, but without the support of the monetary weapon they could not do it.' The mistake of not using interest rates would be compounded, Compton argued, by what the pamphlet described as "Budget savings" and which interpreted as 'increased taxation' and also by 'direct control which means that they will try to give orders to investors.'[66]

In the Commons debate Jay argued that the rise in interest rates had put a totally unnecessary strain on the Exchequer. A rise in the interest charges on public borrowing could not be justified as it 'can hardly be argued that the Chancellor had to restrain himself by charging himself higher interest rates in order that he should spend less.' Jay argued that only private borrowing needed to be restrained.[67]

In replying to Jay, Boyd-Carpenter relied heavily on Compton's arguments. He stated that the difference between the two parties on monetary policy amounted 'almost to a difference in doctrine or faith' and that Labour's attachment to cheap money amounted to 'faith in the Shavian sense of believing in what one knows is not true rather than relying on reason.' While the Conservative Government used interest rates as a 'flexible instrument' the Labour party remained fixed on a policy of low interest rates. Boyd-Carpenter likened Labour's policy to 'the gentleman who went for a walk without a mackintosh and got caught in the rain, and then walked about in a mackintosh through a long heat wave so that he should not be caught again to the detriment of his health and comfort.'[68]

Gaitskell was not impressed by Boyd-Carpenter's speech. He correctly surmised that the Financial Secretary was 'speaking from a prepared brief' and also accused him of 'making no attempt to answer the arguments put forward by this side.' He went further than just criticising the monetary weapon for its bluntness and its cost to the Exchequer, he also doubted the effectiveness of raising short-term interest rates. He could see 'that there may have been some influence through these policies on the level of stock which firms hold.' But he added that it was 'extremely likely that firms would have ceased building up stocks for the simple reason that world commodity prices were already falling. After all, there is a point at which people do not want to hold any more stocks in any case.'[69]

Boyd-Carpenter had been correct to describe the difference between the two parties as a fundamental one of faith. Gaitskell had no faith in short-tern interest rate policy and said as much on numerous occasions. While Compton was advising ministers that raising interest rates had made an 'essential contribution' to holding down inflation and improving the balance of payments, Gaitskell clearly doubted that this was the case. Such doubts were also being expressed in the

Treasury itself. As background for the preparation of the 1953 Budget J.C.R. Dow of the Economic Section prepared a paper which attempted to assess the results of a year's operation of the new monetary policy. The difficulty inherent in this operation was separating the effect of monetary policy from the other factors that had operated on the British economy in 1952. However, Dow's outline concluded that the effect of the new monetary policy was limited and 'was not the main cause of the improvement in the balance of payments.' Although monetary policy probably 'exaggerated the stock decline' Dow agreed with Gaitskell that this would have happened in any case with the fall in consumption and export demand.' He also concluded that this 'was probably the main effect on the economy.' The Investment Programmes Committee had 'found little reason to suppose that the demand for fixed investment had been reduced by monetary policy.' Dow also noted that 'personal consumption can have been little affected.' With regards to the psychological effect on foreign capital he did concede that 'higher interest rates and the confidence engendered by the new monetary policy may have led to some reflux of capital from other countries.' However 'such a reflux would probably anyhow have occurred and the improvement in the balance of payments was probably a more important permanent cause for confidence.'[70]

Trend wrote to Humphrey Mynors to get the Bank's opinion of what he described as 'a fairly reasoned paper.' In reply Mynors's explained that the matter was no longer his responsibility but he had read the draft and had the general impression that 'the policy had had more effect than this suggests...' In particular he pointed to the problems of separating the effect of the rise in interest rates from the other factors involved. For example, he questioned Dow's assumption that the reflux in capital was not due for the most part to the rise in rates. 'If the world distrusted the level of rates here, would the reflux have occurred anyway? If the policy helped to strengthen the balance of payments, must it not get some credit by that channel?'[71]

