From Social Contract to Social Contrick: The depoliticisation of economic policy making under Harold Wilson, 1974-75[i]

Abstract

The 1974-79 Labour Governments were elected on the basis of an agreement with the TUC promising a redistribution of income and wealth known as the Social Contract. However, the Government immediately began to marginalise these commitments in favour of preferences for incomes policy and public expenditure cuts, which has led the Social Contract to be described as the 'Social Contrick'. These changes were legitimised through a process of depoliticisation, and using an Open Marxist framework and evidence from the National Archives, the paper will show that the Treasury's exchange rate strategy and the need to secure external finance placed issues of confidence at the centre of political debate, allowing the Government to argue there was no alternative to the introduction of incomes policy and the reduction of public expenditure.

Key Words: Depoliticisation, Open Marxism Labour Government, Social Contract, Incomes Policy, Public Expenditure, International Monetary Fund

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Introduction

It is a common conception that a depreciating currency reflects a lack of market confidence in the sustainability of a nation's economic policy, and disciplines Governments by forcing them to adopt policies to restore faith. However, a depreciating currency can also offer political opportunities for Governments when it is desired for reasons of industrial competitiveness and attributed to market forces, by placing issues of confidence and credibility at the centre of political debate. The need to stabilise exchange rates, and for countries in deficit as Britain was in the 1970s, the need to secure external finance, can therefore help to justify deflationary counter-inflationary and fiscal policies, because market logic acts as a buttress between the Government and the consequences of unpopular policy changes.

The idea that the 1974-79 Labour Government was engaged in the politics of depoliticisation has often been asserted with reference to the 1976 IMF crisis (see Clarke, 1988, 314-5; Holloway, 1995, 128; Bonefeld and Burnham 1998, 41), however the intention of this paper is to demonstrate that this was not an isolated example of depoliticisation that occurred during a moment of acute crisis. Rather, it is possible to demonstrate that the events in the autumn and winter of 1976 were the logical extension of the Labour Government's statecraft that had been pursued since as early as December 1974. By using an Open Marxist framework of analysis and evidence from the National Archives, this paper will demonstrate how the Government used issues of credibility and confidence in order to shape domestic political preferences by encouraging perceptions of crisis, firstly in the foreign exchange markets, and secondly in external financing.

Firstly, a return to incomes policy was justified by citing pressure on the sterling rate, which was attributed to a lack of confidence in the Government's counter inflationary credibility, despite the fact that it was favoured by the Treasury to help improve industrial competitiveness, and was allowed to occur, if not actually engineered, by a passive intervention strategy in the foreign exchanges when sterling came under pressure. Secondly, public expenditure cuts were justified by the possibility that Britain would need to secure substantial external financing in early 1976. This culminated in borrowing from the International Monetary Fund's (IMF) oil facility, which helped to stifle support for the Labour movement's Alternative Economic Strategy (AES), and lock British policy in to multilateral solutions to balance of payments correction. This helped legitimise the argument that immediate public expenditure cuts were essential if more severe and externally imposed reductions were to be avoided in the future.

The state and the politics of depoliticisation

It has been common to view globalisation and capital mobility as processes that have given power to markets over states (see *inter alia* Helleiner, 1992; Strange, 1994; Pauly, 1997; Cohen, 1998). However, Burnham (2001a, 135) has noted that an alternative 'would be to see the reregulation of financial markets as providing the strongest possible public justification governments can muster for maintaining downward pressure on wages to combat inflation.' As such, the supposed imperatives of markets can be identified as tools that help governments to 'restructure (that is, lower) expectations and improve its credit rating' (Burnham, 2001a, 147). As such, Burnham (1994, 221-2) has suggested that analyses focussing on the constraints imposed by the deregulation of financial markets represent 'a vulgar and fraudulent discipline [that fails] to grasp the complex organic set of social relations which is the global political economy'.

Understanding these complex set of social relations is therefore of key importance in understanding the nature of the state. In order to achieve this, Holloway suggests that it is necessary to 'understand the state not as a thing in itself, but as a social form, a form of social relations', which appears 'in the form of something external to social relations' (Holloway, 1995, 122, see also *inter alia*, Bonefeld, 1992; Burnham, 1995, 2001b, 2006). Conceived in this way, it should be understood that the state 'is not autonomous, or *simply related to* "the economy", rather it is an integral aspect of the set of social relations whose overall form is determined by the manner in which the extraction of surplus from the immediate producer is secured (Burnham, 1995, 93, original emphasis). Or rather, states 'are not to be thought of as "thing like" institutions losing power to the market' (Burnham, 2001b, 108; 2006, 76).

Such Open Marxist understandings of the state are also framed by the inherently unstable and crisis prone nature of the capitalist mode of production, of which Marx (1973, 410) hypothesised that the 'universality to which it irresistibly strives encounters barriers in its own nature, which will, at a certain stage of its development, allow it to be recognized as being itself the greatest barrier to this tendency, and hence will drive towards its own suspension.' The fact that the conditions for successful capital accumulation are not naturally occurring means that state intervention in and regulation of the economy is constantly required in order to both offset crises of overaccumulation and to contain the class antagonisms that this inherently creates. Therefore, 'the behaviour of a state is conditioned [...] by a need to attract and retain globally mobile capital in order to secure domestic social reproduction' (Kettell, 2004, 23). In order for this to be achieved, a number of conditions must be met. As Clarke (2001, 96-8) notes, postponing the onset of crises of overproduction and overaccumulation are intrinsically linked to impoverishing and deskilling workers, which exacerbates class struggle with a political character on a national scale. Or as Bonefeld (1992, 112) phrases it, 'the compulsion on each individual capital, if its devaluation is to be avoided […] forces upon each capital the necessity of expelling living labour from the process of production'.

