

Thatcher's economists:
ideas and opposition in 1980s Britain

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Short Abstract

This thesis is an historical study of the formation of Thatcherite economic thinking and policymaking with a particular focus upon investigating the part played by economic ideas and economists in Thatcherism. While some economists and economic ideas are closely associated with Thatcherism, Thatcherites were hostile to the bulk of Britain's economists residing in universities and in the Government Economic Service and skeptical of the usefulness of economic theory in policymaking. Thatcherites thought that British academic and government economists supported a 'Keynesian consensus' which was purported to have been in operation since the Second World War and had allegedly retarded Britain's growth from a quasi-mythical free-enterprise Victorian high-point.

However, Thatcherites were keen to win the 'battle of ideas' and became eager 'buyers' of economic ideas – Keith Joseph particularly – in a 'marketplace in economic ideas' which developed over the 1960s, 1970s and 1980s. Yet, Thatcherites were not suddenly converted to neoliberal economic thinking by the marketplace in economic ideas. Instead, Thatcherites pragmatically sought out ideas which could be adopted and adapted in combination with long-standing ideological beliefs which were hostile to the size and role of the state and in favour of 'sound money.' Thatcherite economic thinking developed to include sometimes contradictory strands of supply-side economics, Austrian economics, monetarism/rational expectations and public choice economics but also contained, particularly for Margaret Thatcher, elements of 'businessmen's economics' and 'housewife economics.'

A case study of privatisation policy illustrates the point that pre-existing Thatcherite thinking, such as the desire to 'roll back the state', provided the core underlying rationale for economic policies. Yet, Thatcherites were also able to use a jumbled amalgam of economic ideas such as Austrian and neoclassical economics to promote

secondary objectives such as introducing competition when conditions were judged as favourable by Thatcherites.

Long Abstract

This thesis is an historical study of the formation of Thatcherite economic thinking and policymaking, concentrating in particular upon investigating the part played by economic ideas and economists in Thatcherism.

Chapter 1 begins the thesis by explaining that Thatcherism, while strongly associated with certain economic ideas and economic policies, was far from being an entirely economic creed and nor was Thatcherism merely the opinions and actions of Mrs Thatcher herself. Thatcherite economics contained a core belief that the size and scope of the state should be reduced and Thatcherites propagated a mythical view of recent British economic history, encompassing a free enterprise Victorian high-point to a quasi-socialist postwar consensus low-point, to engender support for their policy prescriptions. While the strength of the postwar consensus was greatly exaggerated by Thatcherites, a weak consensus over policies, if not over underlying values, did exist in postwar Britain. Furthermore, Thatcherism itself led to the creation of a similarly weak consensus, but a consensus nonetheless, in favour of neoliberal economic policies, which has lasted over the 1990s and into the twenty-first century. Chapter 1 also explains that while the archival base of records on Thatcherism is far from complete, new archival sources have recently been made available and a wide range of other sources ranging from speeches to parliamentary debates, memoirs and interviews are capable of providing insights that we are unlikely to find from archival sources, no matter how extensive the archives may be.

Chapter 2 moves on to study what is termed the 'Thatcherite critique' of British academic economists, namely that British academic economists, particularly the Oxbridge elite, were predominantly unprofessionalised statist Keynesians who did not engage with or teach monetarist ideas. Using evidence garnered from surveys, the letter from the 364 economists episode and a range of other sources, including examination questions, on the economics departments of the London School of Economics, the University of Oxford and the University of Cambridge, the chapter

finds some limited support for the Thatcherite critique. British academic economists were relatively unprofessionalised and favoured Keynesian ideas over monetarist ideas, particularly in Cambridge and to a lesser extent, Oxford.

Chapter 3 explores another group of economists who were also less than warmly regarded by Thatcherites, the economists of the Government Economic Service. The chapter provides the first, albeit partial, historical account of the creation and subsequent development of the Government Economic Service and explains why, despite initial Thatcherite hostility, government economists went on to grow in number in both absolute terms and in relative terms compared to administrators and other specialist civil servants over the 1980s. Mrs Thatcher may have jokingly talked about abolishing the Government Economic Service and government economists were generally ignored in favour of ‘irregulars’ when it came to supplying economic advice to Thatcherite ministers but the influence of economists (and economics) within Whitehall departments grew as conditions of financial stringency favoured the economist-heavy Treasury in particular and the skill-set of economists based across Whitehall in general. Thatcherites started to ‘de-Keynesianise’ the Government Economic Service in 1979 but quickly halted the de-Keynesianisation plan as it was discovered that government economists were generally not committed Keynesians and were able to quickly adapt to the new Thatcherite regime. For instance, Treasury economists went on to radically overhaul the Treasury macroeconomic model in the early 1980s to incorporate monetarist theories and while this overhaul was led by Thatcher appointed monetarist Terry Burns, some Treasury economists were already pressing for changes to the model prior to the appointment of Burns.

Chapter 4 examines the burgeoning ‘marketplace in economic ideas’ across the 1960s to the 1980s and shows how Thatcherite ‘buyers’ in this marketplace selected and were influenced by ideas and the ‘sellers’ of these ideas. Thatcherites were chiefly interested in ideas which complemented existing beliefs and pragmatically collected and adapted a sometimes contradictory assortment of New Right ideas including supply side, monetarist, rational expectations, Austrian and public choice ideas. Austrian ideas already held a strong link with Thatcherites as Austrian economist Friedrich Hayek had been influential upon the right-wing of the Conservative party, including Mrs Thatcher, since the end of the Second World War. City economists and

financial journalists were often ‘sellers’ of monetarist ideas but the impact of these sellers was felt more in indirectly legitimising monetarist policies than in directly influencing monetary policies *per se*. Selected businessmen were also an important source of advice to Thatcherites and we cannot understand Thatcherite economics without accepting that what is termed ‘businessmen’s economics’ (and perhaps ‘housewife economics’ too in the case of Mrs Thatcher) was a significant component of Thatcherite economic thinking. However, Thatcherite relations with the broader business sector as embodied by the business lobby groups were mixed, with smaller businesses generally more positive than larger businesses and Thatcherites were never ‘captured’ by business or City interests. Thinktanks, notably the Institute of Economic Affairs, were another key group of sellers in the marketplace but the substantial quantity of advice given by thinktanks did not translate into a commensurate level of influence upon policymaking. Chapter 4 also explores the language of the market and market-oriented ideas in 1960s to 1980s Britain and uncovers some novel findings. For example, a range of Thatcherite ideas and expressions, including ‘popular capitalism’ and ‘enterprise culture’ are found to have longer history than previously assumed and the ‘UK plc’ metaphor is shown to have changed into a more Thatcherite-friendly idea by the 1980s. The pre-existing Thatcherite idea of the ‘wealth-creating sector’ was hitched on to a new thesis put forward by economists Roger Bacon and Walter Eltis in the late 1970s to give the Thatcherite wealth-creating sector idea much greater traction than it had previously achieved.

Chapter 5 concludes the thesis with a case study of privatisation policy. Privatisation was one of the most significant economic policies of the Thatcher years and the aim of ‘rolling back the state’ had been a long-desired core objective for Thatcherites, although privatisation policy was not planned in detail prior to 1979. While the term ‘privatisation’ began to be used in place of ‘denationalisation’ as privatisation was thought to have more positive connotations than denationalisation, the 1980s privatisations differed greatly from the sporadic denationalisations of the postwar years and privatisation was thus more than merely a new name for old denationalisation ideas. Thatcherite privatisations differed from prior denationalisations in size, structure, the inclusion of public utilities and secondary objectives such as widening share ownership and promoting competition. Competition was a more strongly held secondary objective for Thatcherites than

wider share ownership, but the Conservative party did have a stronger interest in wider share ownership than has been previously supposed, as shown by records in the Conservative party archives. Thatcherites were able to drop their secondary objectives if the core objective of rolling back the state was perceived to be in danger of failing, as Mrs Thatcher did in her rejection of introducing competition into the privatisations of BT and British Gas. However, individual Thatcherites could vary in their levels of attachment to different ideas over time and in comparison to each other, as seen by the greater emphasis placed by Nigel Lawson and John Nott upon competition than by Mrs Thatcher. Chapter 5 also studies the regulatory regime put in place for the newly privatised utilities and argues that the shift from an Austrian style of regulation to a neoclassical style of regulation was not an adaptation that was ideologically challenging or inconsistent for Thatcherites, as Thatcherite thinking on regulation had long contained the contradictory prescriptions of neoclassical and Austrian ideas. Studying privatisation and subsequent regulatory policies illustrates that Thatcherite ideology included a jumbled bundle of neoliberal ideas which could be pragmatically deployed as the occasion demanded.

The thesis concludes that Thatcherism was neither a return to ‘true’ Conservatism nor was Thatcherism merely the British wing of a new global wave of neoliberalism, as Thatcherism contained elements of both characterisations. For all of the undoubted hostility or skepticism which Thatcherites held for economists and economic ideas, we cannot understand the formation of Thatcherite economic thinking and policymaking without studying the complicated and significant interaction between Thatcherites and economic ideas and economists.

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Preface

Interviews

14 interviews were conducted to aid research on the chapter, with one interview conducted in July 2004, 12 interviews held over October and November 2007 and one interview conducted in March 2008. Records of the interviews are available upon request but are not included in the thesis because of their large size. Any evidence in the chapter gained from an interview is footnoted in the style: Interview No., *Interviewee*, Day Month Year. Many interviewees requested that they remain anonymous and to ensure consistency all interviewees are anonymously referred to in the style of a 'senior Treasury economist' or similar.

The interviewees are listed in the table on the following page :

Preface Table: Interviews conducted for the thesis

No.	Interviewee	Date interviewed	Relevant experience
1	Former senior government economist	8 July 2004	Government economist from 1975-2000
2	Former senior Treasury economist	12 October 2007	Treasury macroeconomist from 1969 to 1990s
3	Former Inland Revenue economist	15 October 2007	Economic adviser to the Inland Revenue in 1985-87
4	Former senior government and academic economist	16 October 2007	Academic economist from 1969 to present; government economist from 1981-84 and 1991-2004
5	Former Treasury civil servant	23 October 2007	Treasury civil servant from 1978-84
6	Former senior Treasury economist	23 October 2007	Economist at the Department of Transport in 1970s then Treasury from 1970s to 1990s
7	Former senior civil servant	25 October 2007	Treasury 1973-77 then worked for Prime Ministers from 1978-81
8	Former senior government economist	26 October 2007	Economist for the Treasury then Department of Energy from 1970s to 1980s
9	Former Treasury economist	9 November 2007	Treasury economist from 1985-88
10	Former senior Treasury economist	9 November 2007	Government economist, predominantly in the Treasury, from mid-1970s to mid-1990s
11	Former senior government economist	9 November 2007	Government economist from 1974-76, 1978-85 and 1988-98.
12	Former senior government and academic economist	22 November 2007	Academic economist from 1965 onwards and part time government economic adviser from 1969-71, 1975-76, 1978-86 and full time government economist from 1986-89
13	Senior Treasury economist	26 November 2007	Treasury economist from 1979 to present
14	Senior government microeconomist	13 March 2008	Government microeconomist from 1973 to present

Notes on referencing

Citations in the footnotes are given in a consistently shortened form with full references appearing in the bibliography. Place of publication is London unless otherwise specified.

Footnotes referring to *Thatcher Archive Online* come from digitised versions of Margaret Thatcher's personal papers held by the Margaret Thatcher Foundation and available at <http://www.margaretthatcher.org>. A full reference appears in the bibliography.

Footnotes referring to *Thatcher CD-ROM* refer to the CD-ROM: C. Collins (ed.), *Margaret Thatcher complete public statements, 1945-1990* (Oxford, 1999). A full reference appears in the bibliography.

Footnotes referring to archives with the *THCR* code come from the papers of Margaret Thatcher held at the Churchill College Archives Centre, Cambridge. A full reference appears in the bibliography.

Footnotes referring to archives with the *HOSK* code come from the papers of John Hoskyns held at the Churchill College Archives Centre, Cambridge. A full reference appears in the bibliography.

Footnotes referring to archives with the *CRD* shelfmark are the papers of the Conservative Research Department, held within the Conservative Party Archive, Bodleian Library, Oxford. A full reference appears in the bibliography.

Persons are referred to without their titles, for example, 'Baroness Thatcher' is referred to as 'Margaret Thatcher' to enable consistency in the thesis when referring to different time periods.

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Chapter 1: Introduction: thinking about economists, economic policy and Thatcherism

Section 1.1: Introduction

This thesis is an historical study of the formation of Thatcherite economic thinking and policymaking with a particular focus upon investigating the part played by economic ideas and economists in Thatcherism. While a great deal of literature from a wide range of disciplines (discussed in the following section) already cover different aspects of the thesis, substantial gaps in the historical literature are evident. On the political side for instance, while the Conservative party was the dominant British political party of the twentieth century (holding power for over seventy of the hundred years between 1895 and 1995), ‘scholarly attention has been lavished to a much greater extent upon the Labour Party’.¹ Hence, a study of economists and economic ideas in Thatcherism can help redress a skewed balance in the academic literature towards the Labour party. Thatcherism is a particularly appealing area for study within the history of the Conservative party in the twentieth century, as the period: was significant for the Conservative party as it contained three consecutive general election victories (1979, 1983 and 1987), four if John Major’s 1992 victory is included; is recent enough to have received relatively few monograph length accounts by historians; arguably established a neoliberal consensus in British economic policymaking which remains to this day (discussed in the following section); and, has recently had new sources made available, notably in the Conservative party archives in the Bodleian Library and Margaret Thatcher’s personal archives in both the Churchill College Archives Centre and online.²

On the economic side, Alec Cairncross has called the twentieth century, ‘the century of the economist’, as professional economists have flourished in number and

¹ 70 year statistic and quote in: A. Seldon and S. Ball, 'Introduction', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 1.

² The existing monograph length studies of Thatcherism by historians are: E.A. Reitan, *Tory radicalism* (Lanham, Md.; Oxford, 1997); A. Seldon and D. Collings, *Britain under Thatcher* (2000); E.J. Evans, *Thatcher and Thatcherism*, 2nd ed. (2004); E.H.H. Green, *Thatcher* (2006). Conservative party archive material up to 1992 can now be viewed (with permission from the party), see: www.bodleian.ox.ac.uk/dept/scwmss/cpa/access.html. For the Thatcher archive, see: www.margaretthatcher.org/ and www.chu.cam.ac.uk/archives/collections/thatcher1.php.

‘economics has emerged as the unifying discipline that connects most aspects of [government] policy.’³ Yet, economic historians Roger Middleton and Bob Coats are the only authors to have produced significant historical accounts of economists in British policymaking in the final quarter of the twentieth century and no specific study exists of economists and Thatcherism.⁴ More widely, Bruno Frey has stated that the ‘influence of economists upon policy has not been much studied through the use of convincing empirical evidence’ and similarly, Bob Coats has noted that, in studies of policymaking, ‘the role of economic ideas and the professional economists’ contributions have been generally slighted or ignored.’⁵ Not only are accounts of policymaking often deficient in their analysis of economists and economic ideas but accounts of the development of economics often lack studies of, in the words of E. Roy Weintraub, ‘how these ideas move and work in the larger polity.’⁶ Thus, a thesis studying economists, economic ideas and Thatcherism can contribute to recognised gaps in the disparate literatures on economists, economic ideas and policymaking.

Furthermore, Thatcherism is an especially interesting case study to use to analyse economists and economic ideas in policymaking as Thatcherism is strongly associated with economics (as many significant Thatcherite policies were economic policies, such as monetarism and privatisation, and major Thatcherites like Geoffrey Howe, Nigel Lawson and Keith Joseph either held economic posts or were associated with an ‘economic message’) and ‘the gurus of Thatcherism have tended to be economists’.⁷ Shirley Letwin has identified economists Milton Friedman, Friedrich Hayek, Alan Walters, Brian Griffiths, Patrick Minford and Tim Congdon as Thatcherite gurus and Mrs Thatcher herself has claimed that Thatcherism is essentially ‘Adam Smithism’ and that Adam Smith and Friedrich Hayek were the two greatest influences on her

³ A. Cairncross, *Living with the century* (Countess of Moray's, Fife, 1998), p. 1.

⁴ See: R. Middleton, *Government versus the market* (Cheltenham, 1996); R. Middleton, *Charlatans or saviours?* (Cheltenham, 1998); A.W. Coats, 'Britain', in Coats (ed.), *The sociology and professionalization of economics* (1993), pp. 519-55.

⁵ B.S. Frey, 'How influential is economics?' *De Economist*, vol. 154, 2 (2006), p. 295; A.W. Coats, 'Economic ideas and economists in government', in Colander and Coats (eds.), *The spread of economic ideas* (Cambridge, 1989), p. 110.

⁶ E.R. Weintraub, 'How should we write the history of twentieth-century economics?', *Oxford Review of Economic Policy*, vol. 15, 4 (1999), pp. 147-8.

⁷ Association of Thatcherism with economics and ‘message’ and ‘guru’ quotes in: S.R. Letwin, *The anatomy of Thatcherism* (1992), pp. 114-7.

thinking.⁸ However, the thesis will show that despite such a close association with economists and economic ideas, Thatcherites held a view of economists and economic theory that was skeptical at best and outright hostile at worst.

Before delving more deeply into the topic, it is appropriate at this early juncture to define the term ‘Thatcherism,’ place Thatcherism in an international perspective and to list the Thatcherites discussed in the thesis. The term ‘Thatcherism’ was reputedly first coined in a 1979 issue of *Marxism Today* although ‘Thatcherite’ first appeared in *The Economist* in 1976.⁹ Thatcherite minister Nigel Lawson set out a rough-and-ready definition of Thatcherism in his political memoirs. For Lawson, the wrong definition was ‘whatever Margaret Thatcher herself at any time did or said’ (although the *Oxford English Dictionary* uses this narrow definition, defining Thatcherism as ‘the political and economic policies advocated by Mrs. Thatcher’), whereas the right definition for Lawson involved:

a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, ‘Victorian values’ (of the Samuel Smiles self-help variety), privatization and a dash of populism.¹⁰

A number of Lawson’s definitional categories were not economic in nature and – contrary to the strong association between Thatcherism and economics – Mrs Thatcher was inclined to go even further and make the point that economics was only a means to an end in Thatcherism, for ‘economics are the method; the object is to change the heart and soul [of the British public].’¹¹ Hence, we have started to establish what Thatcherism *was* and we can also identify what Thatcherism *was not*. Thatcherism was not an ideology (even if it was ideological in nature), as Eric Evans argued, for it was not a consistent set of beliefs and contained no insights that had not featured already in existing ideologies such as Liberalism or Conservatism.¹² Additionally, Thatcher’s governments were first and foremost concerned with

⁸ S.R. Letwin, *The anatomy of Thatcherism* (1992), p. 114. ‘Adam Smithism’ in: M. Thatcher, ‘Press conference’, *Thatcher CD-ROM*, 2 September 1987 and M. Thatcher, ‘Interview for *Dundee Courier*’, *Thatcher CD-ROM*, 7 September 1989. Smith and Hayek in: M. Thatcher, ‘Radio interview for *BBC Radio 4*’, *Thatcher CD-ROM*, 16 May 1990.

⁹ 1979 coining in: N. Lawson, *The view from No. 11* (1992), p. 64. 1976 coining in: *Oxford English Dictionary*, ‘Thatcherite’, www.oed.com, copy available from the author.

¹⁰ N. Lawson, *The view from No. 11* (1992), p. 64; *Oxford English Dictionary*, ‘Thatcherite’, www.oed.com, copy available from the author.

¹¹ R. Butt, ‘Mrs Thatcher’, *Sunday Times*, 3 May 1981.

¹² E.J. Evans, *Thatcher and Thatcherism*, 2nd ed. (2004), p. 2.

remaining in office – the statecraft of Thatcherism as Jim Bulpitt described it – hence we cannot expect Thatcherism to have had a consistent implementation of policies flowing from a set of beliefs.¹³

Nevertheless, the ideological beliefs inherent in Thatcherism, as outlined by Lawson, are crucial for the holding of these beliefs was what made a Thatcherite a Thatcherite. Given that these Thatcherite beliefs stemmed from a mixture of ideologies and economic and social theories of varying provenance and age the question arises as to why belief in such a specific mixture arose in certain individuals at the time? One explanation is that Thatcherism was merely a local British variant of a global (albeit strongest in the English-speaking world) shift towards the ‘New Right’ or ‘neoliberalism.’¹⁴ The New Right has been defined as a ‘marriage’ of:

neo-liberalism (the individual; freedom of choice; laissez-faire; minimal government) with neo-conservatism (strong government; social authoritarianism; hierarchy and discipline; the nation).¹⁵

Therefore, the New Right encompasses neoliberalism but should not be conflated with neoliberalism. As this thesis concentrates on Thatcherite economics rather than other aspects of Thatcherism, the neoliberal rather than the neoconservative aspect of the New Right is of greatest interest. Neoliberalism has been defined by geographer David Harvey as:

a theory of political economic practices that proposes that human well-being can best be advanced by liberating entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.¹⁶

A number of competing but related explanations for the rise of the New Right and neoliberal ideas exist. Authors with a Marxist inclination, particularly influenced by the theories of Italian Marxist Antonio Gramsci, have argued that neoliberalism established itself as a worldwide ideological hegemony as a response to a capitalist crisis in the 1970s – with the work of Andrew Gamble notable in linking Thatcherism to this Gramscian interpretation.¹⁷ Similarly, Marxists Philip G. Cerny and Bob

¹³ J. Bulpitt, 'The discipline of the new democracy', *Political Studies*, vol. 34, 1 (1986), pp. 19-39.

¹⁴ Global shift but strongest in English-speaking countries in: A. Offer, *The challenge of affluence* (Oxford, 2006), pp. 301 and 365-6.

¹⁵ R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), p. 29.

¹⁶ D. Harvey, *A brief history of neoliberalism* (Oxford, 2005), p. 2.

¹⁷ A. Gamble, *The free economy and the strong state*, 2nd ed. (Basingstoke, 1994).