Within the Treasury Samuel Goldman also questioned Dow's conclusions. He pointed out that the stability in investment that Dow had alluded to as evidence that monetary policy had little effect had to be seen in the light of a steady increase in the nationalised sector. 'The case in favour of the new monetary policy', he wrote, 'is therefore stronger than is suggested.' Also, on personal consumption Goldman noted that 'a drop of £40 million in personal and professional advances is quite significant and cannot be dismissed so easily.' On the balance of payments there was 'a distinct under-estimate of the significance of the new monetary policy. The Budget and the rise of bank rate to 4% had an almost overnight effect on our gold and dollar position.' On the point both Dow and Gaitskell had made about the effect on stocks, Goldman noted that monetary policy 'had a larger potential effect on reducing imports than in fact was manifested in 1952, while old contracts were being worked off [emphasis in original].'[72]

Dow wrote to Goldman to say that many of his points had been taken on board by the first draft of the paper which attached to the note.[73] However, Goldman still thought that Dow did the new monetary Policy 'less than justice .' But they were in agreement on one point, that 1952 had been unique since monetary policy was 'pulling in the same direction as events' and therefore 'it becomes very difficult to draw any conclusions about the way the economy will react to monetary policy in a different situation.' This comment, and the whole debate inside the Treasury about the effectiveness of the new monetary policy reveal how little interest rate policy was understood and how much the decision to revive it and give it prominence had been a leap in the dark. As Goldman concluded, it would be 'difficult to say what will happen if the screw had to be put on during a period of active inflation.[emphasis in original]'[74]

It was not until February 1955 that the Treasury began to gain experience of using interest rates in the conditions that had concerned Goldman. The Bank Rate had been reduced by half a point in September 1953 and again in May 1954 but these moves were made to keep rates in touch with market levels.[75] Bank advances expanded throughout 1954, encouraged by the decision in July to remove hire-purchase controls. In February 1955 the Bank Rate was raised twice to 4½%. In his Budget speech that April Butler made specific mention of the use of 'a flexible monetary policy' to control expansion. However, Butler's reaction to the continued expansion in advances was to introduce a package of measures in July that included a rise in hire-purchase deposits of 33%, a cut in the investment programmes of the nationalised industries and a formal request from the Governor to the banks to cut their advances, but no rise in the Bank Rate.

That summer the Exchequer was hit by a run on the pound. Butler attempted to persuade the Cabinet to save the situation by introducing a package of spending cuts. However, as has been seen, Eden insisted on fiscal measures being included in the package and Butler was forced to introduce an emergency Budget in the Autumn. Given the emphasis Butler placed on monetary policy it appears odd that the Bank Rate was not raised to help deal with the sterling problem. The rate still stood at a relatively low figure and Butler believed that the run on the pound was caused by speculation trigged by rumours that it would soon be made convertible at a floating rate. It would have been consistent with his policy to raise interest rates further. In fact, Butler did try to get the Bank Rate out of 'baulk', as he put it, but he was resisted in these efforts by the Governor. Although Cobbold could not prevent him from raising rates, Butler wanted his agreement before making any move.

Cobbold had two main reasons for rejecting an increase in rates. The first was that the Bank, in representing commercial interests, thought that through the credit squeeze the private sector was doing more than its fair share in combatting inflation. This argument formed the basis of an angry letter Cobbold wrote to Bridges on 3 August 1955. Cobbold wrote about 'the widespread feeling in the City that, whilst the credit squeeze has had considerable effect, and will now have more, on private enterprise, little has been done to cut back public spending where the "credit squeeze" cannot bite... I am quite sure that H.M. Government, H.M. Treasury and the Bank of England will come in for a great deal of criticism if "private enterprise" sees itself increasingly squeezed with no evidence that the same thing is happening in the "public" field.'[76]

The second, and probably decisive, reason for Cobbold's resistance was that he wanted any further move in this direction tied to a further move towards convertibility. The Bank's enthusiasm for the restoration of a flexible Bank Rate policy had been primarily a product of its desire to see internal and external policy brought back into harmony and thus facilitate convertibility. By the summer of 1955 the Bank had become obsessed by the need to make progress towards convertibility within a wide band and saw everything in this context. When Butler tried to get the Bank Rate out of 'baulk' in the middle of August 1955, the Governor argued that from 'his own point of view... it would be a great mistake to touch the Bank Rate until we were ready to move on the exchange front... he thought we must keep the Bank Rate for this occasion. To use it now would leave us without further shots in the locker.'[77]