Economic crises therefore, cannot be seen as disciplinary aspects of an international state system in which power has been increasingly transferred to markets, but rather as fundamental features of the capitalist system, the inevitability of which drives the formation of preferences for policies that increase the command of capital over labour. However, as this also magnifies class antagonisms, and given that a Government's prospects for political success are dependent on the maintenance of popular domestic support, the question remains of how Governments are able to act according to their preferences without undermining their domestic political legitimacy. The answer can be found in the concept of depoliticisation.

Offe (1975, 26, original emphasis) long ago contended that 'the *existence* of a capitalist state presupposes the systematic *denial* of its nature as a *capitalist* state'. In many respects, strategies of depoliticisation are attempts at just that, and have been employed by various Governments in the United Kingdom.[ii] As a concept, depoliticisation does not refer to the removal of the political from politics as it may imply. As Burnham (2001a, 136) notes, the politics of depoliticisation should be understood as a highly political governing strategy, and as Kettell (2008, 631) usefully asserts, 'in a democratic polity, where the political legitimacy of government derives from the pursuit of the 'national interest' […] policy-making must […] display at least a semblant of a connection to the views and wishes of the electorate'. Rather, depoliticisation is a statecraft strategy through which governments try to achieve a level of governing competence in economic management (Burnham, 2001a, 127-8). As such Flinders and Buller (2006, 295-6, original emphasis) define depoliticisation as *'the range of tools, mechanisms and institutions through which politicians can attempt to move to an indirect governing relationship and/or seek to persuade the demos that they can no longer reasonably be held responsible for a certain issue, policy field or specific decision*'; or as Burnham (1999, 47; 2001a, 128) writes, depoliticisation is 'the process of placing at one remove the political character of decision making'.

Despite the fact that strategies of depoliticisation cannot remove the inherent crisis prone tendencies of accumulation or categorically prevent an economic crisis from becoming a political crisis, but only smooth class antagonisms temporarily, their benefits are clear. By removing issues from the political agenda, or reducing the perceived importance of these issues in the view of the public, Governments can 'change expectations about the effectiveness and credibility of decision making' (Burnham, 1999, 47), and make it less likely that it will have its legitimacy questioned when economic policy choices mean that additional social and economic costs have to be accepted by the general population (Kettell, 2008, 631).

Methods of depoliticising economic policy-making have often been framed in terms of the debate surrounding 'rules' versus 'discretion', however Flinders and Buller (2006) have moved the debate beyond this dichotomy and outlined three ways in which governments may employ depoliticisation. The first is *institutional depoliticisation*. This occurs when 'a formalised principal-agent relationship is established in which the former (elected politician) sets broad parameters while the latter (appointed administrator or governing board) enjoys day-to-day managerial and specialist freedom within the broad framework set' (Flinders and Buller, 2006, 298). The second is *rule-based depoliticisation*, in which state managers adopt ‘a policy that builds explicit rules into the decision-making process that constrain the need for political discretion’ (Flinders and Buller, 2006, 303-4). The final strategy is *preference shaping depoliticisation*. This involves ‘recourse to ideological, discursive or rhetorical claims in order to justify a political position that a certain issue of function does, or should, lie beyond the scope of politics of the capacity for state control’ (Flinders and Buller, 2006, 307).

The use of an Open Marxist framework in order to demonstrate the origin of governing elites’ preferences to depoliticise difficult aspects of policy, is however, not universally accepted. The position has been criticised for a tendency to ‘project a “totalising” theory, rooted in central organising principles, capable of accounting for the myriad of contradictory forms of relations between capital, the state and labour’ (Bieler and Morton, 2003, 473). Bruff (2009, 337) likewise argues that ‘Open Marxism’s ontology totalises human social practice by way of its focus on capitalist social relations’, and notes that the assumption that capitalist social relations are constituted of essential properties means that ‘the *epistemological modesty* proclaimed by Open Marxists […] is in fact an assertion of *epistemological austerity*’ (Bruff, 2009, 337, original emphasis).

These criticisms have led for calls to examine a broader range of social relations through an understanding of the reciprocal relationship between ideas, material capabilities and institutions (see Cox 1981; Bieler and Morton, 2003, 476). Or as Bruff (2009, 341) phrases it, there is a ‘need to move beyond the Puritanism of Open Marxism and embrace richer accounts of human social practice in capitalist societies’. Roberts (2002, 88) has likewise noted that ‘open Marxists have yet to develop a set of categories which usefully allow us to explore the distinct ideological characteristics of social forms of life which, at first glance, seem to have nothing whatsoever in common with capital and labour.'