Jessop have identified a 1970s capitalist crisis as the cause of the rise of neoliberalism, with globalisation being the driving force in Cerny's account and a shift from 'Fordism' to 'post-Fordism' modes of production the driving force in Jessop's model.¹⁸ The functionalist Marxist belief in a 1970s crisis of capitalism has been criticised by political scientist Colin Hay who instead tweaked the Marxist account of the rise of neoliberalism to incorporate 'a variety of perceived, manufactured and genuine crises [in the 1970s] of extant political-economic regimes' rather than an exogenous single crisis of capitalism.¹⁹ Alternatively, other authors have identified the rise of neoliberalism as part of a long-running distributional struggle between workers and capitalists, as Andrew Glyn and David Harvey have done, or as a result of rising incomes and unsettling technological change which increased positional competition in societies, as Avner Offer has done.²⁰

Thatcherism, then, was part of a global shift in economic and political thinking (with various contested accounts of the origins of the shift existing) but Thatcherism also contained British as well as global factors underpinning its development. Most notably, Thatcherism tapped into a long-running British concern with relative economic decline, which, tying in with the global rise of the New Right, had reached a perceived crisis point in the 1970s.²¹ Mrs Thatcher was able to use this perceived crisis to portray Thatcherite policies as the only means of reversing Britain's relative economic decline, in a manner reminiscent of previous Conservative leaders Winston Churchill and Joseph Chamberlain.²²

¹⁸ C. Hay, 'Re-stating politics', *Political Quarterly*, vol. 75, S1 (2004), pp. 39-41. See: P.G. Cerny, 'Globalisation', *International Organization*, vol. 49, 4 (1995), pp. 595-625; P.G. Cerny, 'Paradoxes of the competition state', *Government and Opposition*, vol. 32, 2 (1997), pp. 251-74; B. Jessop, 'Towards a Schumpeterian workfare state?', *Studies in Political Economy*, vol. 40 (1993), pp. 7-39; B. Jessop, *The future of the capitalist state* (Cambridge, 2002).

¹⁹ C. Hay, 'Re-stating politics', *Political Quarterly*, vol. 75, S1 (2004), p. 44

²⁰ A. Glyn, *Capitalism unleashed* (New York; Oxford, 2006), preface; D. Harvey, *A brief history of neoliberalism* (Oxford, 2005), p. 19; A. Offer, *Why has the public sector grown so large?* (Oxford, 2003), p. 3 and A. Offer, *The challenge of affluence* (Oxford, 2006), pp. 365-6.

²¹ J. Tomlinson, 'Mrs Thatcher's macroeconomic adventurism', *British Politics*, vol. 2, 1 (2007), p. 16. For a review of the recent literature on 'declinism', see: R. Middleton, 'The political economy of decline', *Journal of Contemporary History*, vol. 41, 3 (2006), pp. 573-86. For a review of the 'classic' declinist works, see: R. English and M. Kenny, 'British decline', *British Journal of Politics and International Relations*, vol. 1, 2 (1999), pp. 252-66.

²² D. Cannadine, 'Apocalypse when?', in Clarke and Trebilcock (eds.), *Understanding decline* (Cambridge, 1997), pp. 261-84. For more on how Thatcher was able to portray her policies as the cure for national decline, see: I. McLean, *Rational choice and British politics* (Oxford, 2001), pp. 204-40.

Thatcherism has now been defined and placed in an international context but we still have to explain who Thatcherites were. Chapter 2 describes Thatcherite academic economists, Chapter 3 describes Thatcherite economic advisers and Chapter 4 describes Thatcherite supporters including businessmen, City economists, advisers, thinktanks and financial journalists. At the heart of the grouping we can call Thatcherites though, are the Thatcherite politicians. Table 1.1 below lists the Thatcherite politicians discussed in the thesis, which is not a comprehensive list of Thatcherite politicians but does contain the major figures in the ‘first generation’ of Thatcherites (defined as those who were already members of parliament before Mrs Thatcher became leader of the Conservative party in 1975).

Table 1.1: Thatcherite politicians referred to in the thesis

Name	Political career as a Thatcherite
Margaret Thatcher	Leader of the Opposition, 1975-9; Prime Minister, 1979-90
Keith Joseph	Secretary of State: for Industry, 1979-81; for Education and Science, 1981-6
Geoffrey Howe	Opposition spokesman on Treasury and economic affairs, 1975-9; Chancellor of the Exchequer, 1979-83; Secretary of State for Foreign and Commonwealth Affairs, 1983-9
Nigel Lawson	Opposition spokesman on Treasury and economic affairs, 1977-9; Financial Secretary to the Treasury, 1979-81; Secretary of State for Energy, 1981-3; Chancellor of the Exchequer, 1983-9
John Nott	Opposition spokesman: on Treasury and economic affairs, 1974-6; on Trade, 1976-9; Secretary of State: for Trade, 1979-81; for Defence, 1981-3
David Howell	Secretary of State: for Energy, 1979-81; for Transport, 1981-3
Nicholas Ridley	Minister of State, Foreign and Commonwealth Office, 1979-81; Financial Secretary to the Treasury, 1981-3; Secretary of State: for Transport, 1983-6; for the Environment, 1986-9; for Trade and Industry, 1989-90
Patrick Jenkin	Opposition front bench spokesman: on Energy, 1974-6; on Social Services, 1976-9; Secretary of State: for Social Services, 1979-81; for Industry, 1981-3; for the Environment, 1983-5
John Biffen	Chief Secretary to the Treasury, 1979-81; Secretary of State for Trade, 1981-2; Lord President of the Council, 1982-3; Leader of House of Commons, 1982-7 and Lord Privy Seal, 1983-7
Jock Bruce-Gardyne	Minister of State, Treasury, 1981; Economic Secretary to the Treasury, 1981-3
Ian Gow	PPS to the Prime Minister, 1979-83; Minister for Housing and Construction, 1983-85; Minister of State, HM Treasury, 1985
Cecil Parkinson	Opposition spokesman on trade, 1976-9; Minister for Trade, 1979-81; Paymaster General, 1981-3; Chancellor of the Duchy of Lancaster, 1982-3; Secretary of State: for Trade and Industry, June-Oct. 1983; for Energy, 1987-9; for Transport, 1989-90

Sources: Who's Who and Who Was Who, www.ukwhoswho.com, copy available from the author.

Section 1.2: The interpretation and construction of postwar British history

Though not an historian myself . . . I had a very clear – and I had naively imagined uncontroversial – idea of what history was. History is an account of what happened in the past.

Margaret Thatcher in her memoirs on the unexpected difficulties encountered with the National Curriculum for history in schools.²³

In the late 1980s a National Curriculum was constructed for schools in England and Wales at the behest of the government.²⁴ Constructing the curriculum for history proved to be particularly fraught as Margaret Thatcher and other politicians were appalled by the emphasis the teachers involved with the project put on differing interpretations of history rather than straightforward knowledge of dates and facts.²⁵ But historians do have to grapple with differences of interpretation and approach, as we can see when we review two key background literatures for the thesis, the debate over the existence or otherwise of a postwar consensus and the debate over whether ideas or events are drivers in economic policymaking. Simply studying the events of the era whilst ignoring the controversy over their interpretation is akin to attending a party with the aim of only eating and drinking and avoiding the debates and conversations of your fellow party-goers.

The first debate, on the postwar consensus, has veered from a general acceptance of the idea of a postwar consensus to a period of revisionism challenging the idea before developing in the present day to a modified acceptance of the postwar consensus idea. The initial work on the postwar consensus – the major texts being Paul Addison's *The road to 1945* (1975), Keith Middlemas's *Power, competition and the state* (1986) and Dennis Kavanagh's and Peter Morris's *Consensus politics from Attlee to Thatcher* (1989) – concluded that the experience of the Second World War helped forge a period of political and economic consensus on the necessary size and role of the state

²³ B. Porter, 'Margaret Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 247.

²⁴ For more on the National Curriculum and Thatcherite education policies in general, see: S. Jenkins, *Accountable to none* (1995), Chapter 6.

²⁵ B. Porter, 'Margaret Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 247.

lasting to the 1970s and that this consensus was for a larger and more interventionist state than previously obtained in peacetime.²⁶ Such a consensus meant in economic policy terms greater state control of the economy through nationalisation of key production sectors plus Keynesian macroeconomic management with the goal of full employment (described in more detail in Chapter 2).²⁷

However, a challenge to the idea of a postwar consensus arose from the late 1980s, most notably from historian Ben Pimlott, arguing, often on the basis of newly available records, that there had been much greater disagreement amongst wartime and postwar governments than previously thought.²⁸ The debate subsequently fractured into several strands, including debates over what the term ‘postwar consensus’ meant and the time period of any consensus yet there has been an overall move back to the idea of the existence of a consensus of a sort. For example, Brian Harrison has argued that consensus has been a long-running theme in British political history with factors such as island geography, the effect of the civil war, the structure of government and the ‘middle way’ between Catholicism and Puritanism taken by the Church of England all shaping relatively high levels of consensus in early modern and modern British politics.²⁹ Concentrating solely on the twentieth century, Duncan Fraser and Kevin Hickson have independently argued that various politicians and political scientists writing during the 1930s to the 1960s recognised that they were living in a period of relative consensus but Peter Kerr would likely dispute the findings of Fraser and Hickson, as Kerr argued that contemporary authors realised that consensus was only an economic consensus (seen for example in the coining of ‘Butskellism’ in a 1954 issue of *The Economist* to signify the policy similarities of Labour Chancellor Hugh Gaitskell to his Conservative predecessor Rab Butler) and that the idea of a wider postwar consensus only dates from Paul Addison’s 1975 work

²⁶ P. Addison, *The road to 1945* (1975); K. Middlemas, *Power, competition and the state*, 3 vols. (Basingstoke, 1986); D. Kavanagh and P. Morris, *Consensus politics from Attlee to Thatcher* (Oxford, 1989).

²⁷ K. Hickson, 'The postwar consensus revisited', *Political Quarterly*, vol. 75, 2 (2004), p. 142.

²⁸ B. Pimlott, 'The myth of consensus', in Smith (ed.), *The making of Britain* (Basingstoke, 1988), pp. 129-42 and B. Pimlott, 'Is the postwar consensus a myth?' *Contemporary Record*, vol. 2, 6 (1989), pp. 12-14. For more, see: H. Jones and M. Kandiah (eds.), *The myth of consensus* (Basingstoke, 1996).

²⁹ B. Harrison, 'The rise, fall and rise of political consensus', *History*, vol. 84, 274 (1999), pp. 301-11.

and more generally, the ability in the divided 1970s to view with hindsight the relatively undivided 1950s and 1960s.³⁰

Kerr raised another interesting point in his discussion on the postwar consensus, for he noted that one of the ‘most conspicuous features of the established narrative [that a postwar consensus did exist] is the striking similarity which it bears to Mrs Thatcher’s own interpretation of events’.³¹ Kerr built on the earlier work of historian Bernard Porter – which showed that Mrs Thatcher and her ‘lieutenants’ had created a Thatcherite view of British history which ran from a Victorian free enterprise high to a postwar quasi-socialist consensus low – and implied that the belief in a postwar consensus shared by Addison *et. al.* was likely false as it had (wittingly or unwittingly) imbibed the self-interested Thatcherite construction of the existence of a postwar consensus.³² Thatcherites had at least two reasons for propagating the belief in a postwar consensus: it made the Conservative party more likely to accept Thatcherism as Thatcherism could be portrayed more readily as a return to ‘true’ Conservative pre-consensus values (as the extent to which Thatcherism was part of Conservatism was a topic of some controversy) and it made the electorate more likely to accept that a radical change was required as the turbulent 1970s could be blamed on the centrist consensus policies of the postwar years.³³

Key to the Thatcherite view of postwar British history was their interpretation of the Heath administration of 1970-4 and the pre-election Selsdon Park conference of 1970. The Selsdon Park conference was portrayed by Thatcherites as a time when the Conservative Shadow Cabinet decided to decisively break with the postwar consensus and move towards economic liberalism but under the later pressure of office, Prime Minister Heath was to ‘betray’ the economic liberals in a 1972-3 U-turn.³⁴ As with the general Thatcherite belief in a postwar consensus, the Thatcherite interpretation of

³⁰ D. Fraser, 'The postwar consensus' *Public Administration*, vol. 53, 2 (2000), pp. 351-2; K. Hickson, 'The postwar consensus revisited', *Political Quarterly*, vol. 75, 2 (2004), p. 142; P. Kerr, *Postwar British politics* (2001), pp. 46-7.

³¹ P. Kerr, *Postwar British politics* (2001), p. 5.

³² P. Kerr, *Postwar British politics* (2001), pp. 5-6; B. Porter, 'Margaret Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 251.

³³ On the debate over the place of Thatcherism in Conservatism, see: E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), pp. 4 and 225-9; S. Evans, 'The not so odd couple', *Contemporary British History*, iFirst article (2008), pp. 1-21; P. Martin, 'Thatcherism and 'true conservatism' (Oxford Univ. B.A. thesis, 2008), copy available from the author.

³⁴ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), pp. 231-4.

Selsdon Park has been aided by its promulgation by non-Thatcherites; in the case of Selsdon Park then Labour leader Harold Wilson played a major role in characterising the conference as a time when a Tory caveman-esque economic liberal ‘Selsdon Man’ was created.³⁵ However, when the minutes of the Selsdon Park conference are studied, as academics Mark Garnett and Ewen Green have both done, it is evident that Selsdon Man was a myth created by Harold Wilson and later used by Thatcherites for their own convenience, as no concerted attack on a ‘postwar consensus’ was ever envisaged.³⁶

However, while the Thatcherite conception of the postwar consensus may be a heavily mythologized account we should not entirely dismiss the postwar consensus as a work of fiction. Instead, the postwar consensus can be partly rehabilitated if we accept a more nuanced and cautious version. David Dutton, for instance, has carefully argued that there were indeed major differences between the Conservative and Labour parties in the early postwar period (1940s to 1970s) but that a ‘process of evolution succeeded in carrying both parties towards the same basic conclusions.’³⁷ More cautiously still, Kevin Hickson has argued that a postwar consensus existed as far as policies were concerned but as the major parties had retained different underlying values, Labour and the Conservatives were seeking different outcomes from similar policies.³⁸ For example, social welfare policies were supported by the Conservatives as socially responsible but by Labour for egalitarian reasons, hence the Conservatives intended a less redistributionist outcome to obtain from the same policies than did Labour.³⁹

Related to this reassessment of the postwar consensus, but still primarily in its own niche, is recent academic work undertaken on Thatcherism and consensus. The bulk of the work on Thatcherism and consensus has argued that under John Major’s Conservatives in 1990-1997 and under New Labour from 1997 to the present day,

³⁵ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 231.

³⁶ M. Garnett, ‘James Douglas’, *Conservative History Journal*, vol. 1, 4 (2004), pp. 6-8; E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 231.

³⁷ D. Dutton, *British politics since 1945*, 2nd ed. (1997), p. 10.

³⁸ K. Hickson, ‘The postwar consensus revisited’, *Political Quarterly*, vol. 75, 2 (2004), p. 153. A similar argument is made in: M. Freedon, *Ideologies and political theory* (Oxford, 1996), p. 386.

³⁹ K. Hickson, ‘The postwar consensus revisited’, *Political Quarterly*, vol. 75, 2 (2004), pp. 146-51.

economic policymaking has remained in a broadly neoliberal Thatcherite form.⁴⁰ As Labour politician Peter Mandelson said in 2002, 'we are all Thatcherites now', although the full quote is more restrictively framed:

globalisation punishes hard any country that tries to run its economy by ignoring the realities of the market or prudent public finances. In this strictly narrow sense, and in the urgent need to remove rigidities and incorporate flexibility in capital, product and labour markets, we are all Thatcherites now.⁴¹

Some authors, notably Peter Kerr and, to a lesser extent, David Dutton, have linked the purported Thatcherite neoliberal consensus with the postwar consensus debate and have argued that the 'real' period of postwar consensus is the Thatcherite neoliberal consensus beginning in 1979.⁴² However, as the Peter Mandelson quote above shows, the Thatcherite neoliberal consensus may have been created partly by an acceptance (whether justified or not) in the Labour party that increased globalisation meant that there was no alternative to neoliberalism rather than the Labour party changing ideologically to believe in the merits of neoliberalism.⁴³ Similarly, Richard Heffernan's work on the development of the Labour party in the 1980s and 1990s has shown that the Labour party gradually moved towards an acceptance of Thatcherite economics through electorally necessity rather than through deep-seated ideological change.⁴⁴ Therefore, while a study of Thatcherite economics such as this thesis can partly claim to be of interest as Thatcherite economics has remained at the core of British economic policymaking for almost thirty years, well beyond the departure of Mrs Thatcher in 1990, we should not assume that the Thatcherite economic consensus has an ideological bedrock shared by the Conservative and Labour parties. As with the term 'postwar consensus', the 'Thatcherite economic consensus' is a term which should be used carefully to refer to a weak consensus over policy rather than a strong consensus rooted in shared values.

⁴⁰ See: E.H.H. Green, *Thatcher* (2006), pp. 189-80; K.O. Morgan, *Britain since 1945*, 3rd ed. (Oxford, 2001), p. 542; W. Grant, *Economic policy in Britain*, (Basingstoke, 2002), p. 107; R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), pp. vii-viii. For a dissenting view, see: J. Tomlinson, 'Tale of a death exaggerated', *Contemporary British History*, vol. 21, 4 (2007), pp. 429-48.

⁴¹ Quoted in: D. Charter, 'Mandelson tells Labour: we're all Thatcherites', *The Times*, 10 June 2002.

⁴² P. Kerr, *Postwar British politics* (2001); D. Dutton, *British politics since 1945*, 2nd ed. (1997), p. 155.

⁴³ For a similar argument but on an international scale, see: C. Leys, *Market-driven politics* (2001).

⁴⁴ R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), p. 174.

The discussion in the paragraph above over whether the Labour party embraced Thatcherite economics or merely accepted Thatcherite economics as a result of the external forces of globalisation and a shift in the preferences of the electorate can be categorised as part of a much wider debate on ‘ideas versus events’ in policymaking. ‘Ideas versus events’ is concerned with whether policy is mainly determined by a battle between competing ideas or instead by underlying changes in economies and societies. For instance, the neo-Gramscian thesis that a neoliberal ideological hegemony developed in response to the perceived capitalist crisis in the 1970 is one possible explanation that can be categorised as an ‘events’ explanation, other ‘events’ explanations for the success of the New Right would include the effects of distributional struggles or technological changes (as mentioned in the previous section).

Looking at the ‘ideas’ side, it is encapsulated well by Keynes’ famous quote that:

the ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else.⁴⁵

Hence, the ‘ideas’ side argues that human intellectual activity ultimately shapes policy. An argument along the ‘ideas’ line might highlight the importance of thinkers such as the economists Milton Friedman and Friedrich Hayek and perhaps the particular influence of the individual power and actions of Margaret Thatcher as she persuaded her party and an electorally significant proportion of the population to support her for over ten years.⁴⁶

Surveying the literature on the ‘ideas versus events’ debate shows that most authors take a pragmatic view acknowledging the importance of both ideas and events but with a marked preference towards ideas having the greater importance in determining policy. Dissenters can be found though. Geoff Mulgan, for example, saw:

theory following practice rather than the other way round. Often it [the marketplace in ideas, discussed in Chapter 4] is more a means for understanding how the world is changing, than a tool for reinventing it.⁴⁷

⁴⁵ J.M. Keynes, *The General Theory* (1936), p. 383.

⁴⁶ Examples include: R. Cockett, *Thinking the unthinkable* (1995); P. Clarke, 'The rise and fall of Thatcherism', *Historical Research*, vol. 72, 179 (1999), pp. 301-22; M. Blyth, *Great transformations* (Cambridge, 2002).

⁴⁷ G. Mulgan, 'The market place of ideas', *Contemporary British History*, vol. 10, 1 (1996), p. 107.

Yet, this skepticism towards the importance of ideas is countered by other writers, including Michael Freeden, who criticised what he termed the ‘*ostrich syndrome*’ of historians who ‘prefer to single out economic, demographic, and technological factors as causing change’.⁴⁸ Richard Heffernan noted that structural factors would not have led the Labour party to follow the same policy agenda had they won the 1979 election and that the ‘initial political choices made by Thatcherite actors were invariably just that: choices.’⁴⁹ Similarly, David Marquand made the point that although there may have been a global rightwards shift in the period, ‘[t]echnological imperatives that manage to produce Margaret Thatcher in Britain, but Francois Mitterand in France and Helmut Kohl in Germany, cannot be as imperious as all that.’⁵⁰ Tending more towards a centre-ground of using both ‘idea’ and ‘event’ approaches are Hugh Pemberton and Michael Oliver, who saw exogenous shocks in the 1970s oil crises harnessed to the endogenous shock of the 1979 election leading to a change away from an enhanced demand management ‘Keynesian-plus’ policy system.⁵¹

Another useful way of combining the insights of both ‘ideas’ and ‘events’ approaches is to stress the importance of individual actors but note that their actions are bounded by structural constraints, which include institutional factors.⁵² To give an example, an important change in a structural constraint was the injection of North Sea oil revenues which allowed the Thatcher governments to support far greater numbers of unemployed workers than could have been done in the 1970s: by 1982 oil revenues accounted for 10% of all tax revenues.⁵³ Thatcherism would likely have been markedly less ambitious without oil revenues. Furthermore, constraints can be broadly defined to include ideological constraints that create a certain climate of opinion. Heffernan hinted at this by pointing out that:

Thatcher’s ministers were often as event-driven as project-based. But when ministers found themselves obliged to respond to events their

⁴⁸ M. Freeden, ‘The stranger at the feast’, *Twentieth Century British History*, vol. 1, 1 (1990), p. 33.

⁴⁹ R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), pp. 12-3.

⁵⁰ D. Marquand, ‘Moralists and hedonists’, in Marquand and Seldon (eds.), *Ideas that shaped Britain* (1996), p. 18.

⁵¹ M.J. Oliver and H. Pemberton, ‘Learning and change’, *Governance*, vol. 17, 3 (2003), p. 431.

⁵² R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), p. 14.

⁵³ 10% statistic in: A. Marr, *Andrew Marr’s history of modern Britain*, (BBC television documentary, 12 June 2007), 19:40 onwards. For more on North Sea oil, see: C. Bean, ‘The impact of North Sea oil’, in Dornbusch and Layard (eds.), *The performance of the British economy* (Oxford, 1987), pp. 64-96.

response was more likely to be a reflection of the ideological and political project their government had come to be identified with.⁵⁴

Thus, events can determine which areas of policy a government will focus upon but differing ideologies can shape the particular approach taken (and variances in ideology can also explain why nations that face similar problems can take different courses of action). Furthermore, initial differences in policy through a variation in accepted ideas can then be magnified through path dependencies, giving rise to even more divergent policy after time.⁵⁵

Therefore, while ideas may not be wholly sovereign, they do have an identifiable role in determining policy. However, ideas do not flow in a simple fashion from economists and other thinkers to policymakers and nor are ideas selected according to some non-partisan merit-based ranking. Instead, as Peter Clarke showed in his study of Keynesian ideas and as this thesis will show in its study of Thatcherite economic ideas, ideas 'were tools in the hands of those who constructed a lineage to make a political point' with politicians able to 'add to or filter ideas' as they searched to find ideas with the greatest 'social purchase' at the time.⁵⁶ As Colin Thain and Maurice Wright explained, when economic ideas are used in the political process:

[w]hat results is often an amalgam of political ideology, pragmatic responses to social and political pressures, and shades of various schools of economic thought.⁵⁷

This section has shown that Thatcherites were able to adapt and emphasise an already existing account of the past in order to create a politically suitable postwar consensus pre-history to the Thatcher years. Chapters 4 and 5 will go on to show that Thatcherites were equally able to adapt and emphasise economic ideas which suited their pre-existing ideological beliefs and the conditions of the day. Ideas matter, as the discussion on 'ideas versus events' argues but it is the interpretation and construction of economic ideas by Thatcherites more than the economic ideas themselves that we

⁵⁴ R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), p. 52.