Cobbold brought all his objections together in a formal recommendation not to raise rates two days later. He argued that 'a sharp rise in Bank Rate without a sharp effect on exchanges would be most unfortunate. A rise in August or September without previous action on public expenditure and investment and without tidying up the exchange rate position would be most unlikely to have any real effect on the exchange. Financial opinion at home and abroad is now focussed on wages and the "public sector". It is here that the next round of attack should be directed and seen to be directed. Bank Rate should be kept in reserve for a moment when it can have some real effect or is needed as an "umbrella for an exchange move.'[78]

Conclusion

Butler's failure to raise interest rates to help restore confidence in pound in 1955 could be considered to be one of the most important mistakes of his Chancellorship. However, Butler was operating within the context of advice from the Treasury and the Bank of England, both of which were cautious about raising rates above the relatively low figure of 4 or 4½%. In particular, the Bank was more concerned about its own agenda of attaining convertibility than about the effect of the Bank Rate on the domestic economy. The Bank's opposition to raising the Bank Rate was the decisive factor in persuading Butler not to act. He made it clear in his evidence to the Radcliffe Committee that he had not been willing to force the Bank to make a move that went against its own judgement. Butler told the Committee that he came to this conclusion 'because you see you are dealing with matters of common concern, and it is essential that there should be understanding and agreement before they are carried out.'[79] Instead Butler resorted to appeals to the banks to cut advances and the imposition of hire purchase controls as part of his July measures. Both the cuts in public investment, which he was allowed to make, and the cuts in subsidies which Eden prevented, were designed to restore confidence and were therefore a substitute for a rise in the Bank Rate.

Although there were impediments to Butler's use of the Bank Rate, the Treasury, as evidenced by an internal history prepared by Gowling, considered that he had 'a very active monetary policy.'[80] Butler's policy should be seen in the context of his overall economic strategy which was based on decontrol and fiscal expansion. He saw the restoration of the interest rate weapon as necessary if these objectives were to be fulfilled. There was an element of feeling his way in the conduct of his monetary policy as cheap money had been the order of the day for as long as Butler had been in government. But the conversion of the Conservative Party to the use of the Bank Rate in postwar conditions had been genuine and not a matter of adversarial politics.

In supporting the restoration of Bank Rate flexibility Butler and his colleagues not only differed from Dalton, but from the younger economists within the Labour party such as Gaitskell and Crosland. While in Government Gaitskell had abstained from the use of the Bank Rate because he believed it to be an 'antiquated instrument.'[81] Instead he favoured the use of selective credit controls as part of his general strategy of using physical controls to plan the economy.

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Chapter 11

Conclusion

The Man Who Never Was: Mr Butskell

The figure of Mr Butskell is central to consensualist historiography. He represents the idea that during the Gaitskell and Butler Chancellorships economic policy centred on the use of Keynesian demand management to combat business fluctuations and maintain full employment.[1] This thesis has shown that Mr Butskell never really existed. Gaitskell and Butler were different men who had little in common in terms of political and economic doctrine, both had clear economic strategies and played a leading role in the formation of policy. In fact, the divergence between Gaitskell's vision of a controlled economy and Butler's of a free one represented a fundamental disagreement over the aims and methods of economic policy.

Crucial to the concept of the postwar consensus is the contention that the economic agenda was set by Keynesian ideas of economic management. Paul Addison argues that as Keynes' ideas were liberal rather than conservative or socialist, the dominance of these ideas had the effect of containing economic debate and excluding from it both the Labour left and the Conservative right. However, it has been shown that not only has the importance of Keynesian ideas in setting the economic agenda been greatly exaggerated, but also that these ideas were not necessarily seen as offering a mutually exclusive alternative to either socialist or conservative conceptions of a planned or free economy. The acceptance of Keynesian ideas did not contain economic debate in the way that Addison suggests, rather Keynesian instruments were seen by both Gaitskell and Butler as being complementary to their differing economic doctrines.