The notion that Open Marxism is a totalising or deterministic theory can, however, be contested. As Bonefeld (2009, 357) notes, Open Marxism does not elevate laws of historically specific social organisations into general laws of history, but 'seeks to dissolve the autarky of things by revealing their social constitution in human practice.' He notes that the appearance of 'things' in their fetishised forms 'does not make [them] any less "human", as if the world of things were a world apart' (Bonefeld, 2009, 357). As such, the state and the tendency to depoliticise should not be conceived as determined aspects of a 'closed' theory. Simply because the social relations of capitalist production appear in an inherently crisis prone form which may make governing strategies of depoliticisation *appear* imperative, it does not determine their deployment. As Bonefeld (2009, 357) phrases it, 'the anatomy of man can explain the anatomy of the ape, but [...] the anatomy of the ape does not explain the anatomy of the man.'

Open Marxism therefore retains significant explanatory value because it applies a theory of economic action that allows for the examination of its premises with reference to empirical evidence based on a number of simple research questions: do Governments favour the imperatives of accumulation?; Do these preferences have the potential to intensify class antagonisms?; and if so, what governing strategies do Governments attempt to achieve these objectives? By looking at the depoliticisation framework in the nuanced way suggested by Flinders and Buller, it is possible to see how, during 1974-75 – a period often categorised by indecision in economic policy-making and highly politicised modes of governing – the Treasury and the Labour Government acted strategically in order to pursue policies that diverged from those implied by its electoral mandate.

Instead, it pursued objectives that were geared towards renewing conditions for profitable accumulation, principally through the politics of *preference shaping* depoliticisation, in such a way that closely accords with an Open Marxist explanatory framework. It is to demonstrating this that the remainder of this paper is dedicated.

From Social Contract to Social Contrick

The Labour Government was elected in 1974 on the basis of manifesto commitments which were firmly rooted in the Social Contract, which emerged out of the meetings of the TUC / Labour Party Liaison Committee, and first met in January 1972 on the initiative of the General Secretary of the Transport and General Workers' Union, Jack Jones. According to Taylor (2001, 209), his principal motivation was to rebuild the relationship between the two groups after it had been badly damaged in the dispute over the previous Labour Government's attempts to reform the structure of British industrial relations with *In Place of Strife* (Cmnd 3888, 1969). The meetings allowed the Labour Party and the TUC to exploit the unpopularity of the Heath Government's record on industrial relations, and the key document on the new strategy that emerged from the meetings was *Economic Policy and the Cost of Living* (TUC / Labour Party Liaison Committee [TUC / LPLC, 1973). The document called for statutory measures to control food prices as part of 'a wide ranging' system of price controls, the expansion of subsidies for house building and public transportation, and the redistribution of incomes and wealth (TUC / LPLC, 1973, 313). A prompt return to voluntary collective bargaining was also one of the key commitments outlined in the document (TUC / LPLC, 313-15).

Koelble (1987) notes that the document 'established a deal in which the unions would support the Government's attempts to fight inflation by curbing their wage demands [in return for] favourable industrial policy, unemployment relief and structural modernization', whilst Harmon (1997, 56) suggests that the document represented a *quid pro quo* between the Party and the Unions - a common theme in a relatively sparse literature on the Social Contract, with Tomlinson (1990, 301) also describing the initiative as the 'most systematic attempt ever in Britain to make an agreement between the governing parties and the trade unions'. However, it has been noted that 'no specific commitment to incomes policy was included in this document, reflecting trade unions wariness of such policies' (Tarling and Wilkinson; 1977, 395), which also indicated a *de facto* commitment to refrain from introducing incomes policy whilst in office. This has resulted in Taylor (2001, 211) arguing that the document was 'little more than a shopping list of TUC demands', to which the Labour Party had committed itself without having received a tangible demonstration of a similar intention to make concessions from the TUC. As such, the claim that the Social Contract was 'an arrangement whereby the TUC agreed to collaborate with a voluntary incomes policy in return for the repeal of the 1971 [Industrial Relations] Act and some modest economic benefits' (Sheldrake, 1991, 77) is an overstatement of what the TUC had offered in return for substantial commitments from a future Labour Government.

Given that British trade unionism had proved resilient enough to defeat the Heath Government on the issue of 'Who Governs Britain?' after showing widespread discontent with industrial relations reform and incomes policies, it is necessary to ask how the Wilson Government felt able to introduce the £6 pay limit in July 1975, and agree cuts in expenditure of £3,750 million from the 1976 public expenditure white paper in December 1975, without provoking widespread discontent from the TUC. The depoliticisation framework is a useful tool for this purpose, and shows that despite the recognition of the trade union movement's hostility to any measures that implied a reduction in the standard of living of its members and the ability of unions to create conditions of political crisis through industrial action, the Government consistently favoured increases in competitiveness over the social wage. The period between the 1974 was the platform from which it was able to pursue these objectives more aggressively by employing the principles of depoliticisation during 1975.

The Short Parliament of February – October 1974

Denis Healey (2006, 392) recalls that on taking office, he had been left with 'an economy on the brink of collapse'. The balance of payments was £3.3 billion in deficit in 1974 (Central Statistical Office [CSO], 1977, 46), the Retail Price Index stood at 12.8 per cent in the first quarter of 1974 (CSO, 1976, 96-7) and unemployment was rising, reaching 628,000 by August 1974 (Butler and Butler, 1994, 218). Given the Government's commitments under the Social Contract, and its dependence on the support of the trade unions for its political success, it would have been unsurprising if the Government had acted to reflate demand. However, it was not unemployment, but a shift of resources into the balance of payments, that took priority throughout 1974 and 1975.