⁵⁵ For more on path dependency, see: P.A. David, 'Understanding the economics of QWERTY', in Parker (ed.), *Economic history* (Oxford, 1986), pp. 332-7; D.C. North, *Institutions* (Cambridge, 1990), Chapter 11; P. Pierson, 'Increasing returns', *American Political Science Review*, vol. 94, 2 (2000), pp. 251-67.

⁵⁶ All quotes from: E.H.H. Green and D. Tanner, 'Introduction', in Green and Tanner (eds.), *The strange survival of liberal England* (Cambridge, 2007), pp. 4 and 15. See: P. Clarke, *The Keynesian revolution* (Cheltenham, 1998).

⁵⁷ C. Thain and M. Wright, *The Treasury and Whitehall* (Oxford, 1995), p. 14.

need to understand in order to more accurately account for economic policymaking in 1980s Britain.

Section 1.3: Using sources in contemporary history

Section 1.1 mentioned that archival sources invaluable for the study of Thatcherite economic thinking have recently become available in the form of the release of some of Mrs Thatcher's personal papers (mainly covering the pre-1979 period) and greater access to the Conservative party archives. Yet, while more records are available to historians of Thatcherism than ever before, it will likely be many years before comprehensive access to all relevant archival sources on Thatcherism is possible.

Incomplete access to primary sources is a common problem for contemporary historians and methodological debates amongst contemporary historians suggest that a wide range of non-archival sources – such as newspapers and other publications dating from the period of study, parliamentary debates, autobiographies and conducting interviews – can prove highly useful in lieu of, and in addition to, archival sources and that the value of archival sources may be at times over-valued by historians in any case.

On the value of archival sources, a debate over the merits of the state papers contained in the Public Record Office (PRO) has slowly rumbled on since the introduction of the '30 year rule' in 1967 (now partly superseded by the Freedom of Information Act (2000)).⁵⁸ C. L. Mowat was to first to raise questions over the use-value of the PRO and Alan Booth and Sean Glynn followed in 1979 by casting doubt on the accuracy and neutrality of government records as well as noting that relying on government records could privilege processes over the origins and effects of policy.⁵⁹ The value of government records was subsequently defended by a number of PRO employees before contemporary historian Rodney Lowe launched a partial defence of PRO papers.⁶⁰ Lowe agreed with Booth and Glynn that Cabinet minutes and other high level records were flawed in parts but Lowe went on to argue that lower level papers

⁵⁸ On the 30 year rule, see: A. Booth and S. Glynn, 'The public records', *Economic History Review*, vol. 32, 3 (1979), p. 303. On the Freedom of Information Act, see J. Wadham *et. al.* *Blackstone's guide to the Freedom of Information Act 2000*, 3rd ed. (Oxford, 2007).

⁵⁹ Mowat and Booth and Glynn all in: A. Booth and S. Glynn, 'The public records', *Economic History Review*, vol. 32, 3 (1979), pp. 303-15.

⁶⁰ Example of defence of PRO in: A. McDonald, 'Public records and the modern historian', *Twentieth Century British History*, vol. 1, 3 (1990), pp. 341-52. Lowe defence in: R. Lowe, 'Archival report: plumbing new depths', *Twentieth Century British History*, vol. 8, 2 (1997), pp. 239-65.

could provide the more comprehensive picture that historians sought, albeit at a large opportunity time cost in sifting through the lower level records.

A broader view on the value of all archives was taken by political scientist Michael Freeden in a 1990 article, where Freeden criticised an over-emphasis by historians on archival sources and a concomitant under-emphasis by historians on other primary sources including but not limited to, newspaper articles, book reviews, specialist journals and parliamentary debates.⁶¹ More specifically, for those interested in studying ideas and ideology in recent British history, as this thesis seeks to do, Freeden reminded us that:

British intellectuals are not overrevealing in committing their speculations to the notepaper of private correspondence, but what they have written in the form of pamphlets and journalistic newsprint is very edifying.⁶²

Taking the various contributions to the debate on archives in contemporary history together shows that partial access to the records, especially high level records, of the Thatcher governments should not be regarded as a major barrier to undertaking an historical study of Thatcherite economic thinking, especially if other non-archival primary sources are carefully used. As Michael Freeden noted, a huge range of primary sources are available for students of postwar British history and this thesis uses a wide range of often neglected newspaper articles, speeches and parliamentary debates in addition to archival sources.

Furthermore, the use of autobiographies, memoirs and diaries, as well as conducting interviews, can add much to the primary evidential base. Thatcherite ministers and aides have produced a slew of political memoirs (Keith Joseph was the only major Thatcherite not to have produced some form of memoir although Joseph has been the subject of two biographies) and while caution must be exercised in using such sources, Thatcherite memoirs remain 'one of the most extensive and accessible sources available for studying the Thatcher years.'⁶³ Peter Clarke, writing on

⁶¹ M. Freeden, 'The stranger at the feast', *Twentieth Century British History*, vol. 1, 1 (1990), p. 13.

⁶² M. Freeden, 'The stranger at the feast', *Twentieth Century British History*, vol. 1, 1 (1990), p. 13.

⁶³ Joseph's biographies: M. Halcrow, *Keith Joseph* (1989) and A. Denham and M. Garnett, *Keith Joseph* (Chesham, 2001). Quote from: A. Gamble, 'Political memoirs', *Politics*, vol. 14, 1 (1994), p. 35. For a review of Thatcherite memoirs, see: A. Gamble, 'Political memoirs', *Politics*, vol. 14, 1 (1994),

Margaret Thatcher's two volume memoirs – *The Downing Street years* (1993) and *The path to power* (1995) – aptly described one significant reason for applying caution when studying any political memoirs, as Thatcher's memoirs 'can no more be regarded as an innocent source, however, than their author as an innocent bystander.'⁶⁴ Thus, we should not be surprised that Thatcher's account of her political career was 'a continuation of politics by other means' and that the view given was 'not a wholly false view, but not a wholly true one either.'⁶⁵ The same problems of bias could be ascribed to the other Thatcherite memoirs cited in this thesis, with the two memoirs aside from Margaret Thatcher's which make recurrent appearances in the thesis being Nigel Lawson's *The view from No. 11* (1992) and Geoffrey Howe's *Conflict of loyalty* (1994). To give one example of what Peter Clarke might have meant by a 'not wholly true' account of history, which can be found in all of the Thatcherite memoirs, is the near total lack of references to vital North Sea oil tax revenues.⁶⁶

One other noteworthy potential problem which specifically applies to Margaret Thatcher's memoirs is that of authorship. Bernard Porter has raised the concern that Mrs Thatcher used a range of collaborators to write her memoirs and hence her memoirs 'may come to be regarded by future historians as a less reliable guide to her true way of thinking than her various directly reported statements over the years.'⁶⁷ Authorship in Thatcher's memoirs is a genuine concern and is partly remedied in this thesis by Porter's suggested method of favouring direct quotations from Margaret Thatcher made at the time. However, Peter Clarke has reassured wary historians that Thatcher's memoirs were 'created by a team whom she superintended and by methods similar to those which produced most of her public utterances' and thus should not be treated as markedly inferior to her pronouncements at the time aside from the delayed

pp. 35-41 and A. Gamble, 'Political memoirs', *British Journal of Politics and International Relations*, vol. 4, 1 (2002), pp. 141-51.

⁶⁴ P. Clarke, 'The rise and fall of Thatcherism', *Historical Research*, vol. 72, 179 (1999), p. 322. For more on Thatcher's memoirs, see: I. Gilmour, 'The Thatcher memoirs', *Twentieth Century British History*, vol. 5, 2 (1994), pp. 257-77 and M. Garnett, 'Banality in politics', *Political Studies Review*, vol. 5, 2 (2007), pp. 172-82.

⁶⁵ Both quotes in: P. Clarke, 'Margaret Thatcher's place in history', *Journal of the History of Economic Thought*, vol. 24, 3 (2002), p. 368.

⁶⁶ A. Marr, *Andrew Marr's history of modern Britain*, (BBC television documentary, 12 June 2007), 21:50 onwards.

⁶⁷ B. Porter, 'Margaret Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 252 footnote.

time factor (and thus hindsight bias) inherent in any memoir compared with a contemporary speech.⁶⁸

Memoirs, therefore, can be a useful secondary source for developing an understanding of Thatcherites and Thatcherite economic thinking. Yet, as this thesis is also concerned with studying the attitudes and interactions between economists and Thatcherite politicians, memoirs from relevant economists would also be of value but are extremely scarce – City economist Gordon Pepper's *Inside Thatcher's monetarist revolution* (1998) and Milton Friedman's *Two lucky people: memoirs* (1998) are the only the monograph length accounts from economists involved in Thatcherism (and Chapter 4 explains why Friedman's memoirs are of limited value in any case). With limited information available on economists, particularly government economists who are the subject of Chapter 3, conducting interviews can be one effective measure to rectify an informational deficiency. 14 interviews were completed for the thesis and their details are outlined in the Preface.

Conducting interviews can bring some similar problems to those found with memoirs, such as hindsight bias, as well as additional problems which are unique to the discipline of oral history. Interviews are subject to the risk of becoming merely 'old men drooling about their youth' in A. J. P. Taylor's memorable phrase and younger scholars in particular may become too deferential to interviewees, with the risk of lowering the interviewer's critical judgement.⁶⁹ Additionally, several authors have remarked that the older the interviewee and the more distant the events under discussion become, the less likely the chance of accruing valuable evidence becomes.⁷⁰ The interviews conducted for the thesis are likely to fall into the younger and hopefully more accurate interviewee age category however, as the majority of the interviewees were still in employment at the time of their interview.

For all of the well warranted caution that should be employed when using evidence gleaned from interviews, interviews should not be viewed automatically as a low

⁶⁸ P. Clarke, 'The rise and fall of Thatcherism', *Historical Research*, vol. 72, 179 (1999), p. 368.

⁶⁹ A.J.P. Taylor quote and younger scholar point both in: A. Seldon, 'Elite interviews', in Brivati *et. al.* (eds.) *The contemporary history handbook* (Manchester, 1996), pp. 353 and 357.

⁷⁰ D. Richards, 'Elite interviewing', *Politics*, vol. 16, 3 (1996), p. 200 and A. Seldon, 'Elite interviews', in Brivati *et. al.* (eds.) *The contemporary history handbook* (Manchester, 1996), p. 356.

worth means of finding information as interviews can be suited well to uncovering particular types of information. If interviews are used to gain an insight into 'underlying philosophies and approaches' or 'an interviewee's subjective analysis of a particular episode' as this thesis does in its use of interviews to explore what government economists thought about Thatcherite economics, then interviews can supply information unlikely to be captured in written sources.⁷¹ Furthermore, Anthony Seldon and Joanna Pappworth noted that careful use of interviews can provide superior evidence to that commonly found in memoirs – as a knowledgeable interviewer can ask critical questions and challenge inaccurate statements – and that research 'based in part upon oral evidence has added something new to the record' in a way that using already published sources can never achieve.⁷² Interviews, then, can be regarded in certain circumstances (such as the circumstance of a thesis aiming to study the views of government economists on Thatcherite economics but inhibited by a lack of written sources) as a highly useful method of uncovering evidence, provided that interviews are appropriately conducted and appropriately deployed as evidence.

Therefore, while studying Thatcherism can be problematic compared to less recent historical periods in terms of access to archival sources, an advantage of working on such a recent period of contemporary history is that interviews can be used to counterbalance the limited primary record. The Thatcher years have also given rise to a substantial number of political memoirs, which can further bolster the source base. Reviewing the methodological literature has shown that archival sources should not be placed unthinkingly at the top of a hierarchy of value with contemporary speeches and publications somewhere in the middle and memoirs and interviews languishing at the bottom. Instead, each different type of source can offer unique advantages and disadvantages and through a careful use of wide range of sources and source types a thesis can be enhanced considerably over one dependent on archival sources alone.

⁷¹ First quote and written evidence point in: A. Seldon, 'Elite interviews', in Brivati *et. al.* (eds.) *The contemporary history handbook* (Manchester, 1996), p. 355; second quote in: D. Richards, 'Elite interviewing', *Politics*, vol. 16, 3 (1996), p. 200.

⁷² A. Seldon and J. Pappworth, *By word of mouth* (1983), pp. 13-4 and p. 48.

Chapter 2: British academic economists and the Thatcherite critique

Section 2.1: Introduction

This chapter concerns itself with testing Thatcherite claims made against British academic economists and institutions from the 1960s to the early 1980s. The claims, termed the ‘Thatcherite critique’, revolve around the view that British academic economists of the period – and Oxbridge academic economists in particular – were predominantly statist Keynesians with relatively low levels of economic training and a hostility to monetarist ideas from the more innovative USA.

Section 2.2 explains and develops the Thatcherite critique while Sections 2.3 to 2.6 subject the critique to testing against various forms of evidence. Section 2.3 uses political and economic surveys of academics and academic economists while Section 2.4’s evidence revolves around the letter, and subsequent reaction, from 364 economists who attacked monetarist policies in the 1981 budget. Sections 2.5 and 2.6 concern themselves with the three major UK economics departments, that of Oxford, Cambridge and the London School of Economics. Section 2.5’s evidence stems from an analysis of the development of the economics departments of the triumvirate and Section 2.6 takes the unusual approach of using undergraduate examination questions to examine the flow of monetarist ideas across the Atlantic.

Section 2.2: The Thatcherite critique of British academic economists

Before we begin exploring the Thatcherite critique it is worth spending some time defining two of the (often hotly contested) terms used in this chapter: ‘monetarism’ and ‘Keynesian.’ Monetarism has been used to refer a wide variety of different ideas and practices in academia and politics. The academic definition of monetarism, according to the *New Palgrave* dictionary, is:

the view that the quantity of money has a major influence on economic activity and the price level and that the objectives of monetary policy are best achieved by targeting the rate of growth of the money supply.¹

Yet, ‘monetarism’ encompasses a number of different schools of thought, which led the arch-monetarist Patrick Minford to admit ruefully that some differences of view have been greater within monetarists than between monetarists and Keynesians.² Notably, British monetarism had a distinctive flavour compared to its American counterpart. British monetarism not only optimistically gave a greater role to fiscal policy than did American monetarism but British monetarism also contained a rational expectations wing of Minford *et. al.* at Liverpool University and the international monetarism wing of Alan Budd and Terry Burns at the London Business School.³

The propagation of monetarism in Britain was, however, mainly spurred on by financial journalists, City economists and the advocacy work of American academic Milton Friedman (the propagation of monetarism is described in more detail in Chapter 4). Newspaper columns authored by Samuel Brittan, Peter Jay and William Rees-Mogg and the writings of City economists such as Gordon Pepper introduced policymakers, the City and the general public to monetarism.⁴ As monetarism entered the political sphere its precise academic definition began to broaden. Nicholas Ridley, a Thatcherite Cabinet minister for much of the 1980s, thought monetarism was, for example, ‘merely a closer definition of good housekeeping’ applied to a national

¹ P. Cagan, ‘Monetarism’, in Eatwell *et. al.* (eds.), *The new Palgrave* (1987), vol. 3, p. 492.

² P. Minford, ‘A dangerous and dishonest game’, *The Times*, 7 April 1981.

³ P. Minford, ‘Inflation, unemployment and the pound’, in Roy and Clarke (eds.), *Margaret Thatcher's revolution* (2005), pp. 50-1; D. Blake, ‘The second (and third) thoughts of the monetarists’, *The Times*, 15 December 1981.

⁴ R. Cockett, *Thinking the unthinkable* (1995), p. 184.

economy.⁵ Monetarism became widely used in the national discourse as a term synonymous with Thatcherite economics yet it was only ever at most ‘half of the remedy’ in Margaret Thatcher’s mind, the other half of the remedy was composed of supply-side objectives such as deregulation, cuts in marginal tax rates, privatization and trade union reform.⁶ Furthermore, monetarist policies were not deployed first under Thatcher’s administration but by a Labour government as part of the terms of an International Monetary Fund (IMF) loan from December 1976.⁷ However, Labour did remain Keynesian at heart and Thatcher’s incoming government in 1979 was the first to adopt monetarism voluntarily.⁸

Therefore, monetarism was an important but far from all-encompassing part of the wider phenomenon known as Thatcherism. Thatcherism was motivated partly by a desire to move away from Keynesian policies which Thatcherites thought bore some responsibility for Britain’s economic decline.⁹ For example, industrial policy by British governments at the macroeconomic level often involved dialogue between industry, unions and government to try and set wage levels on an industry-wide basis, which was derided by Thatcherites as a failed ‘Keynesian corporatist consensus’ that missed the essential point that decisions should instead be taken at a microeconomic level, that is, at the level of the firm.¹⁰ By ‘Keynesian,’ we are not referring to policies Keynes himself had advocated – much as Thatcherism was not merely what Margaret Thatcher did or said (as explained in Chapter 1) – but instead to ‘propositions which, although not found in the *General Theory*, were felt, often wrongly, to derive from its arguments.’¹¹ One method used by Thatcherites to stop any confusion between Keynesian policies and Keynes’s policies while disparaging Keynesian policies (and not the still highly regarded Lord Keynes) was to refer to Keynesianism as ‘naive Keynesianism.’¹²

⁵ N. Ridley, *My style of government* (1991), p. 164.

⁶ M. Thatcher, *The path to power* (1995), pp. 568-9.

⁷ M. Thatcher, *The path to power* (1995), pp. 568-9.

⁸ A. Denham and M. Garnett, *Keith Joseph* (Chesham, 2001), p. 286; M.J. Oliver and H. Pemberton, ‘Learning and change’, *Governance*, vol. 17, 3 (2004), p. 430.

⁹ J. Tomlinson, ‘Mrs Thatcher’s macroeconomic adventurism’, *British Politics*, vol. 2, 1 (2007), p. 14.

¹⁰ E.H.H. Green, *Thatcher* (2006), p. 79.

¹¹ J. Eatwell, ‘Keynesianism’, in Eatwell *et. al.* (eds.), *The new Palgrave* (1987), vol. 3, pp. 46-7. (1987), pp. 46-7.

¹² See example in: P. Booth, ‘How 364 economists got it totally wrong’, *Daily Telegraph*, 15 March 2006.

Now that we have developed definitions of the terms ‘monetarism’ and ‘Keynesian’ we can move on to fleshing out what is meant by the ‘Thatcherite critique of British academic economists.’ Key to understanding the Thatcherite critique is the point made in an earlier paragraph that monetarism was spread in Britain more by City economists and journalists than by sparse in number monetarist academics. For Thatcherites adopted monetarist policies in spite of a lack of support from a great number of academic economists (Section 2.4 on the 364 economists adds more detail to this point). Recent authors on the period have tended to accept that a large divide existed between academic Keynesian economists and predominantly non-academic monetarist economists and their Thatcherite supporters. Political scientist Peter Hall wrote that ‘monetarism still [in the late 1970s] had very little support from British economists, who remained overwhelmingly Keynesian’ and Radhika Desai agreed that ‘the apex of the economics profession remained of a largely Keynesian persuasion [in the 1980s]’.¹³ Thatcherites, therefore, had to explain this divergence in economic thinking between themselves and much of the academic economics profession with the Thatcherite critique developing as a result. The explanation given by Thatcherites was that many British academic economists, especially at Oxford and even more so at Cambridge, were: slow to take on new ideas such as monetarism from the USA; remained more Keynesian than academic economists in other developed countries, which involved a greater concern with equality than economic performance and with corporatist macroeconomic thinking that emphasised market failure over government failure; and, taking all these points together, concluded that British academic economists were therefore unprofessional and outdated in much of their thinking.

To give examples of those advocating the Thatcherite critique, a good starting point is financial journalist Samuel Brittan. In Samuel Brittan’s opinion the British financial press had to bypass British academia and read American work in researching the latest economic ideas and ‘if British academics only knew of the post-Keynesian counter-revolution from press articles, they had themselves to blame for their own

¹³ P.A. Hall, ‘Policy paradigms’, *Comparative Politics*, vol. 25, 3 (1993), p. 286 and R. Desai, ‘Second-hand dealers in ideas’, *New Left Review*, 203 (1994), p. 62.

professional lag.’¹⁴ John Hoskyns, who advised Margaret Thatcher in opposition and headed the Prime Minister’s Policy Unit from 1979 to 1982, added to the belief that Thatcherites had to bypass out-of-touch British academia with the quote that:

I am a businessman; I am not an academic. I am not an economist. I am a sort of self-taught economist; Alan Walters [a British monetarist academic based at an American university, Johns Hopkins, and adviser to Mrs Thatcher] once said I had already learned all I needed to know about economics by understanding the importance of the price mechanism, which many economists nowadays did not take very seriously.¹⁵

On the subject of Oxbridge’s unique culpability to the Thatcherite critique, Professor Tim Congdon noted at a recent witness seminar that monetarism was not taken up by British universities but was corrected by Professor Patrick Minford who stated that monetarism only bypassed the ‘posh’ universities and not Liverpool and the LSE.¹⁶ Derek Scott, former economic adviser to Tony Blair and on the centre-left of the political spectrum, added that British universities, especially Cambridge, were ‘talking rubbish’ in the 1970s.¹⁷ Oxbridge’s association in Thatcherite minds with the postwar Keynesian consensus meant that its traditional links with Whitehall policymaking were significantly reduced in the 1980s but Mrs Thatcher was still keen on receiving economic advice and actively looked instead to journalists, businessmen, the burgeoning thinktanks and academics from provincial universities.¹⁸ For example, Leon Brittan was appointed by Mrs Thatcher in 1975 as a link between the Conservative Party and universities and of the four academics listed out of twenty-six ‘Thatcher’s people’ by John Ranelagh, none were from Oxbridge.¹⁹

Mrs Thatcher herself touched on the Thatcherite critique in some of her public pronouncements. In a 1975 speech she made it clear American economic thinking (of the ‘freshwater’ liberal flavour) was what politics needed: ‘[Chicago] deservedly has a world-wide reputation for a school of economic thought which has consistently been realistic and thorough’.²⁰ Keith Joseph, arguably the first major Thatcherite politician

¹⁴ S. Brittan, ‘Samuel Brittan’, in Backhouse and Middleton (eds.) *Exemplary economists* (Cheltenham, 2000), p. 289.