The use of Keynesian methods to manage the economy should therefore be seen in a wider context. It was entirely consistent for Butler to write in his memoirs that both he and Gaitskell 'spoke the language of Keynesianism' while denying the existence of a consensus. This was because, as he continued, they spoke the language 'with different accents and with a differing emphasis.'[2] They both used Keynesian techniques but they did so within wholly different contexts and with different purposes. Gaitskell saw Keynesian methods as a necessary adjunct to physical planning; Butler saw them as a substitute.

Gaitskell developed firm beliefs about economic policy prior to the publication of Keynes' General Theory in 1936. Gaitskell's economic doctrine was essentially socialist in character. It centred on the use of both internal and external controls to plan the economy. Keynesian methods had a place within this framework, particularly in the consumer goods market, but Gaitskell believed they could only be effective within the context of physical planning. He argued that if controls were removed then in the long-run the government would face a choice between deflation and unemployment on one hand or inflation and a balance of payments crisis on the other. With controls in place fiscal planning could be used to maintain a consistently high level of demand.

Gaitskell believed Keynesian methods were also not sufficient to combat the injustices and inefficiencies that adhered to the capitalist system. The policy of 'fair shares' involved the subsidisation and control of the prices of what were classified as essential goods. Unlike Cripps, Gaitskell was not persuaded by the Treasury's case against subsidies. He perceived subsidies as being an important part of the Government's universalist benefits policy and therefore saw no reason why they should be removed in the long-run. The maintenance of subsidies meant that the demand for certain goods would continue to be controlled through rationing rather than through the price mechanism.

In marked contrast to Gaitskell the main theme of Butler's Chancellorship was economic expansion through the extension of individual freedom. In his memoirs Butler wrote that 'Norman Macrae of *The Economist* paid me the compliment in an article he wrote describing my work at the Treasury as representing *"la puissance d'une idee en marche"*. This *idee* could be summed up in a single word: expansion - an expansion I believed capable of achievement only if the fresh winds of freedom and opportunity were allowed to blow vigorously through the economy.'[3]

Butler believed the main economic effect of physical economic planning was to constrain economic activity and distort markets. Not allowing the price mechanism to play its proper role in the economy created excesses of demand for controlled goods. In a free economy, with these factors brought back into equilibrium, the Government would be able to pursue a more expansionist economic policy which would in turn create economic confidence which would stimulate investment and allow further economic expansion. Therefore the focus of Butler's Chancellorship was on dismantling the controls he had inherited from his Labour predecessors.

Butler's use of Keynesian methods can only be properly understood within the context of his decontrol programme. For Butler the attraction of these methods was that they were indirect in their application and could therefore be used to manipulate a free economy. Where Keynesian policy did not facilitate a return to free markets Butler looked for alternative methods. His decision to reactivate the Bank Rate and to use it to manipulate the economy went against one of the central tenets of Keynes' economic theory. However, allowing interest rates to rise not only helped to bring the internal and external economy back to equilibrium but it also represented an indirect method of regulating demand and encouraging saving and investment.

Bringing the Politics Back In

A major theme of this thesis has been that both Gaitskell and Butler took the lead in making economic policy during their Chancellorships. They were able to do so because they both had remarkably clear and consistent economic strategies. The differences in their personalities and, more importantly, in the receptiveness of the institutional framework to their ideas accounts for the different ways in which they went about playing the leading role.

The enormous divergence between Gaitskell's views and those of his advisers meant that he not only dictated the general lines of policy but also its details. Gaitskell's dictatorial style applied to all the main areas of economic policy. For example, in external economic policy Gaitskell was responsible for both setting the general framework of convertibility policy and for negotiating the details of the European Payments Union. Gaitskell was clear about the direction that external economic policy should take. He believed full convertibility and a one-world economy should not be the objectives of British policy because they were incompatible with the maintenance of a socialist economy at home. Gaitskell's view was not derived from a short-term perspective formed in response to the dollar gap; rather he believed that liberalisation would open the British economy up to the effects of America's free market economy and an international slump. He also argued that currency liberalisation would give financial markets the power to prevent a Labour government from fulfilling its economic and social objectives.