This was reflected in the March Budget, which only made small concessions on pensions, food prices, and the distribution of wealth, in favour of diverting resources into exports in an attempt to try and eradicate the balance of payments deficit and reduce the burden of Britain's external debt servicing until North Sea Oil came on-stream.

The key problems in formulating the Budget had been outlined to the Chancellor at a meeting in early March with the Permanent Secretary of the Treasury, Sir Douglas Allen. He informed the Chancellor that 'it would first be necessary to offset the extra spending proposals [and] if the Chancellor still wanted to go hard for an improvement in the balance of payments, the Budget should be mildly deflationary' (TNA T 171/1053, Note of a Meeting, 7 March 1974, 2). When the Chancellor took his public expenditure plans to the Cabinet, he informed his colleagues that it would be imperative to show 'how the extra expenditure, and the effects on demand of all these additional commitments, are going to be met by increased taxation' (TNA CAB 129/175, C (74) 4, 12 March 1974, 2).

The kind of Keynesian fiscal expansion to reduce unemployment and improve the lot of the least well off in society was therefore not forthcoming, and in the context of Britain's balance of payments deficit, the Government's Central Policy Review Staff (CPRS) was sceptical about the prospects for the delivery of the Government's manifesto commitments, suggesting that it should act quickly to prevent a further deterioration in the balance of payments position and improve company liquidity, noting that the tax yield was unlikely to be sufficient to allow for the promised increase in pensions and child cash allowances. As such, the CPRS argued that it would be essential to question 'how quickly can or should other Manifesto proposals involving higher expenditure be implemented' (TNA CAB 130/726, Misc 9 (74) 2, 12 March 1974, 8).

By the middle of March therefore, the consensus was that the Budget should take about £200 million out of demand annually (TNA T 171/1053, Note of a Meeting, 15 March 1974, 6). There was to be no 'giveaway' Budget on the basis of the Social Contract. The Chancellor's Budget speech on 26 March included a 3 per cent increase in the basic and higher rates of income tax; increases in personal and child tax allowances, and a £500 million commitment to additional food subsidies. However, it also included £50 million of defence cuts and the extension of VAT at a rate of 10 per cent to confectionary and petroleum.

Healey (2006, 393) recalls that the Budget was 'received with rapture', however the reality is much more modest. At a meeting between the TUC Economic Committee and the Government on 27 March it was simply noted that 'there was approval of what the Government had already done, and an understanding that the Government was going in the right direction' (University of Warwick Modern Records Centre [MRC] MSS.292.D/560.1/10, Econ Ctee 10/1, 27 March 1974), whilst others were not as sympathetic. Tony Benn (1989, 127) noted that it was a Budget that would 'undoubtedly disappoint the Party and the movement, one which, as I was listening to it, I was convinced was written by the Treasury and not by Ministers'. Barbara Castle (1980, 51) felt that this view was shared by the Chancellor of the Duchy of Lancaster, Harold Lever, recording in her diary that Lever believed that 'the essence of our policy was the Social Contract, which, above all, was based on reducing unemployment and going for growth. He thought the Budget would inevitably increase unemployment and we should be in trouble with the trade unions'.

In anticipation of the autumn election, the Government offered some concessions to the working people in the form of a July mini-Budget, which reduced VAT by 2 per cent, gave relief to rate payers, committed an extra £50 million to food subsidies, and added a little under £200 million to demand by the end of 1974, however this occurred in the context of growing concern from the Bank of England and the Treasury about the size of the package as the date of the proposed announcement approached (Dell, 1991, 79-80). These concerns quickly hardened into a robust

Treasury view calling for an immediate and substantial review of the government's economic strategy.

Dell (1996, 410) notes that 'the official Treasury had at last concluded that existing policies were not sustainable' by October 1974. This view was reflected in a paper written for the Chancellor by Sir Douglass Wass[iii] in December, which informed Healey that 'there is no longer any official support for existing policies' (TNA T 277/3053, PCC (74) 4, 20 December 1974, 5). The Treasury analysis argued that the Government needed to simultaneously address the problem of inflation and the structural imbalance of resources by deflating domestic demand and intervening directly in the wage bargaining process (TNA T 277/3053, PCC (74) 4, 20 December 1974, 3). This would be achieved by increasing taxation and reducing expenditure, which would necessarily and desirably involve some increase in the level of unemployment, and by laying down a norm for the rate of pay increases, which would be made effective either through Government leadership, or statutory requirement (TNA T 277/3053, PCC (74) 4, 20 December 1974, 3). The recommendations struck to the very heart of the Social Contract in a way that was not unappreciated by Wass, who noted:

> I do not by any means underestimate the political costs of such a policy, which I would regret as much as the Chancellor himself and the most careful thought would have to be given to the industrial and social programmes required. But I now believe that the economic costs of clinging to the existing policy outweigh the political costs of abandoning it (TNA T 277/3053, PCC (74) 4, 20 December 1974, 5).

However, Wass also noted that whilst the political costs of the strategy appeared high, this only held 'without the external crisis that would justify it' (TNA T 277/3053, PCC (74) 4, 20 December 1974, 5).

By the end of 1974 therefore, a coherent picture of economic strategy, which recognised that perceptions of crisis could help to alter political expectations had emerged. On the one hand, the Labour Government had to manage the demands of organised labour, which had proven both in 1968 and 1974 that it was able to mobilise effectively to defeat legislation or create social conditions that translated into a significant political crisis through industrial action. The Treasury had also identified the need for social objectives to be sidelined whilst the decline of the British economy and its associated effects were dealt with, and noted that an external crisis would have the potential to nullify trade union militancy, which would allow for a return to incomes policy, and help justify a reduction of the public sector's claim on resources.