¹⁵ M. Kandiah, ‘The Number Ten Policy Unit’, *Contemporary British History*, vol.10, 1 (1996), p.119.

¹⁶ Witness seminar, *The changing climate of opinion*, Churchill College, Cambridge, 28 October 2005.

¹⁷ Witness seminar, *The changing climate of opinion*, Churchill College, Cambridge, 28 October 2005.

¹⁸ ‘Of policy and pedigree’, *The Economist*, 6 May 1989.

¹⁹ Leon Brittan in: E.H.H. Green, *Thatcher* (2006), p. 23; ‘Thatcher’s people’ in: B. Harrison, ‘Mrs Thatcher and the intellectuals’, *Twentieth Century British History*, vol. 5, 2 (1994), p. 214.

²⁰ M. Thatcher, ‘Speech at Roosevelt University’, *Thatcher Archive Online*, 22 September 1975.

(before even Margaret Thatcher herself) was happy to name ‘pseudo-Keynesians’ who had helped damage the British economy by proscribing artificially high levels of demand and these ‘pseudo-Keynesians’ were all Oxbridge academics. Joseph named Joan Robinson, Lord Kahn, Lord Kaldor, Piero Sraffa, Robert Nield (all Cambridge) and Sir Roy Harrod, Lord Balogh, G.D.N. Worswick and Roger Opie (all Oxford).²¹ Incidentally, the phrase ‘pseudo-Keynesian’ is also of interest, for it was part of a broader effort by both Margaret Thatcher and Keith Joseph to claim that they and monetarist economists were the true heirs of John Maynard Keynes. To give just two examples, Joseph mentioned that ‘Maynard Keynes recognized that excessive creation of money is inflationary’ and Thatcher, one year later, approvingly quoted Friedrich Hayek’s comment that ‘(Keynes) would have disapproved of what his followers did in the post-war period. If he had not died so soon, he would have become one of the leaders in the fight against inflation’.²² Presumably this strategy of Joseph’s and Thatcher’s of trying to distance latter-day Keynesians from Keynes and wrapping themselves in Keynes’s flag instead was intended to make foreign monetarism more palatable to the British public and further add to the Thatcherite critique of British Keynesians lying outside the mainstream of economic thinking.

Yet, even if British economists were slow to pick up monetarist ideas, they were hardly the only group in British intellectual life with this characteristic. Nigel Lawson expressed Keynesian views as an economic commentator for the *Sunday Telegraph* in the 1960s and Keith Joseph called monetarism an ‘untested dogma’ as late as July 1969.²³ Even by the mid-to-late 1970s, after the crucial empirical ‘test’ of stagflation, only a small core of Conservative politicians – Nigel Lawson, Nicholas Ridley, David Howell, Jock Bruce-Gardyne and Geoffrey Howe plus Thatcher and Joseph – were interested in monetarist thinking.²⁴ Now that the Thatcherite critique has been outlined (and shown to apply at least partially to most Conservative MPs too) it is time to explore in the next section what the actual political beliefs and economic thinking amongst British academic economists were.

²¹ K. Joseph, ‘Speech at Stockton’, *Thatcher Archive Online*, 5 April 1976.

²² M. Thatcher, ‘Speech at Roosevelt University’, *Thatcher Archive Online*, 22 September 1975; K. Joseph, ‘Speech at Preston’, *Thatcher Archive Online*, 5 September 1974.

²³ Lawson’s Keynesianism in: W. Keegan, *Mr Lawson’s gamble* (1989), p. 25 and T. Congdon, ‘Lawson’s world example’, *The Times*, 21 March 1988; Joseph quote in: A. Denham and M. Garnett, ‘Sir Keith Joseph’, *Journal of Political Ideologies*, vol. 7, 1 (2002), p. 65.

²⁴ J. Campbell, *Margaret Thatcher*, vol. 1, ‘The grocer’s daughter’ (2000), p. 371.

Section 2.3: Surveys of economic/political thinking in academia

Empirical evidence on the beliefs of British economists is fairly sparse. Indeed, surveys of opinion amongst academics of all subjects are lacking and what is available is presented in this section. Fortunately, the sparse data on beliefs of British economists is of a good standard. Samuel Brittan's detailed 1973 survey of economic thinking was followed by the even more detailed 1990 survey by Martin Ricketts and Edward Shoesmith.²⁵ Furthermore, a specialist survey on the use of mathematics in economics was published by Herbert Grubel and Lawrence Boland in 1986 on North American economists and extended to British economists by David Greenaway in a 1990 article.²⁶

Looking first at the voting preferences of all British academics (unfortunately data on voting preferences of British academic economists does not exist), Table 2.1 below displays the available evidence.

Table 2.1: Opinion polling on political preferences of university lecturers

	Con.	Lab.	Lib.	SDP	Alliance	Nat/Other	DK/NA
Early 1964	35	41	14	-	-	1	7
Feb. 1974	31	30	24	-	-	4	11
Oct. 1974	23	44	31	-	-	1	?
June 1983	19	23	14	18	(37)	2	?
Oct./Nov. 1984	15	25	12	16	(37)	1	?
May 1987	18	39	-	-	(39)	4	?
March 1992	14	54	31	-	-	1	?

Source: B. Harrison, 'Mrs Thatcher and the intellectuals', *Twentieth Century British History*, vol. 5, 2 (1994), p. 223.

A number of patterns are evident in the above table: Liberals and/or the SDP polled disproportionately well throughout the period; the Conservative vote began at a level comparable to Labour and then dropped greatly from the 1970s to a level below both the Labour and Liberal/SDP share of the vote; and, the Labour vote, apart from years

²⁵ S. Brittan, *Is there an economic consensus?* (1973); M. Ricketts and E. Shoesmith, *British economic opinion* (1990).

²⁶ H.G. Grubel and L.A. Boland, 'On the efficient use of mathematics in economics', *Kyklos*, vol. 39, 3 (1986), pp. 419-42; D. Greenaway, 'On the efficient use of mathematics in economics', *European Economic Review*, vol. 34, 7 (1990), pp. 1339-51.

when the Liberals polled particularly highly, performed disproportionately well. The polling figures may indicate that the shift towards the New Right in the Conservative Party from the 1970s was extremely unpopular with academics. Conservative politician David Willets noted with shock that in the 1987 General Election, where 43 percent of those voting supported the Conservatives, only 18 percent of academics did the same – even 25 percent of the unemployed voted Conservative in 1987.²⁷ Hostility from academics to the Thatcherite project was amply reciprocated though, with Mrs Thatcher taking:

a dim view of the universities and minimal respect for the majority of tenured academics – particularly those in the arts and social sciences – whom she regarded stereotypically as lazy, state-subsidised parasites, cynically abusing the privileged freedom which they enjoyed.²⁸

Mrs Thatcher's opinion of academic economists was higher than that for other social scientists but she lamented the increasingly theoretical turn that economics took in the post-war period and a tendency for economists to assume that they always knew best on the occasions when they did turn to applied matters.²⁹ While we do not know what academic economists thought in turn of Mrs Thatcher – although the 364 economists episode gives us some idea and is discussed in the next section – we do have data on the general political beliefs of British economists through their responses to opinion surveys.

Samuel Brittan's 1973 survey was the first such survey work on British economists. Brittan sent 19 multiple choice questions intended for first year economics undergraduates to 250 economists and received 117 replies from 44 academic economists, 37 government economists, 21 business economists and 15 economists with unspecified employment. Interestingly, Brittan was able to refer to similar surveys of economists in Western countries to give a useful comparative element. The comparative data enabled Brittan to claim that British economists had the greatest egalitarian concern for the equal distribution of income in the economics world.³⁰ Furthermore, the responses to a number of questions on monetary economics demonstrated that by 1973 most British economists surveyed accepted that monetary

²⁷ D. Willets, *Modern Conservatism* (1992), p. 21.

²⁸ J. Campbell, *Margaret Thatcher*, vol. 1, 'The grocer's daughter' (2000), p. 369.

²⁹ M. Thatcher, 'Speech at Roosevelt University', *Thatcher Archive Online*, 22 September 1975.

³⁰ S. Brittan, *Is there an economic consensus?* (1973), p. 23.

policy *could* have an important influence (although as Brittan noted this was still wholly consistent with a Keynesian position) but were not willing to give a Friedmanite answer to a more technical Friedmanite monetary question asked as a follow-up.³¹ Brittan was annoyed by the unwillingness of British economists to engage with monetarism and concluded his survey with the gibe that ‘British economists have still to work out of their system a partially justified inferiority complex in relation to American professional techniques’ – a classic pre-Thatcher example of the Thatcherite critique of British economists.³²

Skip forward seventeen years and it seemed that not a great deal had changed. The 1990 Ricketts and Shoesmith work (a huge survey with responses from 981 British economists) found that British economists had remained as the most redistributive in the Western world and were also still relatively Keynesian, at least in the sense of accepting a short-run trade-off between unemployment and inflation and rejecting a money supply rule.³³ Yet, it is worth noting that with the clear failure of money supply targeting in the 1980s it is no surprise that the bulk of economists surveyed in 1990 rejected a money supply rule, hence Ricketts and Shoesmith should not have indicated that a rejection of a money supply rule was a sign of Keynesian thinking. The acceptance of a short-run trade-off between unemployment and inflation was, however, more safely indicative of Keynesian feeling in British economists.

In the Ricketts and Shoesmith foreword, Samuel Brittan wrote that British economists continued to lag behind their American counterparts although, unlike his 1973 criticisms, Brittan berated British economists this time for expending too much effort on ‘catching up on American [economists] in their statistical and mathematical techniques’ with the consequence that British economists ‘have been laggard in coming to terms both with the critique of post-war demand management and with wider developments in political economy.’³⁴ Taken together, Brittan’s critique of British economists in 1973 and 1990 perhaps generates some sympathy for the maligned economists, for to be reputedly spending too little time on mathematical techniques in 1973 and then too much in 1990 suggests a certain over-zealousness

³¹ S. Brittan, *Is there an economic consensus?* (1973), p. 68.

³² S. Brittan, *Is there an economic consensus?* (1973), p. 82.

³³ M. Ricketts and E. Shoesmith, *British economic opinion* (1990), pp. 10 and 16.

³⁴ M. Ricketts and E. Shoesmith, *British economic opinion* (1990), p. 11.

from the firmly economically liberal Brittan (and note that the 1990 survey was published by the Institute for Economic Affairs, an organization with a vested interest in describing its academic competitors as out-of-touch with the latest economic thinking). Thankfully, there exists a 1990 survey by Greenaway on the thoughts of British economists on the use of mathematics in economics and the Greenaway survey can be compared to a 1986 Grubel and Boland survey on North American opinion on mathematics in economics to provide data to test Brittan's assertions.

Interestingly, the Grubel and Boland article did not just include a survey of North American economists but also included a study of the use of mathematics in the major economics journals. Grubel and Boland found that the three major American journals (*American Economic Review*, *Quarterly Journal of Economics* and the *Journal of Political Economy*) contained roughly the same amount of mathematics as the two major British journals (the *Economic Journal* and the *Review of Economic Studies*) in the study period of 1953 to 1983.³⁵ Furthermore, the following 1990 Greenaway survey found that British economists took a similar view to North American economists on the amount of journal space devoted to mathematics: both North American and British economists contained a majority who thought there were too many mathematical articles, a substantial minority who were satisfied with current publication levels and almost no support for a greater number of mathematical articles.³⁶ North American and British economists did differ somewhat in their opinions on the teaching of mathematical economics as North American economists had relatively more inclination than British economists for more mathematical teaching to undergraduates and less to postgraduates. However, with the bulk of economics teaching given in undergraduate degrees in Britain unlike in North America, where core teaching was, and is, at the postgraduate level, the North American-British difference in inclination for mathematical economics teaching can be ascribed to variation in degree structures across the Atlantic.³⁷

³⁵ H.G. Grubel and L.A. Boland, 'On the efficient use of mathematics in economics', *Kyklos*, vol. 39, 3 (1986), pp. 428-30.

³⁶ D. Greenaway, 'On the efficient use of mathematics in economics', *European Economic Review*, vol. 34, 7 (1990), p. 1346.

³⁷ D. Greenaway, 'On the efficient use of mathematics in economics', *European Economic Review*, vol. 34, 7 (1990), pp. 1342-3.

Taken together, the four surveys discussed give mixed evidence for Samuel Brittan's three claims that firstly, British economists were professionally inferior to American economists in the 1960s and 1970s, yet, secondly, by 1990 British economists were professionally stronger at least in terms of mathematical and statistical knowledge and, finally, that British economists were still different from their American brethren in terms of overly Keynesian leanings in 1990. Grubel and Boland's article showing similar amounts of mathematics in British and American journals from 1953 to 1983 gives us some scepticism towards the first part of Brittan's claim of professional inferiority in the 1960s and 1970s. On the second claim that British economists had caught up by 1990 in mathematical and statistical techniques the Grubel and Boland journal evidence and the Greenaway survey evidence on opinions of the usage of mathematics are both supportive of Samuel Brittan's views. Finally, the results of the Ricketts and Shoesmith survey supported Samuel Brittan in terms of British economists still lagging in their Keynesian views in 1990. However, on the third claim of the Keynesian views of British economists, Roger Middleton has made an important recent contribution with a study of the original 1973 Brittan survey that made the point that 75 percent of the respondents could be categorised as 'orthodox economic liberals' taking into account the responses to all questions asked.³⁸ For instance, the survey demonstrated that British economists preferred to tackle externalities by changing relative prices rather than regulation and that 88 percent of economists favoured the price mechanism for short-term rationing (whereas only 35 percent of Conservative MPs thought the same).³⁹ Middleton's paper raises the pertinent thought that British economists of the time could be viewed as a reasonably homogenous group in terms of their market-oriented microeconomic beliefs but were more Keynesian than their peers in other countries on the contested areas of macroeconomic policy and income redistribution.

The four surveys have generated contested interpretations of their meaning and importance but a summary of the combined results of the surveys can make the point that British economists were not as different from their American counterparts as Thatcherites have believed, especially in terms of microeconomics and mathematical and statistical techniques. Yet, the surveys can be taken as showing that British

³⁸ R. Middleton, 'Economists, growth and welfare', *Unpublished article* (2005), p. 18.

³⁹ R. Middleton, 'Economists, growth and welfare', *Unpublished article* (2005), pp. 18-21.

economists did have unusually strong Keynesian leanings as regards income redistribution and macroeconomics. Therefore, a somewhat watered down version of the Thatcherite critique that took the preceding points into consideration would be more accurate than the actual Thatcherite critique which was used. Nevertheless, the evidence presented in Section 2.3, while useful, is not enough to provide a satisfactory answer to the verity of the Thatcherite criticisms. Sections 2.5 and 2.6 add substantially more evidence on British economists and economics departments in the post-war era and the following section, Section 2.4, discusses the infamous episode of the 1981 letter sent to *The Times* and to the UK government from 364 economists and studies what this revealed about political and economic attitudes of British economists.

Section 2.4: 364 economists and Thatcherite academic economists

The episode of the 364 economists began with the 1981 budget. While the Thatcher government had implemented deflationary monetarist policies for the preceding two years, inflation was still higher in early 1981 (alongside higher unemployment and lower national output) than it had been in 1979.⁴⁰ Rather than abandon monetarist policies, the government decided to increase their monetarist efforts in 1981 with a budget intended to raise taxes by 2% of GDP in a recession.⁴¹ Two senior Cambridge economists, Frank Hahn and Robert Nield, decided to send a letter which was critical of the government's economic policies, and asked for approving signatories, to all university economics departments in Britain and then forwarded the letter and the signatories to *The Times*, which published the letter on 30 March 1981.⁴² The letter read:

We, who are all present or retired members of the economics staff of British universities, are convinced that:

- (a) there is no basis in economic theory or supporting evidence for the Government's belief that by deflating demand they will bring inflation permanently under control and thereby induce an automatic recovery in output and employment;
- (b) present policies will deepen the depression, erode the industrial base of our economy and threaten its social and political stability;
- (c) there are alternative policies;
- (d) the time has come to reject monetarist policies and consider which alternative offers the best hope of sustained economic recovery.⁴³

The significance of the letter for our assessment of the Thatcherite critique lie in a number of areas. Firstly, the great number and eminence of the signatories show that a clear hostility to monetarist policies from much of British economic academia existed at the time, particularly at the highest levels of academia. The 364 signatories were estimated by Mark Wickham-Jones to total around one-third to one-quarter of all British university economists and, furthermore, Wickham-Jones argued that many more academics would have signed given greater time or a slightly less negatively framed letter.⁴⁴ On the eminence of signatories: 76 signatories were professors; half of

⁴⁰ M. Wickham-Jones, 'Monetarism and its critics', *Political Quarterly*, vol. 63, 2 (1992), p. 171.

⁴¹ T. Congdon, 'Why the 1981 budget mattered' in Booth (ed.), *Were 364 economists all wrong?* (2006), p. 19.

⁴² D. Blake, 'Monetarism attacked', *The Times*, 30 March 1981.

⁴³ F. Hahn and M. Weale, 'Were the 364 wrong?' *The Times*, 12 September 1988.

⁴⁴ M. Wickham-Jones 'Monetarism and its critics', *Political Quarterly*, vol. 63, 2 (1992), p. 177.

the economist Fellows of the British Academy had signed or were favourable to the letter when asked; and, five former Chief Economic Advisers to the UK government were signatories.⁴⁵ The second reason for the significance of the letter is that the organisers of the letter informed the economics correspondent of *The Times*, David Blake, that part of the rationale for the letter was to let the public know that most academic economists in Britain did not agree with monetarism and that monetarism's converts had instead 'been largely in the City, politics and in the Press'.⁴⁶ Thirdly, the letter tells us that opposition to the government's policies, whilst widespread, was not uniform across British economics departments although we have to be careful not to extrapolate too much from a letter that was not a comprehensive survey of opinion. Table 2.2 below shows the twelve keenest economic departments in terms of number of signatories to the letter.

Table 2.2: Signatories of the 1981 budget letter by university

Ranking	University	Signatories	% of Total
1	Cambridge	54	14.8%
2	Warwick	21	5.8%
3	Cardiff	18	4.9%
4	Lancaster	18	4.9%
5	York	18	4.9%
6	Bristol	15	4.1%
7	Glasgow	15	4.1%
8	London, UCL	13	3.6%
9	Manchester	13	3.6%
10	Oxford	13	3.6%
11	London, Birkbeck	12	3.3%
12	London, LSE	11	3.0%
13-41	Other 29 Universities	143	39.3%
	Total		100%

Source: Adapted from P. Booth (ed.), *Were 364 economists all wrong?* (2006), appendix.

Cambridge, Oxford and the LSE have been emboldened in the above table as they are the focus for this chapter as the three most prestigious economics departments in the UK (and Section 2.5 provides evidence of their high ranking). Most striking of all the institutional affiliations is the 54 signatories from Cambridge, almost three times

⁴⁵ On the British Academy figure, see: W.B. Reddaway, 'Letter: Economists' statement', *The Times*, 30 April 1981; for other figures, see: D. Blake, 'Monetarism attacked', *The Times*, 30 March 1981.

⁴⁶ D. Blake, 'Monetarism attacked', *The Times*, 30 March 1981.

greater than second placed Warwick. A contemporary *Sunday Times* article noted that 54 out of 60 Cambridge economists signed the letter, whereas only 11 out of 50 LSE economists and 13 out of 70 Oxford economists signed, with Cambridge's huge representation 'causing rivals elsewhere to murmur about "something sinister" at that ancient university.'⁴⁷ While it may not be possible to say definitively that Oxford and LSE's significantly lower rate of signatories compared to Cambridge tell us that hostility to monetarism in these two institutions was lower, the evidence does point in this direction and ties in with the Thatcherite point that Cambridge was most susceptible to the Thatcherite critique.

Most British economics departments willingly supplied signatories to the letter but there were some exceptions. Among those exceptions were Liverpool University – where monetarist Patrick Minford headed the department – with zero signatories, the monetarist Banking and Finance Unit at City University with zero signatories and the generally anti-Keynesian Durham University where neither of the two signatories were permanent members of the economics department.⁴⁸

It is no surprise that an anti-Keynesian department such as Durham would refuse to support the letter but it should be borne in mind that while the letter was explicitly anti-monetarist – part (d) called for a rejection of monetarist policies – it was not explicitly pro-Keynesian, as part (c) only teasingly mentioned 'alternative policies' rather than a Keynesian alternative. The phrasing of 'alternative policies' allowed economists who did not agree 'with some of the (Keynesian) assumptions underlying the letter' such as Stephen Nickell to sign but as *The Times* reporter David Blake noted, it was still fair to say that the signatories could be 'loosely described as "Keynesian" in their views'.⁴⁹

Regardless of any variances of opinion amongst the signatories, the uniting feature of the letter was an attack on the government and the government's use of monetarist economics, an attack that was to be fiercely rebutted. The Treasury, unusually and in

⁴⁷ M. Crawford and E. Jacobs, '364 economists', *Sunday Times*, 5 April 1981.

⁴⁸ Liverpool and City figures in: M. Crawford and E. Jacobs, '364 economists', *Sunday Times*, 5 April 1981; Durham figures in: P. Booth, '364 economists', in Booth (ed.) *Were 364 economists all wrong?* (2006), pp. 88-9.