Gaitskell therefore developed a long-term strategy that was in accord with his own economic thinking. Gaitskell wanted Britain's external economic policy to concentrate on strengthening ties with the Sterling Area. Essentially, he thought that economic planning should be extended and protected throughout the Sterling Area; this meant setting up new institutions to co-ordinate common economic policies. Gaitskell did not just have trade policy in mind, he also wanted to co-ordinate internal economic policy and thus maintain full employment and production. Gaitskell accepted that strengthening the Sterling Area would mean a permanent system of trade discrimination.

Gaitkell's views had an enormous impact on policy outcomes. In particular, he countered the forces driving towards multilateralism within the E.P.U. negotiations and agreed generous credit margins with the American representatives. Had these negotiations had been left to officials from the Overseas Finance Division then the resulting agreement would have looked very different. The Divisional view was much closer to that of the American administration than it was to its own ministerial masters. The actual content of the agreement can only be understood if proper consideration is given to Gaitskell's part in the negotiations.

Gaitskell's impact can be seen in all the other main areas of economic policy. He became the principal author of the Full Employment Bill, which would have put many physical controls on the statute book on a permanent basis. Of the ministers involved in the discussions over the content of the Bill it was Gaitskell who had the clearest vision of what the role of controls in economic planning should be in the long-run. He was able to think systematically about how those controls which were essential to economic planning could be differentiated from those which might be required on a short-term basis. He was also responsible for providing the Bill with a title that made an explicit connection between the continuance of economic planning and the maintenance of full employment. This revealed his ability to look at controls in the wider context of the Government's overall policy. The bias against and sometimes outright hostility of Treasury officials towards physical controls and their belief that they would eventually be phased out contributed to Gaitskell's suspicion of officials and encouraged him to get involved in day-to-day policy. He insisted that no control could be removed without prior approval.

It has also been seen that Gaitskell took the lead in both fiscal and monetary policy. In his 1951 Budget Speech he re-emphasised the importance of physical planning and the restricted nature of Budgetary policy. He also blocked the Bank of England's attempts to reactivate the Bank Rate and thereby end the policy of cheap money. As was the case with most of the major policy decisions of his Chancellorship, Gaitskell went against the advice of all his senior advisers in making this decision.

Like Gaitskell, Butler had a clear economic strategy. The chapters dealing with the main aspects of economic policy have revealed how remarkably consistent Butler was in all the objectives he pursued. This might appear surprising given that Butler did not share Gaitskell's economic training. In consequence Butler had less confidence in his own opinions and required some kind of official confirmation of his policy. Butler did not share Gaitskell's ability to impose policy or provide the framework within which discussion took place. However, he did not face the same wall of official opposition that Gaitskell had and was therefore better able to work within the framework of official policy advice and still get his way. This was not simply because his views correlated with official opinion. If one looks at Butler's economic policy as a whole it is clear that he was its principal author not only because of its consistency but also because it does not accord with the advice he was getting from any one part of the policy-making machinery. There was a sufficient plurality of opinions within the Treasury for Butler to generally get his way. He was also adept at manipulating his advisers and pushing them in the direction he wanted to go. As a consequence he did not have to impose policy from above or get heavily involved in the details.

Butler's method of operating can be observed in the area of external economic policy. As was generally the case, Butler's policy was moulded by his free market objectives. He pursued a policy of convertibility at a floating rate believing that this would bring into play market forces that would bring the economy back into balance. Decontrol of the economy would be facilitated and progress towards a multilateral trade and payments system would be advanced. Although the Overseas Finance Division saw convertibility as the eventual goal of policy it was Butler who pushed it into considering convertibility at a floating rate as an immediate policy objective. Once Butler had the support of Leslie Rowan and his Division he had the confidence to dismiss the arguments against his policy voiced by Edwin Plowden and Robert Hall. Later on in his Chancellorship, when Rowan argued against any further unilateral moves towards convertibility, Butler switched to taking advice primarily from the Bank of England which supported further progress. Although the goal of floating rate convertibility was not reached by the time Butler left the Treasury, it had remained the overall objective throughout his Chancellorship.