Exchange rate strategy and the £6 pay policy

The competitive position of British industry had been a long-standing issue, and the Treasury noted that classic way to bring about an improvement was to depreciate the currency. After the collapse of the Bretton-Woods system however, this posed several problems. The most notable of these was the absence of any mechanism to adjust the rate downwards in an orderly fashion, which meant that the authorities would not be able to take credit for any benefits gained from a slide in the rate (TNA T 277/3054, PCC (75) 33 Revise, 26 February 1975, 4), and that in the event of an overt attempt to shift the rate down, British policy would be directly responsible for the erosion of £5 billion of official reserves and £2.5 billion of private holdings (TNA T 358/207, Walker to

Barratt, 11 March 1975, 1). Depreciation would also place increasing pressure on the wage bargaining process because employers would be pressured into granting greater wage increases to compensate for the rise in the cost of living (TNA T 358/207, Walker to Barratt, 11 March 1975, 2), and expose Britain to criticisms of international misconduct that could be seen as 'the first link in a chain reaction of possible competitive depreciations' (TNA T 277/3055, PCC (75) 41, 13 March 1975, 4). So despite preferences for devaluation, it was widely felt that it was unworkable under the floating rate system. However, the emergence of market pressure on the rate provided the conditions under which exchange rate strategy and preferences for incomes policy became mutually reinforcing, as the Government argued that a new incomes policy was absolutely essential if confidence in the counter-inflationary credibility of British policy was to return and the slide of the pound halted, despite its preference to see sterling fall.

Pressure on the sterling rate in 1975 first significantly emerged in anticipation of the Budget in the spring, when the transactions of a middle-Eastern seller forced the rate to $2.37 by 8 April, for which the Treasury authorised the Bank to spend up to $80 million in reserve switching operations (See TNA T 358/207, Note for the Record, 7 April 1975, 1-2; TNA T 358/207, Note for the Record, 8 April 1975, 1). However, it remained the Treasury's intention to bring about a depreciation of around 10 per cent within twelve months, and it had been decided that to achieve this it would be 'desirable to rely to the maximum extent possible on autonomous factors […] so that the main responsibility for depreciation is seen to lie elsewhere than with HMG' (TNA T 358/207, Walker to Mitchell, 11 April 1975, 1). As a result, the Bank's intervention strategy was kept under constant review, and is aptly described as parsimonious.

When pressure re-emerged on 22 April, and the Governor of the Bank requested $200 million to assert control over the markets, it was noted that as 'it is indeed our policy to get the rate down. […] we ought not to slog away spending money to try and stop this happening' (TNA T 358/207, Barratt to Wass, 22 April 1975, 1). As this pressure continued to unfold, the Treasury remained steadfast, with the Head of Overseas Finance, Sir Derek Mitchell, arguing that to arrest the decline through intervention would put Britain's foreign reserves under unjustified strain (TNA T 358/208, Note of a Meeting, 5 May 1975, 1), and Sir Douglas Wass noted that 'there need not be a commitment to massive intervention when [sterling] reached a particular level (TNA T 358/208, Note of a Meeting, 5 May 1975, 2).

The continuation of a strategy of parsimonious intervention had seen sterling fall by 9 cents from $2.38 to $2.29 between April and June at a cost of £641 million to the foreign reserves (see TNA T 354/416, Reserves Objectives, 11 August 1975, 3). The extent of the slide was clearly affected by the Treasury's reluctance to intervene, but the persistent pressure had created an impression of crisis, and began to alter expectations about the kind of policies that were legitimate and necessary for the maintenance of external confidence. As such, the Treasury offered the argument that:

> There has developed an expectation that the Government is 'going to act'. For as long as this expectation is disappointed, 25 per cent [below Smithsonian] will not be regarded by outside observers and operators as sustainable. If the exchange rate accordingly is going to be pulled down by market forces, mere money, as opposed to policy change, will not succeed in offering a sufficient opposing force (TNA T 358/208, Hedley-Miller to Wass, 11 June 1975, 1).

When the Chancellor reported the events on the foreign exchange markets in June, he noted that pressure on sterling had occurred 'against a background where British wage settlements were being made at four times the level of settlements in West Germany, and where British inflation was likely to run at more than double the rate in our principal competitor countries', and as such informed his colleagues that 'there was an urgent need for a new incomes policy' (TNA CAB 128/56, CC (75) 27th Conclusions, 12 June 1975, 4-5).

The ability for pressure on the sterling rate to act as leverage with the trade unions, and to absorb the political ramifications of imposing an incomes policy was clearly recognised. At a meeting between the Chancellor and the TUC on 20 June, despite the Treasury's intention to let the pound slide, and the fact that events on the foreign exchange markets had been allowed to occur, if not actively engineered, through the employment of a parsimonious intervention strategy, Healey informed the TUC that they were forcing him to take action, and that if confidence was to be restored and extensive diversification of sterling was to be prevented, it would be absolutely necessary for a 10 per cent wage norm to be introduced at the earliest opportunity (TNA PREM 16/341, Note of a Meeting, 20 June 1975, 1-2).