⁴⁹ S. Nickell, 'The budget of 1981', in Booth (ed.) *Were 364 economists all wrong?* (2006), p. 54; D. Blake, 'Monetarism attacked', *The Times*, 30 March 1981.

a sign of the significance of the letter, issued a formal response defending the academic basis of the government's monetarist policies and the Treasury was supported by a host of monetarist economists who angrily replied to the 364 via the pages of the national press.⁵⁰ John Maynard Keynes once expressed hope that economists would eventually develop into 'humble, competent people, on a level with dentists' and the battle amongst economists in the national media sparked by the letter from the 364 showed economists to be closer to the profession of argumentative lawyers than the humble dentists of Keynes's aspiration.⁵¹ The level of rancour between the monetarists and supporters of the letter can be demonstrated by the titles of some of the newspaper articles generated, for example Patrick Minford's attack on the signatories for playing 'A dangerous and dishonest game', which was met by Frank Hahn's 'Preposterous claims of the monetarists'.⁵² Even anonymous quotes from senior economists disparaging colleagues surfaced:

On the claim in the circular that "present policies will lead to erosion of the industrial base of our economy," a well-known economist said of one eminent sponsor of the statement: "He wouldn't recognise an industrial base if it sat on him."⁵³

Moving forward three years and the level of interest was high enough for Samuel Brittan to write a column entitled 'The debate that refuses to die' and as late as 1990 angry letters on the topic were still being published.⁵⁴

Regardless of the heated debate over the 1981 budget (although Professor David Simpson perhaps more accurately termed the debate a 'public quarrel' with 'all the subtlety of a Bank Holiday weekend seaside punch-up') the government kept to its budget plans and while the recession did deepen in 1982, recovery followed soon after and by the mid-1980s the economy was arguably in its strongest shape since before the mid-1970s crisis.⁵⁵ The mid-decade economic recovery allowed Thatcherites to

⁵⁰ F. Williams, 'Treasury denies economy damaged', *The Times*, 31 March 1981.

⁵¹ J.M. Keynes, 'Economic possibilities', in Keynes (ed.), *Essays in persuasion* (New York, 1963), p. 373.

⁵² P. Minford, 'A dangerous and dishonest game', *The Times*, 7 April 1981; F. Hahn, 'Preposterous claims', *The Times*, 28 April 1981.

⁵³ M. Crawford and E. Jacobs, '364 economists', *Sunday Times*, 5 April 1981.

⁵⁴ S. Brittan, 'The debate that refuses to die', *Financial Times*, 19 January 1984; K. Coutts and W. Godley, 'Letters: 364', *Financial Times*, 5 July 1990.

⁵⁵ D. Simpson, 'Wanted, a mission', *Financial Times*, 20 August 1987.

claim victory over the 364 and besides a few signatories who still claim that the letter was correct, the letter has been viewed as an ignominious failure ever since.⁵⁶

Unfortunately, there was never a counter-letter from academic monetarists to give us a more precise idea of the level of support on each side but with most Thatcherite economic advisers and supporters drawn from business, financial journalism and free market thinktanks, the number of Thatcherite economists in academia was undoubtedly a fraction of the 364. *Sunday Times* economics correspondent David Smith, for example, estimated that there were not many more than eight prominent British (academic or otherwise) monetarists.⁵⁷ Table 2.3 below is an attempt to construct a list of the main Thatcherite academic economists and while not definitive it does show the major supporters in the Thatcherite camp (much as the 364 did for those who were 'loosely Keynesians'). The list was constructed through noting the names of any British academics described as Thatcherite or monetarist in the literature on the topic, the two major sources being Richard Cockett's book *Thinking the unthinkable* (1995) and Brian Harrison's journal article 'Mrs Thatcher and the intellectuals' in *Twentieth Century British History* (1994).

⁵⁶ See, for example: Booth (ed.) *Were 364 economists all wrong?* (2006).

⁵⁷ D. Smith, *The rise and fall of monetarism* (1991), p. 50.

Table 2.3: Prominent British monetarist and/or Thatcherite academic economists

Name	Institution	Education
British Monetarist Academics		
Alan Budd	London Business School	B.Sc. LSE Lond., Ph.D. Cantab.
Terry Burns	London Business School	B.A. Manchester
Brian Griffiths	LSE then City University then London Business School	B.Sc. M.Sc. LSE Lond.
Harry Johnson	Cambridge then Manchester then LSE and Chicago	M.A. Toronto, B.A. Cantab., Ph.D. Harvard
David Laidler	Berkeley then Essex then Manchester then Western Ontario	B.Sc. LSE Lond., M.A. Syracuse, Ph.D. Chicago
Patrick Minford	Liverpool	B.A. Oxon., M.Sc. Ph.D. LSE Lond.
Alan Walters	LSE then John Hopkins, USA	B.Sc. Leicester
Peter Warburton	London Business School and City University	B.A. Central England, M.A. Warwick, Ph.D. City
Other British Thatcherite Academic Economists		
Roger Bacon	Oxford	B.A. Bristol
Peter Bauer	Cambridge then LSE	B.A. Cantab.
Walter Eltis	Oxford	B.A. Cantab.
Alan Peacock	St Andrews then LSE then Edinburgh then York then Buckingham	M.A. St Andrews
Jack Wiseman	LSE then York	B.Sc. LSE Lond.
Basil Yamey	LSE	Cape Town and LSE

Sources: Who's Who, www.ukwhoswho.com; Who Was Who, www.ukwhoswho.com; Debrett's People of Today, www.knowuk.co.uk; Oxford Dictionary of National Biography, www.oxforddnb.com; <http://economics.uwo.ca/faculty/laidler/cv.pdf>; www.rhombusresearch.com/main.htm; M. Oliver, 'Qualifications of Peter Warburton', *Personal communication*, 15 June 2007; University of Oxford, *Oxford University Calendar* (1970).

Looking first at the monetarists in Table 2.3 (and note that the Canadian Harry Johnson is labelled as a 'British monetarist academic' thanks to his time spent at three British universities), the Thatcherite Oxbridge critique rings true as none of the monetarists beyond Harry Johnson held Oxbridge positions – and Johnson intensely disliked his time at Cambridge as it contained to him precisely the failings outlined in the Thatcherite critique.⁵⁸ The LSE educated the majority of the monetarists and employed three out of the eight monetarists too, while the London Business School and to a lesser extent City University emerge as the other major employers of monetarists in the UK. For the academics who were non-monetarist but still

⁵⁸ W.M. Corden, 'Johnson, Harry Gordon', *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author.

sympathetic to Thatcherism, the connections are less clear and it can be safely said that Oxbridge is better represented here. Most importantly, the table only gives 14 academic economists (and this includes one Canadian, one British person mainly based in the USA and one British person mainly based in Canada) and there were at least 364 economists on the opposing side.

We are faced with the conclusion from the evidence of this section that the Thatcherite critique is correct to the extent that British academics were, on the whole: slow to accept monetarist ideas; persisted with Keynesian beliefs, albeit in a loose fashion; and, Oxbridge (although it should be changed to be almost entirely Cambridge) academics were particularly prone to these traits. To investigate the remaining unexamined aspects of the Thatcherite critique, such as outdated training in UK economics departments, especially Oxbridge, we move to the evidence presented in Sections 2.5 and 2.6.

Section 2.5: The ‘economic establishment’ I. The development of economics at Oxbridge and the LSE in the 1960s and 1970s.

This section briefly outlines the development of economics education at Oxford, Cambridge and the LSE, with particular attention to changes at the three institutions in the 1960s and 1970s. Information such as student numbers, higher degrees obtained by academics, witness observations from the time and changes in degrees offered are all analysed with the intent of testing Thatcherite critique claims that British economics was somewhat outdated and ‘unprofessional’ compared to the United States.

Oxford, Cambridge and the LSE have been selected as the object of study for two main reasons. Firstly, the Thatcherite critique makes special mention of Oxbridge’s culpability to the critique, hence any assessment of the critique would be wise to include Oxford and Cambridge. Secondly, Oxbridge and the LSE have had a disproportionate effect on British economics as illustrated by their number of research degrees awarded and their global ranking being greater than any other British economics institution in our period of study, as Tables 2.4 and 2.5 below show.

Table 2.4: Top ten British universities by output of economics research degrees, 1971/2-early 1974/5

Rank	Institution	Masters	Ph.D.	Total	Share of total degrees (%)
1	Oxford	4	14	19	11.6
2	LSE	2	15	17	10.6
3	Cambridge	0	13	14	8.5
4	Strathclyde	8	3	11	6.8
5	Exeter	5	3	8	5.2
6	Sussex	0	6	6	3.9
7	York	3	4	6	3.9
8	Manchester	2	4	6	3.7
9	Leeds	3	3	6	3.7
10	Birmingham	0	5	5	2.9

Source: Adapted from R. Middleton, *Charlatans or saviours?* (Cheltenham, 1998), p. 315.

Note: Masters includes B.Litt. and B.Phil. and Rank is determined by score of 2 for Masters and 3 for Ph.D.

Table 2.5: Non-U.S. economics departmental rankings based on AER-standardized pages in twenty-four journals, 1978-83

Rank	Institution	Total pages	Worldwide Rank	
			(1)	(2)
1	LSE	1878	4	4
2	British Columbia	961.8	18	19
3	Western Ontario	833.4	24	20
4	Hebrew (Jerusalem)	830.1	25	26
5	Oxford	817.4	26	16
6	Tel-Aviv	816.7	27	28
7	Toronto	814.5	28	27
8	ANU	653.9	31	29
9	Cambridge	527.5	37	35
10	Queen's (Ontario)	514.8	44	40

Source: Adapted from B.T. Hirsch *et. al.* 'Economics departmental rankings', *American Economic Review*, vol. 74, 2 (1984), p. 825.

Note: (1) by AER-standardized pages; (2) by unstandardized total pages.

Table 2.4 shows Oxford then LSE and then Cambridge to have been the top three institutions for output of postgraduate research degrees in early 1970s Britain. Table 2.5 shows LSE then Oxford then Cambridge to have been the top three ranked British institutions in terms of pages published in twenty-four economics journals in the late 1970s and early 1980s. Another interesting feature of Table 2.5 aside from the ranking of the LSE and Oxbridge is the domination of US universities that can be inferred from the 'Worldwide Rank' column. The LSE was the only non-US institution to feature in the global top ten and US universities held eighteen of the global top twenty places. The data in Table 2.5 is taken from the only international ranking of economics departments made in the twentieth century but in 2003 two new international rankings were published and they both confirmed American dominance.⁵⁹ One of the 2003 rankings, by Kalaitzidakis *et. al.* found 18 of the top 20 economics departments in the world to be located in the USA, with Tilburg in the Netherlands in 18th place and the LSE in 20th place while the other ranking, by Tom Coupe, found 19 of the top 20 located in the USA, with the LSE in 15th place.⁶⁰

⁵⁹ Only ranking made in twentieth century point in: T. Coupe, 'Revealed performances', *Journal of the European Economic Association*, vol. 1, 6 (2003), p. 1309 footnote.

⁶⁰ P. Kalaitzidakis *et. al.* 'Rankings of academic journals and institutions', *Journal of the European Economic Association*, vol. 1, 6 (2003), pp. 1346-66; T. Coupe, 'Revealed performances', *Journal of the European Economic Association*, vol. 1, 6 (2003), pp. 1309-45.

The ascendancy of US economics over British and other non-US economics by the 1970s can be found in a whole host of indicators and helps explain why a study of whether British economics was outdated or ‘unprofessional’ at the time is interlinked with the ‘Americanisation’ of British economics. For instance, on the ascendancy of American economics, Bruno Frey and Werner Pommerehne noted that while (British) academic Mark Blaug’s *Who’s Who in Economics* listed 36% of ‘eminent’ dead economists as having lived in Britain and 23% of ‘eminent’ dead economists as having lived in the USA, Blaug listed 14% of living ‘eminent’ economists as British-based and 68% of living ‘eminent’ economists as US-based – a dramatic relative improvement in the standing of American economists in comparison with their British counterparts.⁶¹ While the (European) Frey and Pommerehne expended much effort on listing reasons why British and other European economists fared poorly in Blaug’s ranking they admitted that for the most part the ranking disparity was explained through the genuinely superior nature of American economics.⁶² If American economics was superior at the time, a natural line of inquiry is to ask where this superiority stemmed from? For Oxford academic J.R. Sargent, American superiority was apparent by the early 1960s and the reason lay not in American undergraduate education, which he perceived to be weaker, even at the very best American universities, than Oxford’s but instead at the postgraduate level. Sargent noted that while first and second year MIT and Stanford postgraduates may have known less economics than an Oxford PPE finalist ‘there is no question that they will finish the course better equipped professionally than anyone has the opportunity to become in Oxford.’⁶³ J.R. Sargent was not the only British academic in the 1960s to point to a superior postgraduate education in the US; Lionel Robbins implemented an American-style graduate program at the LSE after Jacob Viner persuaded Robbins that ‘Chicago higher degrees, with their requirements of written papers and advanced study as well as a thesis, were of a severer standard than [the LSE’s]’.⁶⁴ Therefore, given as Roger Backhouse put it, an ‘important aspect of American-style professional economics is graduate education’ one useful test of the Thatcherite claim of outdated

⁶¹ B.S. Frey and W.W. Pommerehne, 'The American domination', *Scientometrics*, vol. 14, 1-2 (1988), pp. 98-9.

⁶² B.S. Frey and W.W. Pommerehne, 'The American domination', *Scientometrics*, vol. 14, 1-2 (1988), pp. 100-8.

⁶³ J.R. Sargent, 'Are American economists better?' *Oxford Economic Papers*, vol. 15, 1 (1963), p. 5.

⁶⁴ R. Backhouse, 'The changing character', in Coats (ed.), *The post-1945 internationalization of economics* (1997), p. 44.

and unprofessional British economic academia is how far Oxbridge and LSE moved towards greater levels of postgraduate education and valued the qualifications of academics trained in American postgraduate schools.⁶⁵

Moving back to outlining the development of economics at Oxbridge and the LSE, Table 2.6 below starts the process by giving the years in which undergraduate and postgraduate degrees were first introduced at Oxbridge and the LSE.

Table 2.6: Development of economics education at Oxbridge and the LSE

	Undergraduate	Postgraduate
Oxford	1921 - PPE (as 'Modern Greats'); 1970 - Modern History and Economics	1895 - B.Litt.; 1904 - Diploma in Economics; 1914 - D.Phil. degree; 1946 - B.Phil. Economics (offering postgraduate-level economics lectures and seminars for first time); 1979 - B.Phil. renamed as M.Phil. and B.Litt. renamed as M.Litt.
Cambridge	1903 - B.A. Economics Tripos	1920 - Ph.D. degree; 1978 M.Phil. Economics (before the M.Phil., M.Sc. by research was offered with the third year of the B.A. degree studied plus a 15,000 word dissertation)
LSE	1901 - B.Sc. Econ.	1902 - D.Sc. Econ. degree; Pre-WW2 - Postgraduate seminars and lectures available for M.Sc. Econ. and Ph.D. (exact year M.Sc. Econ. started is unknown); 1971 - M.Sc. Econometrics and Mathematical Economics

Sources: W. Young and F.S. Lee, *Oxford economics* (Basingstoke, 1993); D.N. Chester, *Economics, politics and social studies in Oxford* (1986); T. Schaeper and K. Schaeper, *Rhodes scholars* (Oxford, 1998); University of Cambridge, *Graduate studies prospectus 1973-74* (1973); University of Oxford, *Report of the committee of inquiry into provision for graduate students* (1987); London School of Economics, *Calendar 1971-2* (1971); www.lse.ac.uk/informationAbout/LSEHistory/Default.htm; www.econ.cam.ac.uk/contacts/history.html; www.econ.cam.ac.uk/prospect/mphil/index.html.

In the field of undergraduate education, Cambridge and the LSE were similarly quick to introduce a bachelors degree in economics at the dawn of the twentieth century. Oxford took until the inter-war period to offer a bachelor's degree and even then the subject was Philosophy, Politics and Economics rather than economics as a single honours degree. On the postgraduate education side, LSE was the clear leader with both a PhD programme and postgraduate-only seminars and lectures in place before

⁶⁵ R. Backhouse, 'The changing character', in Coats (ed.), *The post-1945 internationalization of economics* (1997), p. 43.

the Second World War plus a specialist mathematical economics masters degree from the early 1970s. Cambridge was astonishingly slow at providing specialised teaching for postgraduates with taught postgraduate courses not available until the late 1970s. Oxford struck a middle ground with postgraduate research courses available pre-First World War and taught postgraduate courses introduced immediately post-Second World War. Given that the best American students travelled to Germany for their doctorates prior to the First World War, Oxbridge and LSE hold up comparatively well in their provision in the pre-war period.⁶⁶ However, by the post-war period, Cambridge was undoubtedly seriously lacking in its postgraduate education by UK, nevermind by US, standards. LSE and Oxford escape censure in their quantity of postgraduate provision but their quality of provision will be examined later in this section.

Looking at the 1960s and 1970s in more detail, a useful set of information is student numbers for the period, as Table 2.7 below displays.

Table 2.7: Student economist numbers at Oxbridge and the LSE in selected years

		Undergraduates	Postgraduates	Total	% Postgraduate
1964-5	Oxford	761	117	878	13.4%
	Cambridge	518	65	583	11.1%
	LSE	1085	347	1432	24.2%
1969-70	Oxford	765	148	913	16.2%
	Cambridge	506	86	592	14.5%
	LSE	908	382	1290	29.6%
1973-4	Oxford	748	150	898	16.7%
	Cambridge	448	127	575	22.1%
	LSE	945	461	1406	32.8%
1978-9	Oxford	872	150	1022	14.7%
	Cambridge	478	157	635	24.7%
	LSE	1097	457	1554	29.4%

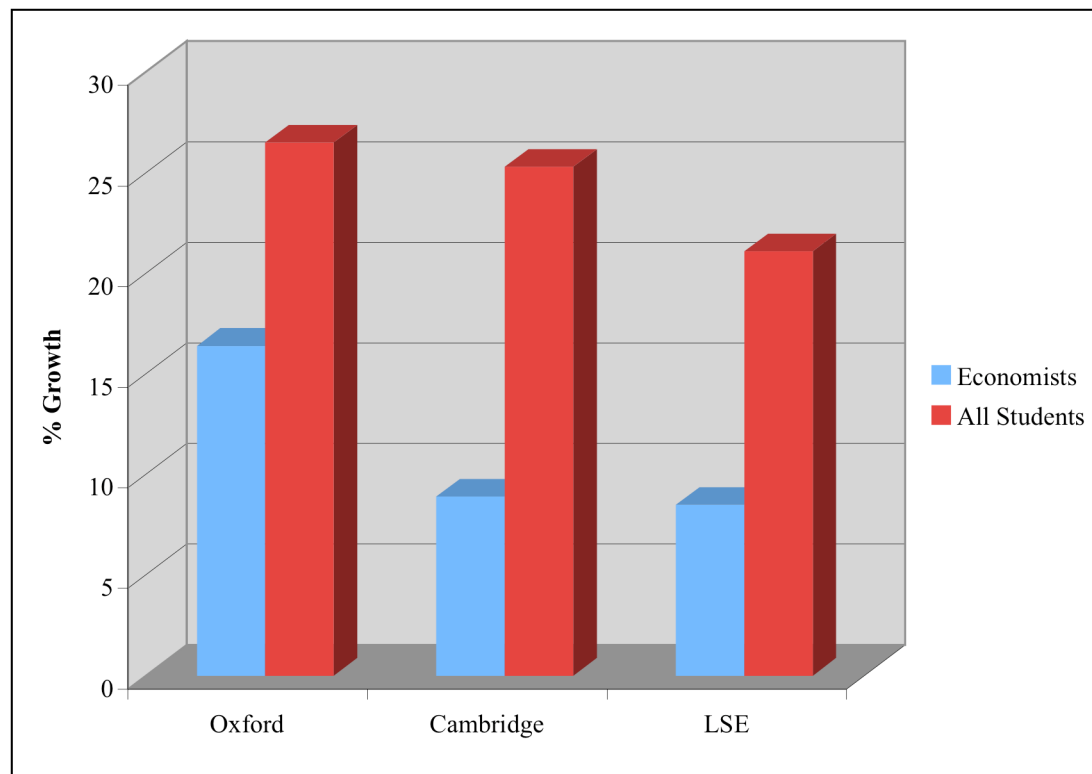
Sources: London School of Economics, *LSE Calendar* (various issues); University of Oxford, *Oxford University Calendar* (various issues); University of Cambridge, *Cambridge University Reporter* (various issues).

LSE contained the greatest number of undergraduates and postgraduates plus the highest proportion of postgraduates to undergraduates throughout the period. Cambridge is an interesting case, with a slight decline in undergraduate numbers

⁶⁶ T. Schaeper and K. Schaeper, *Rhodes scholars* (Oxford, 1998), pp. 78-9.

(whereas Oxford and LSE grew or remained steady) and in the 1960s Cambridge had the lowest proportion of postgraduates to undergraduates. However, Cambridge then overtook Oxford in its proportion of postgraduates to undergraduates in the 1970s, chiming with the Table 2.6 information on Cambridge's development of taught postgraduate courses in the 1970s. Perhaps most notable of all is the fairly low growth in numbers in all three institutions. The 1960s and 1970s saw great growth in student numbers in the UK, including Oxford, Cambridge and the LSE but numbers of student economists underperformed average student growth rates, as Figure 2.1 below illustrates.

Figure 2.1: Growth in economists versus overall student growth, 1964-79



Sources: London School of Economics, *LSE Calendar* (various issues); University of Oxford, *Oxford University Calendar* (various issues); University of Cambridge, *Cambridge University Reporter* (various issues).

While it may be unfair to claim that Oxbridge and LSE were downgrading the importance of economics in the period, economics did become proportionally less significant to the three institutions in the 1960s and 1970s.

Moving now from the students to the teachers of economics, we are concerned with searching for ways of testing Thatcherite claims of outdated and unprofessional

British economists and possible monetarist and Keynesian influences upon the three economics faculties. One measure of a change in professional standards over time is where faculty members took their doctorates from or indeed whether they studied for a doctorate at all, for as Roger Backhouse noted, a feature of ‘American-style professional economics’ is that ‘university teachers are expected to have doctorates’.⁶⁷ Table 2.8 below documents the information.

Table 2.8: Doctoral location of Oxbridge and LSE academic economists

		Cantab.	Oxon.	Lond.	USA	Other	None	Total
1964-5	LSE	3	1	4	2	1	31	42
	Oxford	0	1	1	0	2	31	35
	Cambridge	7	0	2	1	0	17	27
1969-70	LSE	1	0	8	4	1	36	50
	Oxford	1	3	2	1	2	26	35
	Cambridge	6	1	1	1	0	18	27
1973-4	LSE	5	0	11	9	2	25	52
	Oxford	2	4	1	1	1	32	41
	Cambridge	6	1	2	2	0	16	27
1978-9	LSE	4	2	8	11	2	21	48
	Oxford	4	5	1	2	1	32	45
	Cambridge	7	0	2	7	1	9	26

Sources: London School of Economics, *LSE Calendar* (various issues); University of Oxford, *Oxford University Calendar* (various issues); University of Cambridge, *Cambridge University Annual Register* (various issues); University of Cambridge, *Cambridge University Calendar* (various issues); University of Cambridge, *Cambridge University Reporter* (various issues).

Note: The figures exclude economic historians and agricultural economists as the table is attempting to measure ‘pure’ economists.