The same method of leading by manipulation and selection applied to the other aspects of Butler's economic policy. In the area of monetary policy, for example, it has been seen that Butler pushed his advisers into being bolder in their thinking on interest rates. The reactivation of the Bank Rate allowed him to pursue an expansionist fiscal policy even though the Economic Section, which was the main supporter of a more expansionist policy, was sceptical about the impact of higher interest rates.

This study has shown the value of taking what politicians say in public seriously. The role of Gaitskell and Butler in making economic policy could not be fully understood if one concentrated solely on the files of the Public Record Office. There is an enormous temptation for historians to rely too much on official records. The aura of former secrecy gives these documents an air of authority that others do not possess. Official records are obviously important but they do not tell the whole story for two reasons. First, the higher you look in the policy-making machinery the less you find that has been recorded for posterity. The simple explanation for this anomaly is that policy formulation is at its least formalised at the highest levels. More is decided personally on a one-to-one basis rather than through the dissemination of notes and memoranda. One consequence of this is that historians have tended to put too much emphasis on the role of officials.

Second, even if everything said in Whitehall was recorded in the Public Record Office it is still unlikely that it would provide an adequate guide. Government policy has to be placed within the wider context of political and ideological debate. For example, policy on economic controls is only explicable if it is looked at in the light of differing Conservative and Socialist beliefs about the relationship between the individual and the State. It would be unrealistic to expect these concepts to be constantly raised in day-to-day discussions concerning particular controls even though they provided a more general motivation for action. In order to understand the respective policies of Gaitskell and Butler one has to recognise that the former genuinely believed that he was working to create a more equitable society and the latter that he was freeing the public from the overbearing hand of the State. Public speeches and parliamentary debates recorded in private papers, *Hansard* and the media, provide this context. Seen within it, the different economic polices pursued by Gaitskell and Butler have come sharply into focus.

The Ideological Ascendency

A general conclusion that can be drawn from the evidence provided in this thesis is that party conflict and ideology played a central role in the making of economic policy in the postwar period. The conditions of the period did not lead to a Whig ascendancy, as Addison and Seldon have argued. In fact the countervailing factors listed by Addison which restrict the impact of party and ideology, such as 'the influence of the civil service, the electoral imperatives of a party system in which the two parties were evenly balanced, the pragmatism of party leaders, and the practical value of maintaining a large measure of continuity between one administration and the next', operated with less force than would normally have been the case.[4]

The existence of a coalition Government during the War did not have the effect of creating a consensus on economic policy between the two parties as Addison has suggested. Addison himself has effectively conceded this point in the revised edition of The Road to 1945 in which he accepts that the Labour Party had not been converted to Keynesian economics by 1945.[5] However, the wartime coalition did have the effect of creating a highly experienced political elite which lessened the impact of the countervailing force of a permanent civil service.

To talk of the civil service as a monolithic force in favour of Keynesian economic policy is also wholly inaccurate. It has been seen that their was both a generation gap between the pre- and post-1945 intake of Treasury civil servants in terms of their conversion to Keynesianism and clear division between senior Treasury officials who still thought primarily in terms of balanced budgets and financial control and advisers in the Economic Section who were far more Keynesian in their thinking. As a consequence the Treasury rarely spoke with one voice.

The plurality of views within the Treasury was also symptomatic of the fact that the postwar period was one of great uncertainty and transition. The process of postwar reconstruction meant that politicians were making fundamental choices about what the new world would be like. These choices not only applied to the structure of the domestic economy but also to that of the international economy and the world trading system. It is hardly surprising that ideology played a central role in this process; continuity was not a highly valued commodity in these circumstances. The options created by postwar reconstruction opened up the spectrum of political debate; it meant that the parties could realistically present conflicting visions of a controlled and a free market economy to the electorate. If the mythical figure of Mr Butskell has come to embody a consensus on economic policy that never existed then perhaps the actual historical figures of Mr Gaitskell and Mr Butler should be seen as embodying these two fundamentally different ideologies.

Notes:

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