Whilst union leaders Hugh Scanlon and Jack Jones were anxious not to be framed for a policy they could not deliver, and were sceptical about achieving a 10 per cent norm (TNA PREM 16/341, Note of a Meeting, 3-5), they had been engaged in productive discussions with the government (see TNA PREM 16/342, Pay Policy – Mr Murray's initiative, 4 June 1975, 1), and by 19 June, the Prime Minister's office was referring to the £6 flat rate proposal as the 'Jack Jones' formula (TNA PREM 16/342, Hunt to Wilson, 19 June 1975, 2). When the pound fell four cents against the dollar on 30 June, and both Kuwait and Saudi Arabia indicated they would move out of sterling imminently (TNA T 358/209, Note of a Meeting, 30 June 1975, 1), the stage was set for the Treasury to propose an early announcement of incomes policy with confidence that union leaders were on-side, with market events the key drivers of policy.

At Cabinet the following day it was agreed that the Chancellor would make an early announcement to the House indicating his determination to get inflation down to 10 per cent by the third quarter of 1976, and that if agreement could not be reached with the TUC, it would be prepared to legislate (TNA CAB 128/57, CC (75) 31st Conclusions, 1 July 1975, 6-7). Within the Prime Minister's office, Bernard Donoughue and Joe Haines felt compelled to write to Wilson noting that the Cabinet were being faced 'with an attempt by the Treasury to stampede it into a statutory pay policy' (TNA PREM 16/343, Donoughue and Haines to Wilson, 1 July 1975, 1), however the reality was a far more sophisticated expression of economic strategy. The Treasury had effectively reconciled the TUC's objection in principle to incomes policy with its own preferences by associating the slide in the rate with a lack of confidence in counter-inflationary credibility, despite its wishes to see the pound fall. Therefore, the external crisis used to justify the £6 pay policy is more appropriately described as a 'non-crisis', which was used in order to shape broader expectations about policy. A similar 'non-crisis' was used in order to justify cuts from the 1976 public expenditure white paper in December 1975.

External financing and the 1976 public expenditure white paper

The second pillar of the Treasury's revised economic strategy was a reduction in the public sector's claim on resources. However, given the Government's commitments under the Social Contract, expenditure issues were highly sensitive, and the appearance of crisis was once again used in order to foster support for policies to which the organised labour movement was opposed in principle. The expected financing gap was used in order to argue that it was necessary to draw from the IMF's 1975 oil facility, and that expenditure cuts were essential if Britain was to avoid a conditional drawing from the Fund, with more severe consequences for public expenditure. This case was made despite the view that 'ways would inevitably be found to mobilise sufficient resources for last resort lending in the event of need' (The National Archives [TNA] T 354/347, Walker to Hedley-Miller, 17 May 1974, 2), the large degree of uncertainty over forecasts, and the fact that it had been doubted, even by Fund officials, that it was necessary for Britain to draw.

As Ludlam (1992, 716-7) notes, cuts in public expenditure under Harold Wilson began in October 1974, when Healey informed the third Cabinet of the government that public expenditure would not be able to rise. However, the UK's PSBR had been increasing substantially, and had virtually doubled fiscal year on fiscal year between 1971-72 and 1974-75, reaching nearly £8 billion (CSO, 1977, 52). Not only was this a concern to hawkish international opinion informed by monetarist economic theory, which saw public expenditure as actively driving inflation, there was concern within the UK on the grounds that 'the UK's external debt [was] increasing at a rate roughly equivalent to the value of a full year's North Sea Oil production in 1980 at 1974 prices' (TNA T 354/414, Walker to Hedley-Miller, 22 January 1975, 6). Regardless of any credibility constraint in terms of international financial markets therefore, it was clear that levels of public sector borrowing were unsustainable. The problem was whether any reduction was saleable at home.

In the April Budget of 1975 Healey had announced cuts of £1000 million in planned expenditure at 1974 survey prices, which Wass (2008, 98-9) recalls was based on views that were rather more political than economic. As such, the Treasury began making the case for further reductions on the basis of a slower than expected rate of growth of GDP and a shortened acceptable timeframe for the correction of the balance of payments because of Britain's deteriorating credit rating (TNA T 277/3055, PCC (75) 49 (revise) 8 May 1975, annex, 1-4). The Treasury argued that these deteriorating forecasts meant that the Government would have to make 'a very substantial reduction in public expenditure for the year 1979 – perhaps rather more than £3 billion at 1974 prices' (TNA T 277/3055, PCC (75) 49 (revise) 8 May 1975, annex, 6) if the tax burden was to be kept relatively constant. The view was put to Cabinet on 22 May in what Wass (2008, 119) describes as 'a long and argumentative meeting', and although Tony Benn argued that 'a wholly feasible alternative policy based on import controls' existed, Wilson concluded by suggesting that it was 'only by asking officials to proceed with the expenditure survey on the basis put forward […] could they ensure they would have available sufficient options later in the year should major cuts have to be made' (TNA CAB 128/56, CC (75) 25th Conclusions, 22 May 1975, annex, 1).

The preference for expenditure cuts therefore faced two problems. The first was the general objection to cuts *on principle*. The second was the fact that the Labour left had proposed an alternative that may have been objectionable because of Britain's commitments under the GATT and EEC membership, but was presented as a workable option *in practice*. However, the external financing situation was used in order to make the case that public expenditure cuts were the only feasible option *in practice,* and that the AES was more objectionable *on principle*.