Intriguingly, Cambridge contained the greatest proportion of staff with doctorates but they were predominantly ‘home-grown’ and therefore had the lowest proportion of its faculty with doctorates from external institutions. This low number of external doctorates could help account for the insular reputation of Cambridge economics (discussed later) and could have led to a slower rate of knowledge transfer (from US universities for example) and less academic diversity, *ceteris paribus*, than in faculties with a greater proportion of external doctorates. However, similarly to the information in Tables 2.6 and 2.7, Cambridge appeared to change quickly in the late 1970s, in this case with a large increase in the proportion of its faculty with American doctorates and doctorates in general. Oxford was undoubtedly the least ‘professionalised’ faculty

⁶⁷ R. Backhouse, 'The changing character', in Coats (ed.), *The post-1945 internationalization of economics* (1997), p. 33.

as it contained both the lowest proportion of its faculty with doctorates and the lowest proportion of its faculty with American PhDs (making the reasonable assumption, supported by both Richard Portes and Roger Backhouse, that American PhDs supplied greater professional skills of mathematical and statistical knowledge at this time).⁶⁸ LSE, on the other hand, contained the greatest proportion of American PhDs and the greatest diversity of doctoral locations within its faculty, positive signs for knowledge transfer. However, LSE did contain a lower proportion of its staff with doctorates than Cambridge.

The increasing number of American PhDs evident in the 1970s was not through simply more American economists employed at Oxbridge and the LSE but was also a product of British economists leaving for postgraduate training in the USA then returning to the UK. Table 2.9 below outlines this phenomenon.

Table 2.9: Oxbridge and LSE British economics faculty members with USA postgraduate training

	Oxford	Cambridge	LSE
1964-5	0	1	1
1969-70	0	0	5
1973-4	0	2	6
1978-9	0	6	6

Sources: London School of Economics, *LSE Calendar* (various issues); University of Oxford, *Oxford University Calendar* (various issues); University of Cambridge, *Cambridge University Annual Register* (various issues); University of Cambridge, *Cambridge University Calendar* (various issues); University of Cambridge, *Cambridge University Reporter* (various issues).

Note: Table refers to faculty members who took a first degree in the UK (hence ‘British’) and then a higher degree(s) in the USA.

Perhaps the best evidence – and the type of evidence an economist would use, that of revealed preference – for the superiority of American postgraduate training in this period is that an increasing number of British economists (at Cambridge and the LSE at least) undertook studies in the USA.

While the so-called ‘brain drain’ at postgraduate level was only apparent from the 1970s in the data in Table 2.9, as early as 1962 an article by Colin Clark in *The Oxford Magazine* warned that ‘soon Oxford-trained economists will not be able to

⁶⁸ R. Portes, ‘Economics in Europe’, *European Economic Review*, vol. 31, 6 (1987), p. 1336; R. Backhouse ‘Economics in mid-Atlantic’, in Coats (ed.), *The development of economics in Western Europe since 1945* (2000), p. 19.

stand up to those who have received more specialized training elsewhere, and that the reputation of the University will suffer in consequence.⁶⁹ Clark's comments about more specialised training elsewhere might well have been in reference to the LSE as well as American universities but even at the LSE concern was raised in a 1967 report that found that LSE postgraduates were only receiving around three hours of teaching a week in 1964-5.⁷⁰ Where LSE certainly led the way in the UK though was in its course content. Colin Crouch, LSE Student President in 1968, recalled that LSE economics took a heavy mathematical shift (to the disdain of radicals like Crouch) in the 1960s and a shift to monetarism with the appointment of Harry Johnson in 1966.⁷¹ Johnson was recruited from Chicago with the intention of building a American-style postgraduate school and although he was only partly successful he did enough to attract the ire of Joan Robinson of Cambridge, worried that LSE would turn into a clone of Chicago.⁷² Indeed, Harry Johnson had already unsuccessfully tried to build a substantial postgraduate training programme at Manchester in the 1950s and Richard Lipsey, a fellow Canadian, came to the University of Essex not long after its founding in the mid-1960s mainly to introduce a taught postgraduate economics degree.⁷³ The fact that Lipsey was drawn to Essex to bring in a taught postgraduate degree and (the Harvard PhD-educated) Johnson tried at both Manchester and LSE to bring what he considered to be appropriate postgraduate training illustrates the relative novelty of any serious postgraduate economics training in 1960s Britain vis-a-vis the USA. Nowhere was the relative paucity of postgraduate training more apparent than at Cambridge and Johnson himself chronicled the amateurism and complacent Keynesian establishment at Cambridge from time spent there in the 1940s and 1950s.⁷⁴

With the problems that existed in UK postgraduate economics training outlined in the preceding paragraphs, we can accept that American PhDs were useful as a sign of 'professionalisation.' However, if we want to focus in on the likely flow of monetarist

⁶⁹ C. Clark, 'The teaching of economics', *The Oxford Magazine*, vol. 3, 6 (1962), p. 83.

⁷⁰ H. Glennerster, *Graduate school*, (1967), p. 81.

⁷¹ C. Crouch, 'My LSE', in Abse (ed.), *My LSE* (1977), p. 193.

⁷² W.M. Corden, 'Johnson, Harry Gordon', *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author; R. Backhouse, 'The rise of free market economics', *History of Political Economy*, vol. 37, Supplement (2005), pp. 373-4.

⁷³ K. Tribe, 'The Cambridge economics tripos', *Manchester School*, vol. 68, 2 (2000), p. 225.

⁷⁴ H.G. Johnson and E.S. Johnson, *The shadow of Keynes* (Oxford, 1978).

ideas to the UK, we cannot assume that a US PhD indicated a greater likelihood of monetarist thinking. However, one simple way of searching for monetarist training is to check the incidence of Chicago PhDs in various faculties. For instance, a study of postgraduate students at top US universities found evidence to:

strongly support the hypothesis that Chicago constitutes a “school” that is distinct from other schools. It seems to be a creed at Chicago that inflation is primarily a monetary phenomenon, with 100 percent agreeing with the proposition. At Harvard, 46 percent disagree.⁷⁵

Therefore, if we are interested in monetarism then we are interested in Chicago and Table 2.10 below supplies data on Chicago alone.

Table 2.10: Prevalence of Chicago PhDs amongst economics faculty members

	Oxford	Cambridge	LSE
1964-5	0	0	1
1969-70	0	0	2
1973-4	0	0	4
1978-9	0	0	3
1982-3	0	0	3
1987-8	0	0	2

Sources: London School of Economics, *LSE Calendar* (various issues); University of Oxford, *Oxford University Calendar* (various issues); University of Cambridge, *Cambridge University Annual Register* (various issues); University of Cambridge, *Cambridge University Calendar* (various issues); University of Cambridge, *Cambridge University Reporter* (various issues). Association of Commonwealth Universities, *Commonwealth Universities Yearbook* (various issues).

Table 2.10’s findings are consistent with the data in Table 2.3 and the witness accounts in the preceding paragraphs that tell us that the LSE was the only faculty with serious support for monetarism within the Oxbridge-LSE triumvirate in the 1960s and 1970s.

In summary, this section aims to test the Thatcherite critique of a relatively ‘unprofessional’ UK economics sector, particularly at Oxford and Cambridge. Using Oxbridge and LSE data the evidence drawn from course development, student numbers, postgraduate training and qualifications of academics is clear. Cambridge can unambiguously be classed as satisfying the conditions of the Thatcherite critique – at least until the late 1970s when its postgraduate training markedly improved and

⁷⁵ A. Klammer and D.C. Colander, *The making of an economist* (1990), p. 20.

its faculty became more diversely trained and highly trained. Oxford too, albeit much less markedly than Cambridge, also falls to the Thatcherite critique – especially on account of the relative amateurism of its faculty in terms of their own academic training. LSE is a more complex case. LSE did bring in Harry Johnson to raise standards to a good American level, a clear admission of failure by LSE, plus the fact that Johnson was far from successful in his endeavours hardly helps the LSE's case. Yet, LSE at least was willing to learn, even the decision to hire Johnson shows this, and LSE sought a consistent stream of American PhD-educated academics from the 1960s onwards (and still does today) including from the monetarist bastion of Chicago. Therefore, LSE can only partly satisfy the Thatcherite critique using the evidence presented in this section.

One major area of useful evidence remains to be inspected before a more final judgement on the merits of the Thatcherite critique can be made. Using undergraduate examination questions the speed at which new ideas entered the curriculum and the diversity of teaching can be measured. Section 2.6 goes on to explore this topic.

Section 2.6: The ‘economic establishment’ II. Examination questions for Oxbridge and LSE economics undergraduates.

Section 2.5 outlined the development of economics education at Oxford, Cambridge and the LSE and Section 2.6 focuses on one particular aspect of the educational process at these institutions: that of examinations. Examination questions for all three institutions are available and provide a wealth of data on what students were actually taught. In the interests of comparability only undergraduate examination questions are used, as Cambridge did not offer a taught postgraduate degree for most of the period in question. Undergraduate examination questions have further advantages over postgraduate questions for they were sat by much greater numbers of people and hence likely had more influence plus they give a good measure of how quickly new ideas became acceptable enough to enter the mainstream of economics education. Studying undergraduate examination questions for the UK elite of Oxford, Cambridge and the LSE can also give us some idea as to the changing knowledge base of their graduates.

The assumption of Thatcherites on the matter of the teaching of British undergraduate economics students is fairly simple and summed up well by Philip Booth of the economically liberal thinktank the Institute of Economic Affairs, writing here on the 364 economists episode:

The 364 were wrong because they believed the Keynesian consensus of the time. Indeed, they taught it to nearly every undergraduate in the country. The textbooks used by nearly all British undergraduates did not pay any attention whatsoever to alternatives. It was as if economic theory began and ended with the naïve Keynesianism of Keynes’s immediate followers.⁷⁶

It is worth pointing out that Booth’s assertion that textbooks used by British undergraduates of the time contained no alternative to the Keynesian consensus is incorrect. Indeed, in a separate article Booth named Richard Lipsey’s *An Introduction to Positive Economics* (1979) as the textbook most likely to be used by British undergraduates of the time and noted that it did in fact teach alternatives to

⁷⁶ P. Booth, ‘How 364 economists got it totally wrong’, *Daily Telegraph*, 15 March 2006.

Keynesianism although it was still a predominantly Keynesian textbook.⁷⁷ The 800 page Lipsey textbook contained only a 26 page discussion of the monetarist versus Keynesian debate in the final chapter while the rest of the macroeconomics section of the textbook was almost entirely Keynesian in nature. An interesting footnote in the Lipsey textbook in a section on the national debt observed that '[t]he pro-Keynesian view can be found in almost any modern textbook on macroeconomics' and that Lipsey could only find one reference to an alternative view, which was an Institute for Economic Affairs pamphlet, not a textbook.⁷⁸ However, the dust jacket of the Lipsey book noted that major revisions had been made to the new edition, with: the addition of expected and unexpected inflation; the presentation of stagflation as a crisis for economics, monetarist and Keynesian debates; and, more examples on the microeconomic side to show to students that markets did usually work.⁷⁹ Hence, more economically liberal economics did begin to appear in British textbooks but to a small extent and only by the comparatively late date of 1979.

Therefore, as the Booth quotes shows, Thatcherites assumed that Keynesian economists taught only Keynesian economics and unprofessionally disregarded alternative theories (monetarism especially). If Keynesian economists deliberately did not provide a full grounding in economics to undergraduates then this is a serious charge indeed. Given that Section 2.4 on the topic of 364 economists noted that Keynesians were concentrated most at Cambridge and then Oxford and monetarists were concentrated most at the LSE, if the Thatcherite critique were correct we would expect the concentration of Keynesians to affect inversely the number of questions on monetarist topics. Tables 2.11 and 2.12 and Figure 2.2 below outline the findings.

⁷⁷ P. Booth, '364 economists', in Booth (ed.) *Were 364 economists all wrong?* (2006), pp. 95-6.

⁷⁸ R.G. Lipsey, *An introduction to positive economics*, 5th ed. (1979), p. 570 footnote.

⁷⁹ R.G. Lipsey, *An introduction to positive economics*, 5th ed. (1979), front inside dust jacket.

Table 2.11: Earliest direct reference to Milton Friedman

	Year	Course	Question
Oxford	1967	Currency and credit	‘The relation of money and prices is closer, as one might expect, in the long run than in the short run’ (FRIEDMAN). Discuss.
Cambridge	1966	Banking, credit and public finance	‘Income velocity rises during cyclical expansion as real income rises and falls during cyclical contractions as real income falls – precisely the reverse of the secular relation between income and velocity’ (M. FRIEDMAN). Discuss.
LSE	1972	Principles of monetary economics	‘Inflation is always and everywhere a monetary phenomenon’. FRIEDMAN. Is this proposition consistent with an interest elastic demand for money?

Sources: University of Oxford, *O.U. Exam. Papers P.P.E.* (various issues); University of Cambridge, *Tripes Papers* (various issues); London School of Economics, *University of London Examination Papers* (various issues).

Table 2.11 takes a simple and blunt measure, that of an examination question quoting Milton Friedman, as a benchmark for the introduction of monetarist ideas. Interestingly, the chronology for the three institutions is exactly the opposite of the Thatcherite critique prediction, with Cambridge first, Oxford second and LSE last. Friedman’s famous Presidential Address to the American Economic Association was in 1967, demonstrating the speed with which Oxford and Cambridge started teaching monetarism, even if academics personally found the theory disagreeable.⁸⁰

Nevertheless, the first quotation of Friedman may have been merely a one-off question. The first monetarist question of any sort in a major economics paper (that is, not in a monetary economics paper but in a paper that most undergraduates would take) is perhaps a better measure of the speed at which monetarist ideas entered the mainstream in our three institutions of study. Table 2.12 below provides the information.

⁸⁰ The Friedman speech was published in: M. Friedman, 'The role of monetary policy', *American Economic Review*, vol. 58, 1 (1968), pp. 1-17.

Table 2.12: Earliest monetarist question in a major course

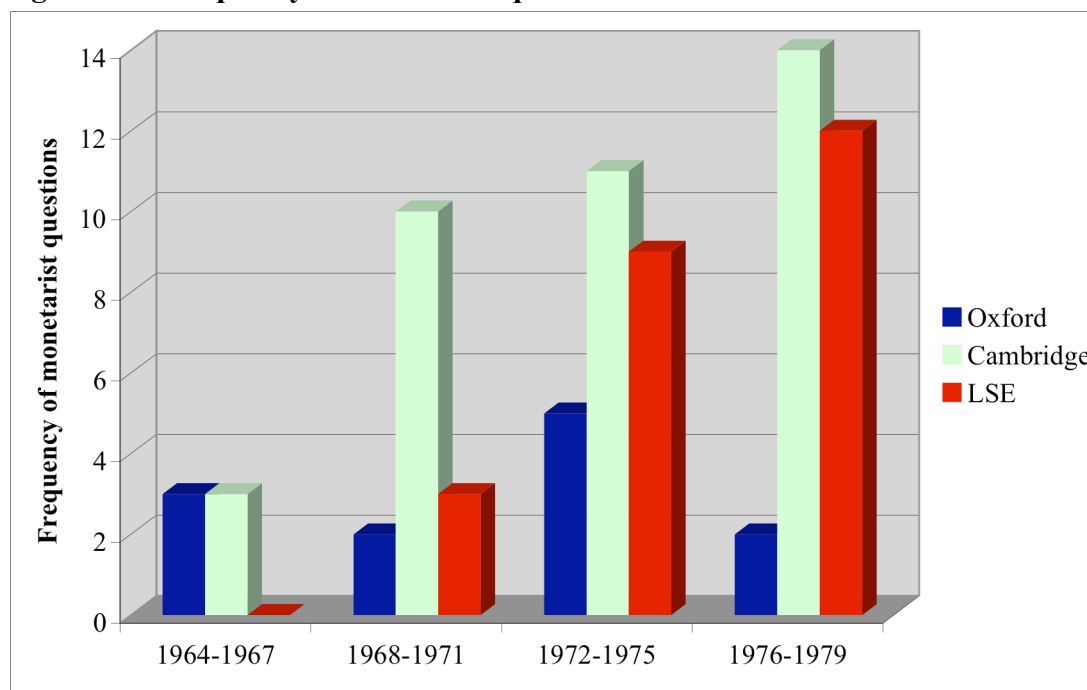
	Year	Course	Question
Oxford	1966	Principles of economics	Would it promote economic stability to require by law that the supply of money grow at a fixed percentage rate per annum?
Cambridge	1967	Economic principles I	‘In discussions of monetary policy too much attention has been given to interest rates as the object of control and not enough to the quantity of money.’ Discuss.
LSE	1971	Economics Part I	What role do expectations play in the phenomenon of inflation?

Sources: University of Oxford, *O.U. Exam. Papers P.P.E.* (various issues); University of Cambridge, *Tripes Papers* (various issues); London School of Economics, *University of London Examination Papers* (various issues).

Table 2.12 again provides a surprise to proponents of the Thatcherite critique. Oxford and Cambridge asked their undergraduates monetarist questions (and by extension taught their undergraduates enough monetarist theory to be able to tackle the question) by the mid-1960s while the LSE had a slight lag until the early 1970s.

Staunch advocates of the Thatcherite critique may complain that Tables 2.11 and 2.12 only present questions asked once and that it is surely the frequent repetition of monetarist questions across the years that demonstrate a true commitment to teaching the theory. Figure 2.2 below illustrates the frequency of monetarist questions in examination papers in order to test the Thatcherite critique further.

Figure 2.2: Frequency of monetarist questions



Sources: University of Oxford, *O.U. Exam. Papers P.P.E.* (various issues); University of Cambridge, *Tripes Papers* (various issues); London School of Economics, *University of London Examination Papers* (various issues).

Note: LSE data for 1975-7 and Cambridge data for 1979 unavailable, hence LSE's figures are likely considerably higher for this period and Cambridge's slightly higher in the final period.

Figure 2.2 generally supports the initial findings from Tables 2.11 and 2.12 but does add more complexity to the analysis. Cambridge employed the greatest number of monetarist questions, demonstrating the falsity of Philip Booth's comment at the start of the section. Oxford, while an 'early adopter' to monetarist theory in its examination questions did not witness a great growth in the 1970s when monetarism was becoming increasingly popular. Indeed, Oxford does seem partly to satisfy the Thatcherite critique using Figure 2.2's data. Finally, LSE, after a slow adoption of monetarist questions in the 1960s witnessed a consistent and large growth in monetarist questions in the 1970s. Thatcherites might add that the number of monetarist questions asked seem a little low for every institution but it should be borne in mind that numbers will be undercounted as only questions that were explicitly monetarist in nature were used and, furthermore, that the great majority of economics examination questions concerned themselves purely with microeconomic theory – in itself another piece of evidence that contradicts the Thatcherite critique of Keynesian British economics departments.

Thatcherites could respond to the evidence in this section by commenting that questions on monetarism may have only been asked as ‘straw men’ for undergraduates drilled in Keynesian arguments to demolish. Indeed, David Laws, the Liberal Democrat MP for Yeovil since 2001, recalled from his time as an economics student at King’s College, Cambridge in the early 1980s that while King’s College and Cambridge as a whole did not have a ‘universal “left-wing” Keynesian consensus’, monetarism was not accepted as an effective macroeconomic policy.⁸¹ While monetarism may have been taught as a ‘straw man’ at Cambridge and Oxford (but less likely at the LSE as the evidence in Section 2.5 suggested a shift in favour of monetarism with the arrival of Harry Johnson) the point remains that Thatcherites such as Philip Booth stated that monetarism was not taught at all. Even teaching monetarism as a straw man would at least give students familiarity with the theory and showed that there was a challenger to Keynesian thinking.

Section 2.6 therefore contains evidence that the proportion of Keynesian economists in a faculty did not affect inversely the number of monetarist examination questions. The Keynesian faculty of Cambridge were teaching their undergraduates a more varied diet of macroeconomic theory than critics such as Philip Booth would have us believe, although we note that monetarism questions may have been taught in a biased way (and at Oxford too, although anti-monetarist bias was less likely at the LSE as noted above) and more evidence is needed before a definitive answer can be given. Oxford was more open to the Thatcherite charge than Cambridge of not engaging with monetarism to any significant extent given the small number of monetarist questions Oxford asked but both Oxford and Cambridge were quicker than the LSE to implement monetarist questions. However, although the LSE took time to adopt monetarist questions, when the LSE did decide to incorporate monetarist teaching it did so rapidly, which does not fit with the critique of unprofessionalised and outdated UK economics departments.

⁸¹ D. Laws, 'Economic policy' in Booth (ed.) *Were 364 economists all wrong?* (2006), pp. 107-8.

Section 2.7: Conclusion

This chapter examines academic economists and students in the 1960s and 1970s, particularly at Oxford, Cambridge and the LSE, through the lens of what is termed the ‘Thatcherite critique.’ The Thatcherite critique is taken to mean an opinion held by both Thatcherites and economic liberals more broadly, the opinion being that British academic economists in the later post-war period were on the whole unreconstructed and unprofessional statist Keynesians who tried to hold back newer, more market-orientated, theories stemming from the USA, the prime example being monetarism. Furthermore, the Thatcherite critique held that Oxbridge was especially prone to the claims of the critique.

Testing the validity of the Thatcherite critique is the objective of Sections 2.3 through 2.6 of the chapter. Section 2.3 tests the critique against known political and economic surveys of academics and academic economists, finding that although the majority of British academic economists could be classed as ‘orthodox economic liberals’ support for Keynesian ideas and state intervention in general was significantly higher amongst British economists than with economists in other developed nations. Section 2.4 takes the letter from 364 economists attacking the 1981 budget as evidence, generating mixed but on balance positive support for the critique that British academic economists and especially Oxbridge economists were wedded to Keynesian policies – with the caveats that ‘Oxbridge’ is switched to ‘mainly Cambridge’ and the significant outliers of LSE and the provincial universities of Liverpool and Durham are recognised.

Sections 2.5 and 2.6 home in on the development of the economics faculties at Oxford, Cambridge and the LSE in order to give a more detailed picture of the major economics departments. Section 2.5 gives strong support to the Thatcherite critique that Oxbridge and Cambridge most especially were relatively unprofessionalised departments in terms of their postgraduate training and qualifications of academics. LSE, however, is only partly deserving of the unprofessionalised accusation. Section 2.6 adds one more source of information, an analysis of undergraduate examination questions in the 1960s and 1970s. Interestingly, the Keynesian academics of

Cambridge were teaching monetarist ideas from the mid-1960s even if they disagreed with monetarism: a sign of professionalism at Cambridge. LSE lagged in its introduction of monetarism but then consistently increased its usage of monetarist questions while Oxford was quick to introduce monetarism but did not make much progress in its usage of monetarist question in the 1970s. Hence Section 2.6 provides mixed but mainly unsupportive evidence for the Thatcherite critique.