The possibility of drawing on the IMF oil facility to finance the external deficit was first discussed by Treasury and Fund officials on 14 and 15 August, and the most striking thing to come out of the meetings was that the Fund was unsure that Britain could show a demonstrable need to borrow from the oil facility, which would require evidence of a substantial reserves loss (TNA T 354/416, Cassell to Fogarty, 18 August 1975, 1-3). In October, the Overseas Finance Division presented forecasts which made it unclear the extent of Britain's external financing difficulties, suggesting that Britain would have to find between £100 million and £900 million to cover the deficit over the coming six months, and it was in light of its uncertainty that it recommended that it was 'a matter of simple prudence that we should set out now to fill the gap (or the larger part of it) by a drawing of £575 million [...] on the IMF oil facility' (TNA T 354/416, Mitchell to Wass, 15 October 1975, 1). The timing of potential action was also advantageous, because the oil facility would only be available for the calendar year, and it was on the basis that should Britain not draw in 1975, resources would be lost, and not a critical external financing need, that the Treasury felt the Fund application should be made (TNA T 354/416, External Finance: Prospects and Policy, 15 October 1975, 9).

Cabinet was informed of the Chancellor's intention to apply for the oil facility loan on 5 November, on the grounds that Britain's external creditworthiness had not improved enough to make market borrowing plausible (TNA CAB 128/57, CC (75) 46th Conclusions, 6 November 1975, annex, 2), despite uncertainty surrounding forecasts about whether or not Britain would face a large external financing gap. The impression of crisis however, was encouraged at Cabinet the following week, when Healey argued:

> It might well prove impossible in the interim to borrow overseas in order to finance the current account deficit, and the Government would then be forced

> to borrow from international institutions on conditions which would almost certainly include public expenditure cuts even more severe than those now contemplated (TNA CAB 128/57, CC (75) 48th Conclusions, 13 November 1975, annex, 2).

The prospect of an external financing crisis and the prospect of conditionality were therefore used to justify an application to the IMF, which in turn helped to mobilise support for further public expenditure cuts. This is because despite the distinction that the Fund made between 'soft' drawings from the oil facility and low credit tranches, and 'hard' drawings from the higher credit tranches so far as conditionality was concerned (TNA T 354/415, Littler to Fogarty, 24 April 1975, 1-2), it was noted that oil facility drawings would mean import controls could not be introduced without prior consultation with the Fund, and would lead to any request for borrowings from the higher tranches to be denied (TNA T 385/30, Outstanding Fund Questions, 21 October 1975, 1-2). The December IMF application therefore appeared to limit the Government's room for manoeuvre to fiscal policy, which it suggested was effectively beyond its control because it had to foster confidence overseas in order to ensure continued access to international finance whilst the balance of payments was restored to equilibrium in the medium-term. This endeavour was no doubt helped by the fact that Tony Benn had himself cast the debate in terms of a choice between extensive public expenditure cuts and generalised import controls.

As early as February Benn had informed the Ministerial Committee on Economic Strategy that a fast improvement in the balance of payments would require a substantial reduction in the standard of living imposed by a fiscal reduction of about £3 billion, but that a slower adjustment could be made on the basis of selective assistance to industry and price and import controls (TNA CAB 134/3929, MES (75) 4, 11 February 1975, 1-3). Benn's view was that public expenditure cuts represented 'a policy of despair representing an admission of the failure of our economic policy', and that Britain 'must now seriously consider an explicit commitment to a protectionist strategy for industrial reconstruction and a return to full employment' (TNA PREM 16/341, Benn to Wilson, 24 March 1974, 2-3). Presenting the debate in these terms however, helped to consolidate the Treasury's argument for a multilateral solution underscored by expenditure cuts. Not only would the imposition of import controls run contrary to Britain's commitments under the GATT and the philosophy of Britain's post-war foreign economic policy, it meant that Britain would be actively taking the decision to isolate itself from Europe and the world, which would mean that the failure of a system of import controls to reverse the decline, or widespread retaliation to the system, had the potential to leave Britain unable to access multilateral credit facilities and facing the prospect of bankruptcy.

Barnett (1982, 80) notes that in light of Healey's threat of resignation over the issue, 'there was probably never any doubt we would achieve our target', and by 11 December, cuts from the 1976 public expenditure white paper totalling £3,750 million had been agreed (see TNA CAB 128/57, CC (75) 55th Conclusions, 11 December 1975, annex, 8) on the basis of two arguments. Firstly, it was argued that Britain faced an imminent external financing crisis that required it to borrow from the IMF because confidence was too weak to borrow elsewhere. Secondly, it was argued that if Britain were to avoid even more severe cuts, there would have to be pre-emptive action which occurred within the framework of multilateral cooperation. Both of these arguments suggested that expenditure cuts were inevitable, however just as was the case with the exchange rate earlier in the year, the crisis was principally one of perception. Neither the Treasury nor the Fund had been convinced throughout the year that the size of the financing gap would be critical, and the decision to draw on the Fund was taken not out of necessity, but out of prudence. This proved politically expedient in so far as it locked Britain into multilateral solutions to adjustment, adding weight to objections to the AES and to the argument that expenditure cuts were required in order to restore British creditworthiness.

Conclusions

At the beginning of this paper it was argued that adopting an Open Marxist framework of analysis was beneficial in explaining how Governments are able to act in order to help restore conditions for profitable accumulation through the politics of depoliticisation. However, for such a case to be more than simply *plausible*, a number of conditions must be met. Firstly, it must be possible to establish that the preferences of the governing elite stood in contrast to those of organised labour, and would likely exacerbate political tensions were they implemented in a politicised environment. But secondly, it must be possible to demonstrate intention on the part of governing elites to use market forces as the justification for potentially unpopular policy changes as part of an attempt to minimise political dissent. In such a project, the use of primary documents play a fundamental role, because in a strategy of depoliticisation, the preferences of Government are not publicly *revealed* preferences. Therefore, a simple comparison of published statements and manifesto commitments taken at face value will tend to amplify the extent to which market forces have appeared to limit state autonomy.

The paper has argued that the politics of depoliticisation was employed in accordance with such a framework in order to introduce incomes policy in July 1975 and to agree public expenditure cuts from the 1976 public expenditure white paper in December 1975, and the empirical evidence offers strong support. Whilst the return to incomes policy and expenditure cuts were not legitimised through traditional *rules based* depoliticisation, except in so far as obligations to the IMF, GATT, and EEC to remain committed to multilateral solutions to external financing difficulties represented relatively weak and ephemeral rules, by utilising the concept of *preference shaping* depoliticisation it is possible to see how, during a period often characterised in the literature by indecision and politicised modes of economic management, the Government took steps in order to argue that decisions relating to the imposition of incomes policy and the reduction of expenditure were beyond its control because of its dependence on market confidence, despite the fact that its preferences largely concurred with 'market sentiment'.

As early as December 1974 the Treasury made it clear that it should be the aim of Government to introduce incomes policy and cut public expenditure, and recognised the potential for this to create political difficulties. However, it had also recognised that these political difficulties could be negotiated in the event of an external crisis, which would change expectations about policy, and whilst the Government did not act to create conditions of crisis, it nevertheless suggested that 1975 was a year of two crises. The first was in the foreign exchange market, as sterling fell in the spring and the summer, which prompted it to argue that it was absolutely necessary to impose an incomes policy. The second was an external financing crisis, which promoted the Government to argue that it was absolutely necessary to apply to the IMF, and therefore to cut public expenditure for

1978-79 in order to bolster Britain's creditworthiness amongst a rapidly shrinking pool of potential lenders.

However, 1975 was actually a year of two 'non-crises'. Firstly, the Treasury had desired the fall in the exchange rate on the grounds that it would help improve the competitive position of British industry, and the Bank of England had been prevented from making a decisive intervention in the market in order that it be allowed to occur. Nevertheless, despite these preferences, the fall in the rate was presented as evidence that confidence in British counter-inflationary credibility was dangerously low and necessitated the introduction of a £6 incomes norm. Secondly, the external financing difficulties at the end of the year were expected and not imminent, and based on forecasts subject to a wide margin of error that reflected the Fund's initial doubts about Britain's need to draw from the oil facility. Furthermore, the drawing was eventually made principally as a matter of prudence because the resources would be lost at the end of the calendar year, but by presenting the application as a response to a further deterioration in confidence, the Government was able to argue that large cuts in planned expenditure were necessary in order restore confidence and help it to avoid being forced to take more drastic action in order to secure external finance, whilst locking policy in to multilateral solutions to balance of payments financing through the explicit rejection of import restrictions as an appropriate adjustment tool. The primary documents therefore support the depoliticisation framework in this case. Governing elites clearly had preferences for policy that stood in contrast to those of the labour movement, and acted on more than one occasion to mobilise the logic of market forces in order to argue that decisions in the field of counter inflation and fiscal policy were, for all intents and purposes, beyond the scope for discretionary control, and it was by shaping preferences in this way that the government was able to move progressively away from the Social Contract.

Whilst this paper has argued that Harold Wilson's Labour government used *preference shaping* depoliticisation, it has made little substantive engagement with the issue of how successful this strategy was. In many respects, this is a difficult question to answer, because whilst the £6 pay policy held reasonably well, and reaction to the cuts in the 1976 public expenditure white paper were muted, it did not significantly delay the onset of a political crisis, which emerged during the winter of discontent in 1979. The most developed attempt at measuring the effectiveness of depoliticisation is the work of Steve Kettell (2008, 635), which suggests that success should be measured with reference to its material effects – whether the strategy achieves its goals – and its impact on perceptions. But given the immutability of crisis in the Open Marxist framework, it is unclear whether the examining the success of strategies of depoliticisation is a meaningful enterprise in the long-run: the foundations of the framework, without determining specific outcomes, implies that ultimately, each attempt will fail. So for the purposes of future research on the success of depoliticisation, the broad strokes must be finessed, with the logical focus of analysis coming to rest on the relative possibilities for the success of rules based strategies as opposed to the institutional and preference shaping alternatives.

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Notes

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[i] Cliff and Gluckstein (1996, 327) coined the term 'Social Contrick'.

[ii] On Britain's return to the Gold-Standard in 1925, see Kettell (2004). On the ERM, see Bonfeld and Burnham (1996, 1998), Burnham, (1999) and Kettell (2008). On New Labour see Burnham (2001), also Watson and Hay (2003), Watson (2006).

[iii] Sir Douglas Wass succeeded Sir Douglas Allen when Allen took up the post of Head of the Home Civil Service in 1974.