However, the chapter as a whole *does* support the views of the Thatcherite critique with the important caveats that there were departments where the critique holds much less validity, the LSE being the most important example. Furthermore, Oxford is significantly less deserving of the Oxbridge criticisms than Cambridge and even Cambridge at least quickly and regularly asked monetarist questions even if Cambridge academics made their hostility to monetarism clear.

Chapter 3: The Government Economic Service: growth, influence and change

Section 3.1: Introduction

Economic advice has been offered to and used by rulers for considerably longer than the existence of economics as a distinctive discipline. For instance, a Sanskrit text dating from 300 B.C. entitled *Artha-Shastra* (meaning ‘instructions on wealth or material advantage’) was written by an important adviser to the Indian emperor of the time.¹ Relatively more recently but still predating Adam Smith’s *Wealth of Nations* by a century, Sir William Petty’s *Political Arithmetik*, written around 1676, predominantly covered areas we would now term ‘economic policy.’² Moving forward to the start of the twentieth century (around the time that the London School of Economics and the University of Cambridge first introduced undergraduate degrees in economics, as outlined in Chapter 2) a handful of British officials began to be employed specifically as ‘economists’, a famous example being John Maynard Keynes, who worked for the India Office.³ The number of economists in government remained extremely small until the outbreak of the Second World War and the creation of the Central Economic Information Service (subsequently split into the Economic Section and the Central Statistical Office), which brought in from academia between ten to twenty economists at any one time. However, after the war many of the staff moved back to academia and while ‘there had been consideration of a peace-time central economic staff . . . nothing new materialized.’⁴ The Treasury may have had economists of the stature of Keynes, Hubert Henderson and Dennis Robertson on its staff in 1944 but by 1947 there was not a single professional economist left.⁵ Indeed, it was not until 1964 and the founding of the Government Economic Service (hereafter referred to as the GES), that a substantial number of economists, organised along professional lines, were employed on permanent contracts for service to the UK government. Even with the creation of the GES it was not until the late 1960s that

¹ A. Sen, ‘Economists’ *Times Literary Supplement*, 6 December 1985.

² A. Sen, ‘Economists’ *Times Literary Supplement*, 6 December 1985.

³ ‘Economising on economists’, *The Economist*, 7 September 1985.

⁴ R. Lowe, ‘Introduction’, in Lowe (ed.), *Treasury papers* (1994), www.adam-matthew-publications.co.uk, copy available from the author.

⁵ K. Theakston, *The civil service since 1945* (Oxford, 1995), p. 68.

economics in government became dominated by recent university graduates seeking a lifelong career rather than by academics ‘inning-and-outing’ from university faculties.⁶

GES economists – or ‘civil servant economists’ or ‘government economists’ – are thus a recently established and distinctive subset of economic advisers. This chapter focuses primarily on civil servant economists although attention is also given to temporary government economists (most notably Nicholas Kaldor and Tommy Balogh in the 1960s and Alan Walters in the 1980s) and their interaction with civil servant economists. The wider marketplace for economic advice is studied in Chapter 4; the wider marketplace included academics, City economists, businessmen, thinktanks and journalists all offering economic advice to Thatcherites. Why, therefore, are civil servant economists worthy of study separate from other purveyors of economic advice? Firstly, civil servant economists are permanent staff and are not subject to the changing political complexions of the government of the day to the degree of other economic advisers. Most economic advisers tend to be associated with, or have greatest influence over, one political party (or even one wing or one politician in a political party) but civil servant economists can remain in Whitehall as ministers and governments come and go, with the consequence that civil servant economists are relatively more autonomous than other economic advisers. Furthermore, unlike other economic advisers, government economists have some degree of decision making power over economic policy delegated to them as much of the implementation of economic policy can occur without the direct oversight of ministers. One interesting demonstration of the autonomy that the civil service can have is that ‘the Vehicle and General inquiry in the 1970s found that less than one per cent of the work of the DTI [Department of Trade and Industry] went before ministers.’⁷ Therefore, while government economists often hold the job title of ‘economic adviser’ or similar, government economists vary from other economic advisers as government economists have increasingly become ‘implementers’ as well as ‘advisers,’ a trend strongly in evidence over the 1980s, as Section 3.4 argues. While a move from an advisory role to an implementation role for senior civil servants in the 1980s has already been commentated on by political scientists Colin

⁶ P. Hennessy, ‘Breaking the logjam’, *The Times*, 2 August 1983.

⁷ K. Theakston, *The civil service since 1945* (Oxford, 1995), p. 12.

Campbell and Graham K. Wilson, the increased preference for implementers over advisers has not been investigated with respect to government economists before.⁸ However, Terry Burns, in an early 1980s interview when he was the Chief Economic Adviser and head of the GES, did implicitly recognise that government economists were implementers as well as advisers, with the statement that:

There is not a clear dividing line between the economist working away in the dungeon at his numbers and the administrators who are involved in all the issues relating to politics. The economists are very closely involved in all of the policy decisions.⁹

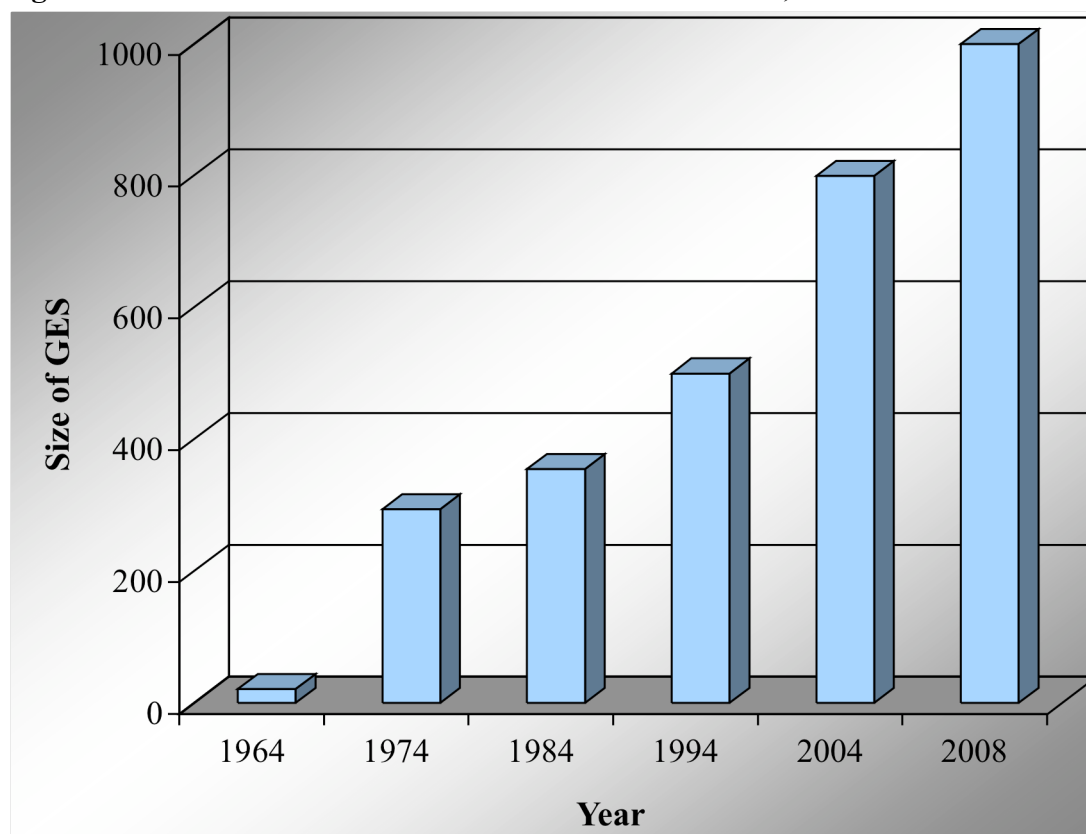
A second reason for a special focus on government economists is to be found in the significant size and growth of the GES since the 1960s. In terms of size the GES is the single largest recruiter of economists in the UK and a survey published in 1990 estimated that there were 3,500 economists in the UK with around 11% employed by the GES (the great bulk, 71%, held academic posts and the remaining 17% worked in the private sector).¹⁰ In terms of growth, the GES has grown by a remarkable 4700% from its 1964 foundation with 21 members to over 1000 members in 2008, as Figure 3.1 below shows.

⁸ C. Campbell and G.K. Wilson, *The end of Whitehall* (Oxford, 1995), p. 60.

⁹ H. Young and A. Sloman, *But, Chancellor* (1984), pp. 31-2.

¹⁰ Largest employer statistic from: Government Economic Service, 'GES website', www.ges.gov.uk, copy available from the author; percentages extrapolated from: R. Towse and M. Blaug, 'British economics profession', *Economic Journal*, vol. 100, 399 (1990), pp. 230-1.

Figure 3.1: Growth of the Government Economic Service, 1964-2008



Sources: P. Hennessy, 'Economists multiply and thrive', *The Times*, 24 November 1975; M. Thatcher, 'House of Commons Prime Minister's Questions', *Thatcher Archive Online*, 9 March 1982, copy available from the author; Economist Group Management Unit, *The GES: yesterday, today and tomorrow* (1994), p. 33; P. Johnson, 'Debate', *British Journal of Sociology*, vol. 55, 1 (2004), pp. 23-30; Government Economic Service, 'GES website', www.ges.gov.uk, copy available from the author.

Note: Agricultural economists were excluded from the GES until 1974, their inclusion added 34 new members to the GES. From: R. Backhouse, 'Economics in mid-Atlantic', in Coats (ed.), *The development of economics* (2000), p. 28.

A third and final reason for a special focus on government economists is that GES economists are an understudied group compared with other economic advisers or their economist peers in academic posts. No history of the GES has ever been published and there is little primary or secondary literature on the organisation that covers the post-1970s period.

With a paucity of available information on the GES, especially on the GES after the 1970s (some information on the GES in the 1960s and early 1970s is available in the Public Record Office and is referred to in Section 3.2), this chapter makes extensive use of 14 interviews (details of the interviews are outlined in the Preface) conducted with former government economists and civil servants, all of whom served for at least part of the 1980s and often for much of the preceding or following decade too. While

using oral history does present the potential problems of bias and inaccuracy, Chapter 1 contains a defence of the benefits that can be garnered from the careful use of oral history in a contemporary history thesis. A further point of interest on the interviews conducted for this chapter is that the most senior government economists of the 1980s were deliberately not approached for interview and instead a broad spectrum of interviewees who spanned junior, middle-ranking and relatively senior positions in the 1980s were approached for interview. The rationale for deliberately eschewing the most senior government economists is outlined by L.A. Dexter, who noted in the American political case that:

There is a tendency, particularly by journalists . . . but also by social scientists, to assume that the head of an organization is *ipso facto* a good informant . . . There may be some much better informant in a less prominent post. As a matter of fact, a good many senatorial assistants are better informants than their senators.¹¹

Additionally, given that this chapter is concerned with the GES as a *whole*, rather than merely its topmost echelons, interviews with more junior economists can provide a level of detail on the GES as a professional body of economists that the most senior economists likely could not.

Now that the justification for a specific study of the GES as whole has been made, the particular questions to be explored with respect to the GES can be articulated. The following questions are the main area of concern for this chapter: the influence of economics and civil servant economists in British government since the founding of the GES (studied in Section 3.2 for the 1960s and 1970s and Section 3.4 for the 1980s); the extent to which government economists were still Keynesian in their beliefs in 1979 (studied in Section 3.3); and, lastly, whether a shift from a dominance of macroeconomic work in government to a dominance of microeconomic work can be detected in the GES of the 1980s (studied in Section 3.5).

¹¹ A. Seldon and J. Pappworth, *By word of mouth* (1983), p. 60.

Section 3.2: The influence of economics and civil servant economists in government I. The 1960s and 1970s.

The influence of economics and civil servant economists in UK government are two separate, albeit closely related, topics. While it would be reasonable to expect some correlation between the growth of government economists and the importance attached to economists and economic thinking in government at large we cannot automatically assume that a correlation would be consistent or significant over time. Furthermore, there are a wide range of other variables worth investigating in our search to explain the influence of economics and civil servant economists. For example, the influence of government economists and economic thinking in government could be shaped by: the level of integration between economists and non-economists in government departments; the prior education of administrators; the amount and quality of economic training given to administrators; the importance attached to economics and economists by government ministers and the most senior civil servants; the perceived previous success of economic thinking and economists in government; and, changes in the perceived importance of economics and economists more generally, whether in the UK or the world as a whole. When the variables listed above are all considered it can be seen that the influence in government of economics and government economists did significantly increase over the 1960s and 1970s but not at a rate comparable or consistent with the huge growth in numbers of government economists at the time.

Tracing any significant amount of influence of economics and government economists arguably only takes us back to the Second World War. The minute number of professional economists employed in government prior to 1939 (mentioned in the introduction to the chapter) was one clear sign that the influence of economics was extremely weak in government at the time. Alec Cairncross, an academic and government economist who became the first head of the GES, explained that in the early twentieth century there ‘was little need to employ professional economists, because there was little scope for economic policy’ but while this was arguably true up to the First World War, by the depression years of the interwar period the situation

was rather different.¹² Roger Middleton has noted that although ‘the amateurism of the British civil service was becoming increasingly inappropriate to the range and complexity of problems confronting interwar bureaucracy and governments’, the Treasury opposed any greater engagement with professional economists until the late 1930s (when some lessening of Treasury hostility to economists took place as officials were fearful of ministers directly seeking outside economic advice).¹³ An economic advisory council, which included academic economists, was founded in the 1930s but the main source of economic advice outside the civil service remained the Bank of England.¹⁴ While the Bank of England did hire one economist in the interwar period, Henry Clay in 1930, the Bank was far from open to economic ideas.¹⁵ One Bank memorandum from the period even warned internal readers of financial and economic pamphlets not to ‘become infected with the ideas or the language of an economist.’¹⁶ Yet, after the outbreak of the Second World War in 1939 the UK government did become ‘infected’ with the ideas of economists and the war was to prove to be a transformative event that made the reputation of economists in government.

The outbreak of war swiftly led to a mass hiring of economists into government departments and the creation of a specialised Central Economic Information Service, later split into the Economic Section and Central Statistical Office, as the chapter introduction noted. Cairncross estimated that in the First World War there were four serving government officials who had been university teachers in economics whereas in the Second World War at least fifty officials had university teaching backgrounds in economics.¹⁷ The Economic Section achieved fame as ‘the channel for the first application of Keynesian economics to practical real world problems’ but important work was also carried out by economists in departments such as the Ministry of

¹² A. Cairncross, *Essays in economic management* (Aldershot, 1993), p. 184.

¹³ Quote: R. Middleton, *Towards the managed economy* (1985), p. 181; Treasury point: R. Middleton, *Government versus the market* (Cheltenham, 1996), pp. 356-7.

¹⁴ For more on the economic advisory council, see: S. Howson and D. Winch, *The economic advisory council* (Cambridge, 1977); Bank of England point in: R. Middleton, *Government versus the market* (Cheltenham, 1996), pp. 356-7.

¹⁵ G.C. Peden, ‘Economic knowledge’, in Green and Whiting (eds.), *The boundaries of the state* (Cambridge, 1996), p. 174.

¹⁶ Bank of England, ‘The work of the economic intelligence department’, *Bank of England Quarterly Bulletin*, vol. 16, 4 (1976), p. 436.

¹⁷ A. Cairncross, ‘Economists in wartime’, in Cairncross (ed.), *Economic ideas and government policy* (1996), p. 33.

Aircraft Production, where microeconomic thinking was required.¹⁸ The Economic Section was not only heavily involved with the war effort, it also played a crucial role in planning for the postwar period and the Keynesian 'revolution' in government continued after the Second World War – albeit with an Economic Section that was much diminished in size, if not in influence – with government economists creating macroeconomic forecasts and advising on key areas such as the devaluation of the pound.¹⁹ However, as Roger Middleton has argued, by the later postwar years it was clear that the influence of economists in government had receded from the heights of the war and early postwar period, the time when economists probably had 'their maximum impact on policy formulation and practice.'²⁰

The influence of economists over policy may have declined in the 1950s but there was a growing interest in economics in government more generally, both from outsiders and from politicians and civil servants. Glen O'Hara has chronicled the movement within the Treasury towards greater economic quantification stemming from the 1956 Budget speech where Chancellor Harold Macmillan 'called for much more comprehensive and much more quickly available, economic data' as outdated and inaccurate statistics were hampering the government's economic policies.²¹ Additionally, Kit Jones, the biographer of Robert Hall – the head of the Economic Section from 1947 to 1961 – noted that Hall commented in a 1961 retirement speech that 'the original prejudice in the Treasury against economists was much less than it was when he arrived'.²² Even the famously conservative Bank of England began to embrace economic thinking by the end of the 1950s, with the 1959 Radcliffe Committee report acting as a catalyst to employ more economists and to reorganise the existing Economic Intelligence Department.²³

¹⁸ Quote: R. Lowe, 'Introduction', in Lowe (ed.), *Treasury papers* (1994), www.adam-matthew-publications.co.uk, copy available from the author; Aircraft production: A. Cairncross, *Living with the century* (Countess of Moray's, 1998), p. 4.

¹⁹ R. Lowe, 'Introduction', in Lowe (ed.), *Treasury papers* (1994), www.adam-matthew-publications.co.uk, copy available from the author. For more on the Second World War and the Keynesian revolution, see: A. Cairncross and N. Watts, *The economic section 1939-1961* (1989).

²⁰ R. Middleton, *Government versus the market* (Cheltenham, 1996), p. 472.

²¹ G. O'Hara, 'Towards a new Bradshaw?', *Economic History Review*, vol. 60, 1 (2007), p. 1.

²² K. Jones, *An economist among mandarins* (Cambridge, 1994), p. 173. For more on Robert Hall and the postwar Economic Section, see: R. Hall, *The Robert Hall diaries 1947-53* (1989) and R. Hall, *The Robert Hall diaries 1954-61* (1991).

²³ Bank of England, 'The work of the economic intelligence department', *Bank of England Quarterly Bulletin*, vol. 16, 4 (1976), p. 436.

The pace of change towards economics in the civil service was not enough to please many informed commentators though, with one of the most trenchant criticisms appearing in a 1959 article, *The apotheosis of the dilettante*, by left-leaning Oxford economist Tommy Balogh. Balogh forcefully argued that the Treasury still favoured new recruits who did not possess any economic education and did not even provide these recruits with adequate training to make good their deficiencies, to the detriment of the country.²⁴ Similarly, a 1961 article from academic and government economist David Henderson called for increased economic training for administrators and listed a host of government reports which contained, as Henderson put it, ‘economic policy without economics’.²⁵

The criticisms of Balogh and Henderson were part of a wider narrative that was resonant at the time and was concerned with an overly generalist and overly Oxbridge humanities-educated civil service. The civil service was perceived to be incapable of remedying – or was even partly responsible for – Britain’s postwar relative economic decline (with the fear of continued British decline helping mobilise support for increased economic planning in the 1960s, discussed later in this section). The effect of the civil service upon Britain’s postwar economic performance is open to debate but the critics were undoubtedly correct in describing the senior civil service as being dominated by Oxbridge humanities graduates. A 1964 *Sunday Times* article revealed that two-thirds of successful candidates for the administrative class of the civil service had taken degrees in classics or history, 80 percent of the senior civil service had been educated at Oxbridge and that social science and economics recruits had fallen from 23 percent of the administrative intake over 1948-56 to only 6 percent in 1964.²⁶

Broadsides of the type articulated by Balogh and Henderson did not go unnoticed in Whitehall and as argued earlier in this section, economics (if not economists) was gradually increasing in influence in government over the 1950s and early 1960s. In 1962, the Treasury formed a committee to consider increased economic training for graduate entry administrators and the Centre for Administrative Studies opened in 1963 in order to teach new administrators an economics-heavy introductory course

²⁴ T. Balogh, 'The apotheosis of the dilettante', in Thomas (ed.), *The establishment* (1959), pp. 83-128.

²⁵ D. Henderson, 'The use of economists', *Oxford Economic Papers*, vol. 13, 1 (1961), pp. 14 and 23.

²⁶ R. Presthus, 'Decline of the generalist myth', *Public Administration Review*, vol. 24, 4 (1964), p. 216.

(the Centre for Administrative Studies was replaced in 1970 by the opening of the Civil Service College).²⁷ Experienced academics, including Roger Opie, Maurice Peston and Nicholas Kaldor, helped teach the equivalent of a first year economics degree (consisting of classical economic theory and not contemporary topics in economic policy) in one month followed by a fortnight of statistics – with the economics and statistics elements of the training course noted by the historian of the Civil Service College, Dennis Bird, as being ‘especially disliked’ by the graduate entrants.²⁸ Regardless of the enjoyment or otherwise new administrators found in learning economics, the Centre for Administrative Studies found enough value in the subject to nearly triple the teaching time allocated to economics by 1967.²⁹ As the table in the appendix shows, the twenty-week training programme in 1967 committed nearly eleven weeks to economics with two weeks on statistics and a further two weeks on quantitative analysis and mathematics. One Treasury official, in an internal report on the Centre for Administrative Studies, proudly noted that ‘there is nothing in the 20 week course which does not form part of one of the compulsory or optional subjects in Part II of the Economics Tripos at Cambridge.’³⁰

Devoting so much time and effort to teaching non-economist administrators what was effectively a much-shortened degree course in economics might have led some to query whether it would have been more efficient to simply bias administrator recruitment towards those already in possession of an economics degree. Indeed, a preference for ‘relevant’ degrees such as economics (and a commensurate shift away from classics and history, the subjects studied by nearly half of the graduate entry administrators in the period), was in fact recommended by the 1968 Fulton Report on reforming the civil service.³¹ Yet, the Fulton Report encountered serious opposition from senior civil servants and politicians and the growing influence of economics in Whitehall did not translate into a preference for economics graduates as Prime Minister Harold Wilson, himself a former academic economist, discarded the idea.³² Labour politician and then Secretary of State for Defence, Denis Healey, responded to the Fulton Report by noting that he considered economics to be merely:

²⁷ D.L. Bird, *The civil service college* (1995), pp. 3-4.

²⁸ D.L. Bird, *The civil service college* (1995), p. 50.

²⁹ R.A. Chapman, *The higher civil service* (1970), table on p. 78 – reproduced in the chapter appendix.

³⁰ ‘Management committee’, 1964-6, TNA: PRO T 199/988, p. 20.

³¹ J.S. Fulton, *The civil service* (3 vols., 1968), ii, 19.

³² G.K. Fry, *Reforming the civil service* (Edinburgh, 1993), pp. 262-3.

a bastard branch of the bastard science of psychology . . . Moreover, a man who had read economics years ago and still considered himself an expert in the subject might be positively harmful.³³

Similarly, Conservative politician Reginald Maudling considered some amount of economic training useful for civil servants but not to the level of expertise bestowed by a degree in the subject – for a degree might foster ‘expert prejudices’ alongside ‘expert knowledge’ and Maudling wished administrators ‘to understand the language of, say, economics, but not necessarily to speak it.’³⁴

Therefore, politicians on both sides of the party divide were somewhat skeptical as to the use of economics in government by the time of the Fulton Report in the late 1960s. This skepticism could in part be explained by disillusionment caused by the failures of 1960s economic planning.³⁵ Economic planning was intended to reverse Britain’s relative postwar decline, a decline that had been noticed early on in the postwar period through the massively improved national and international statistics generated by government economists and statisticians.³⁶ By the early 1960s raising the growth rate of British GDP had become a major political objective and in July 1961 Conservative Chancellor Selwyn Lloyd set a target for GDP growth of 4% per annum.³⁷ In the same year, a Treasury report entitled ‘Economic growth and national efficiency’ argued that greater government intervention to correct a range of market failures was required to achieve higher growth levels and by the following year the Conservative government had founded the National Economic Development Council (NEDC) and its associated office (NEDO), as well as adopting an incomes policy that Robert Hall and other Treasury economists had advocated since the early 1950s.³⁸

³³ G.K. Fry, *Reforming the civil service* (Edinburgh, 1993), p. 215.

³⁴ G.K. Fry, *Reforming the civil service* (Edinburgh, 1993), p. 215.

³⁵ For more on economic planning, see: J. Leruez, *Economic planning* (1975); H. Pemberton, *Policy learning* (Basingstoke, 2004); G. O’Hara, *From dreams to disillusionment* (Basingstoke, 2007).

³⁶ R. Middleton, ‘Economists and economic growth’, in Black and Pemberton (eds.), *An affluent society?* (Aldershot, 2004), p. 132.

³⁷ H. Pemberton, *Policy learning* (Basingstoke, 2004), p. 4.

³⁸ Treasury report in: H. Pemberton, ‘Affluence’, in Black and Pemberton (eds.), *An affluent society?* (Aldershot, 2004), p. 116; for more on NEDO/NEDC, see: K. Middlemas, *Industry, unions, and government* (1983); A. Ringe and N. Rollings, ‘Responding to relative decline’, *Economic History Review* vol. 53, 2 (2000), pp. 331-53; S. Wood, ‘Why “indicative planning” failed’, *Twentieth Century British History* 11, 4 (2000), pp. 431-59; Robert Hall and incomes policy in: H. Pemberton, *Policy learning* (Basingstoke, 2004), pp. 4 and 112.

NEDO and the implementation of an incomes policy generated the need to hire both microeconomists and macroeconomists from outside the civil service and with the election of a Labour government in 1964 the importance attached to economic planning and thus to economists in government was ratcheted up still further.³⁹ Labour immediately established the Department of Economic Affairs (DEA) and tasked the DEA with long-term planning, previously the remit of the Treasury.⁴⁰ Labour also brought in a number of economic advisers from academia in a bid to bypass a civil service assumed to be overly conservative after 13 consecutive years of Tory government, with the most prominent new advisers being Tommy Balogh and Nicholas Kaldor.⁴¹ While the influx of special economic advisers and the creation of the DEA may have garnered more attention in the literature, the Government Economic Service was another 1964 Labour innovation and unlike the DEA and the special economic advisers, the GES not only outlasted the Labour government of 1964-70 but has survived and grown substantially up to the present day (as Figure 3.1 in Section 3.1 shows). The DEA, by comparison, had an exceptionally short lifespan with attempts to stop the devaluation of the pound in 1966 destroying the credibility of the National Plan constructed by the DEA and precipitating the department's closure in 1969.⁴² The Conservative-founded NEDO did manage to outlast the 1960s but lost much of its influence under Margaret Thatcher in the 1980s and was eventually abolished in 1992.⁴³

While the GES was created under a Labour government, the drive to found the GES came not from Labour, or indeed from any politician in any political party, but from senior civil servants. By 1962 Treasury officials were discussing with their colleagues in other departments the possibility of centrally recruiting, managing and deploying economists across Whitehall as part of a wider efficiency drive.⁴⁴ In an August 1962 letter sent by Norman Brook (then joint Treasury Permanent Secretary and head of the Home Civil Service) to all other Permanent Secretaries, Norman Brook formally

³⁹ NEDO staffing point: A. Blick, 'Harold Wilson', *Contemporary British History*, vol. 20, 3 (2006), p. 354.

⁴⁰ H. Pemberton, 'Affluence', in Black and Pemberton (eds.), *An affluent society?* (Aldershot, 2004), p. 113.

⁴¹ A. Blick, *People who live in the dark* (2004), p. 57.

⁴² S. Brittan, 'The moral of the Department of Economic Affairs', www.samuelbrittan.co.uk/spee52_p.html, copy available from the author.

⁴³ R. Undy, *Managing the unions* (Oxford, 1996), p. 16.

⁴⁴ 'Central control', 1962, TNA: PRO T 216/767; 'Committee', 1962-3, TNA: PRO T 199/850.

raised the idea of giving the Economic Section in the Treasury, headed by Alec Cairncross, responsibility for all Whitehall economists.⁴⁵ The objective, as one Treasury official put it, was not only to improve efficiency but ‘to diffuse such professional economists as are available throughout Whitehall.’⁴⁶

The Economic Section, however, had great difficulty in recruiting the number of economists who were required to service their new Whitehall-wide remit. Young economists with first class degrees preferred to join an administrative stream that offered greater prospects of promotion and at the more senior level, academic economists were discouraged from joining the Economic Section on secondment thanks to a lower salary than could be earned by senior lecturers in universities.⁴⁷ By the middle of 1964 the discussion amongst civil servants had moved on to favour ‘more continuity in the employment of economists’ with perhaps ‘a move towards a career service for economists’, as the difficulties in recruiting temporary economists from academia were even greater than those faced in recruiting young graduates.⁴⁸ Finally, by December 1964, the sustained focus on the recruitment and deployment of economists to non-Treasury departments allowed a Treasury meeting to record that:

with the rapid expansion in the use of economists now taking place, particularly in the Department of Economic Affairs and the Ministry of Overseas Development, it was now accepted that we had in being a Government Economic Service, of which Mr Cairncross was the head.⁴⁹

It would be hard to predict the subsequent institutional success of the GES from the vantage point of 1964 however, as Labour’s special economic advisers wielded considerably more power than GES head Alec Cairncross and were apt to use their influence in ways which were far from helpful to the GES. Special advisers Robert Nield and Tommy Balogh sat on the GES management committee and Tommy Balogh and Labour ministers frequently appointed temporary economists without even informing Cairncross of their decisions, although Cairncross did manage to win

⁴⁵ Letter dated 30 August 1962 in: TNA: PRO T 199/850.

⁴⁶ Letter dated 13 November 1962 in: TNA: PRO T 199/850.

⁴⁷ Letter dated 26 June 1964 in: ‘Management of Government Economic Service’ 1964-5, TNA: PRO T 199/875.

⁴⁸ First quote in note for record dated 23 July 1964; second quote in draft letter dated 7 October 1964, both in: TNA: PRO T 199/875; greater difficulty in recruiting established academic economists in minutes of meeting dated 4 December 1964 in: ‘Management committee’, 1964-6, TNA: PRO T 199/988.

⁴⁹ Minutes of management committee meeting dated 4 December 1964 in: TNA: PRO T 199/988.

a salary battle, being paid a symbolic £100 per annum more than Balogh by order of Prime Minister Harold Wilson.⁵⁰ Cairncross has subsequently admitted that the GES as a coherent institution representing government economists was a ‘phantom’ or ‘largely a fantasy’ in 1964.⁵¹ Yet, by the 1970s the GES had gone on to achieve institutional credibility (discussed later in this section) whereas the reputation of many of Labour’s special advisers were irretrievably damaged by the failures of the 1960s: Balogh failed in his primary policy of implementing indicative planning and Kaldor had lost the confidence of his minister – and thus his power in Whitehall – by 1968, damaged by a negative reception to his introduction of sectoral taxes such as the selective employment tax, corporation tax and capital gains tax.⁵²

The disappointments encountered with economic planning and the fact that economists were so prominently associated with the policy make it no surprise that politicians at the time of Fulton Report were less than enthusiastic towards introducing more economics and more economists into Whitehall. Even academic economists such as Graham Hallet, in 1967, and in a notable 1968 article, Michael Postan, publicly criticised their peers brought in as special economic advisers, for introducing, in Hallet’s words, ‘contradictory and ill-considered economic policies’ that had ‘produced a certain disillusionment among the public with the value of academic economics.’⁵³ Nonetheless, in spite of this backlash against economists, the GES went on to expand dramatically throughout the mid-to-late 1960s and across the 1970s, as Figure 3.2 below shows.

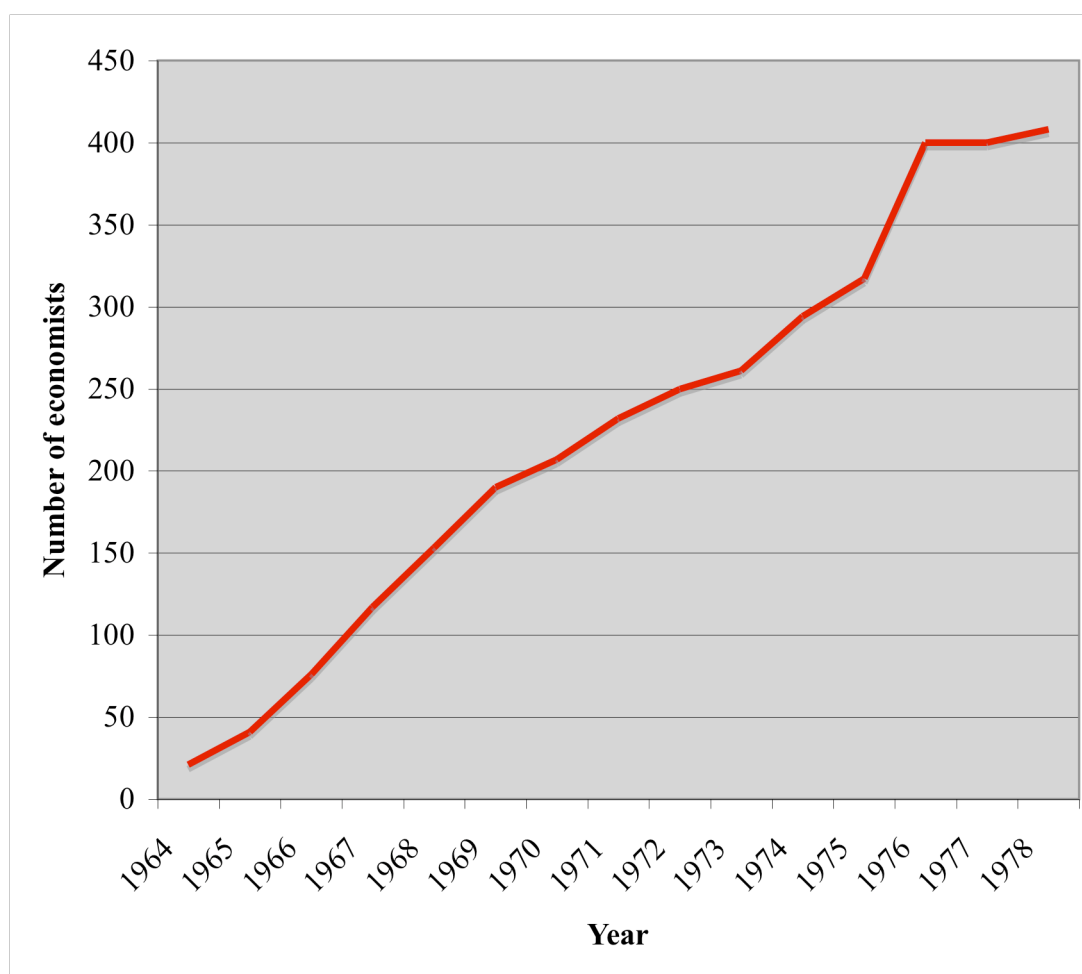
⁵⁰ A. Blick, *People who live in the dark* (2004), pp. 65-7; A. Cairncross, *Living with the century* (Countess of Moray’s, 1998), pp. 241-2; complaint from Cairncross about lack of consultation in letter dated 10 March 1965 in: TNA: PRO T 199/875.

⁵¹ A. Cairncross, *Living with the century* (Countess of Moray’s, 1998), p. 242; A. Cairncross, *The Wilson years* (1997), p. 2.

⁵² A. Blick, *People who live in the dark* (2004), pp. 96 and 102; for more on Kaldor’s sectoral taxes, see: H. Pemberton, ‘A taxing task: combating Britain’s relative decline in the 1960s’, *Twentieth Century British History*, vol. 12, 3 (2001), pp. 354-75; H. Pemberton, ‘Taxation’, *Contemporary British History*, vol. 20, 3 (2006), pp. 423-40.

⁵³ G. Hallet, ‘The role of economists’, *Westminster Bank Review*, May (1967), p. 2; M. Postan, ‘A plague of economists?’, *Encounter* vol. 30 (1968) pp. 45-6.

Figure 3.2: Growth of the Government Economic Service, 1964-78



Sources: P. Hennessy, 'Economists multiply and thrive', *The Times*, 24 November 1975; P. Hennessy, 'Union panel', *The Times*, 8 April 1980.

Note: Agricultural economists were excluded from the GES until 1974, their inclusion added 34 new members to the GES. From: R. Backhouse, 'Economics in mid-Atlantic', in Coats (ed.), *The development of economics* (2000), p. 28.

The massive growth in the GES shown in Figure 3.2 appears puzzling given the shaky start the GES encountered in terms of influence and recruitment problems plus the disappointments encountered with economic planning in the 1960s. The experiences of the mid-1960s hardly suggest that a 1900% growth in economists in government would subsequently follow over a mere fifteen year period. Furthermore, this astonishingly vigorous growth in the employment of economists was not only confined to Whitehall but was part of a wider phenomenon of a growth in economists that stretched across areas such as industry, banking, academia and secondary school teaching, termed, in a deliberately unflattering way, as 'Britain's economics

miracle.⁵⁴ Trying to explain 'Britain's economics miracle' – and it undoubtedly was a particularly British 'miracle', the USA, for example, 'only' saw a 91% rise in Federal economists over the period when Britain saw a 1900% rise in government economists – has never been attempted in a detailed way but has nonetheless generated some varied commentary.⁵⁵

For Donald MacDougall, Chief Economic Adviser and head of the GES from 1969-73 it was natural to rationalise the 'miracle' through the framework of economics and MacDougall thought there evidently had been 'a very strong 'revealed preference' for our services . . . The demand curve for economists in real terms has shifted very sharply to the right'.⁵⁶ Why such a demand shift in favour of economists should have occurred in Britain at the time is not, however, mentioned by MacDougall beyond the vague remark that 'how far this reflects a high-income elasticity of demand, and how far a sociological time-trend, I would not care to guess'.⁵⁷ Cyril S. Smith has, usefully, slightly narrowed the field of inquiry by positing that 'it was the Treasury and the civil service that saw the need for economists, not the politicians' and Smith's assertion is supported by the archival evidence on the founding of the GES referred to earlier in this section.⁵⁸ Hence, the hostility of politicians towards economists in the late 1960s can be reconciled with heavy recruitment towards the GES as the demand shift in favour from economists came from the civil service, not from their political masters.

What, therefore, were economists doing that made them more attractive to the civil service of the 1960s and 1970s? Answers can be found in the increasing use of both of the two main specialisations of economists, macroeconomists and microeconomists. On the macroeconomic side, Roger Backhouse has pointed out that the forecasting failures of the 1950s and 1960s did not lead to a retreat away from government macroeconomists but instead stimulated a desire to improve forecasting by deploying increasingly technically sophisticated econometricians on the Treasury

⁵⁴ T.W. Hutchison, *Knowledge and ignorance in economics* (Oxford, 1977), p. 66.

⁵⁵ American statistic in: W.J. Barber, 'The spread of economic ideas', in Colander and Coats (eds.), *The spread of economic ideas* (1989), p. 120 footnote.

⁵⁶ T.W. Hutchison, *Knowledge and ignorance in economics* (Oxford, 1977), p. 66.

⁵⁷ D. MacDougall, 'In praise of economics', *Economic Journal*, vol. 84, 336 (1974), p. 774.

⁵⁸ C.S. Smith, 'Networks of influence', in Wagner *et. al.* (eds.), *Social sciences and modern states* (Cambridge, 1991), p. 134.

macroeconomic model of the UK economy.⁵⁹ On the microeconomics side, government econometricians could incorporate into the Treasury model new academic work on the microeconomic foundations of macroeconomics that developed from the 1960s onwards, including significant changes stemming from rational expectations theory (changes in the Treasury model are discussed in the following section).⁶⁰

More significantly, and away from the macroeconomic sphere, the relatively unheralded successes of government microeconomists could have been an even more viable rationale for Whitehall to expand greatly the number of government economists. In particular, the development of cost-benefit analysis in British government was a great success in the 1960s and 1970s but has received little attention in the academic literature to date. Cost-benefit analysis has its intellectual roots in mid-nineteenth century work on consumers' surplus and was probably first used in the political arena in the 1930s in the United States.⁶¹ One of the earliest cost-benefit studies in the UK was performed by academic and part-time economic adviser Michael Beesley on the M1 motorway but it was the 1962 study by Beesley and fellow academic (and future Labour-appointed economic adviser) Christopher Foster on the Victoria Line of the London underground that was first to use predominantly economic arguments.⁶² The Victoria Line study was successfully used to persuade an initially skeptical Treasury of the economic benefits of the new underground line and by 1965 an article in *The Guardian* newspaper was able to proclaim that the 'Government has been persuaded of the usefulness of the latest economic techniques, such as cost-benefit analysis'.⁶³ Glen O'Hara recorded that by 1969 most government departments had at least one cost benefit study running as civil servants had 'clearly recognised the usefulness of . . . using cost benefit analysis to work out the

⁵⁹ R. Backhouse, 'Economics in mid-Atlantic', in Coats (ed.), *The development of economics* (2000), p. 29.

⁶⁰ For the development of rational expectations theory, see: T.J. Sargent, 'Rational expectations', in Eatwell *et. al.* (eds.), *The new Palgrave* (1987), vol. 4, pp. 76-9.

⁶¹ S. Chakravarty, 'Cost-benefit analysis', in Eatwell *et. al.* (eds.), *The new Palgrave* (1987), vol. 1, p. 687.

⁶² C.D. Foster, 'Beesley, Michael Edwin', *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author; C.D. Foster, 'Michael Beesley', *Journal of Transport Economics and Policy*, vol. 35, 1 (2001), p. 8.

⁶³ E. Devons, 'Economising on economists', *The Guardian*, 12 March 1965.

implications of large-scale investment decisions.’⁶⁴ Furthermore, Phyllis Colvin has carefully charted the permeation of cost-benefit analysis through a range of government departments (mainly transport, education and health) in the 1960s and 1970s and argued that the success of cost-benefit analysis in illustrating the relevance of economics to wide areas of the public sector strongly contrasted with the inability of government macroeconomists to win the confidence of ‘their peers and superiors.’⁶⁵

In a broader fashion, academics Brown and Steel have noted the successes of government microeconomists in the 1970s ‘in pioneering and establishing new procedures for setting priorities and planning public expenditure’ and, likewise, Donald MacDougall pleurably observed in 1974 ‘the rapid strides that have taken place in micro-economics reflected in, for example, all manner of project appraisal work’.⁶⁶ The success of microeconomists at the time may not necessarily have been in terms of genuinely improving economic decision making but, instead, the civil service and politicians too, may have become simply more aware of the value of using microeconomists as ‘arch-rationalizers’ – a term used by Alan Walters – to legitimise a controversial policy by ‘scientific’ testing and approval with cost-benefit analysis.⁶⁷ One in-depth study that interviewed 60 economists in the United States government in the 1970s supported the hypothesis that government economists have been used frequently in the capacity of arch-rationalizers and additionally made the point that the use of microeconomic theory was much more common amongst government economists than the attention given to macroeconomics in the 1960s and 1970s would suggest.⁶⁸

A positive reception to the work of microeconomists in government (whether as ‘rationalizers’ or by improving decision making), especially in cost-benefit analysis and related fields, could therefore plausibly account for some of the ‘miraculous’

⁶⁴ Treasury skeptical point in: C.D. Foster, ‘Michael Beesley’, *Journal of Transport Economics and Policy*, vol. 35, 1 (2001), p. 7; G. O’Hara, *From dreams to disillusionment* (Basingstoke, 2007), pp. 90-1.

⁶⁵ P. Colvin, *The economic ideal* (Manchester, 1985), p. 75.

⁶⁶ R.G.S. Brown, and D.R. Steel, *The administrative process*, 2nd ed. (1979), p. 109; D. MacDougall, ‘In praise of economics’, *Economic Journal*, vol. 84, 336 (1974), p. 777.

⁶⁷ A. Walters, *Britain’s economic renaissance* (Oxford, 1986), p. 8.

⁶⁸ W.R. Allen, ‘Economics, economists and economic policy’, *History of Political Economy*, vol. 9, 1 (1977), pp. 48-88, see p. 70 for micro point.

growth in government economists. Another possible explanation is that the language of economics, so disparaged by the Bank of England in the 1920s and by Reginald Maudling in the 1960s, had finally taken root in government and economists thus became useful allies to administrators. In the case of the Treasury, an anonymous senior Treasury economist remarked in the mid-1970s that:

Nowadays economic language is talked throughout the Treasury. And instead of the economists feeling strange, it is the administrators, who do not know any economics, who feel embarrassed . . . And the fact that the top people are economically trained means that you have to put up a decent economic argument . . . and this is the way it should be.⁶⁹

Given that the Treasury possessed great influence over the budgets of other departments, if the upper echelons of the Treasury began to talk and think in a more 'economic' way you might reasonably expect other departments to have followed suit and employed economists in order to improve their bargaining ability in budget setting negotiations, thus creating a self-sustaining upwards spiral in demand for economists. Indeed, William J. Barber argued precisely this point with regard to the growth of Federal economists in the USA.⁷⁰ Sociologists Markoff and Montecino added that a 'very junior economist on the staff of a budget director can easily embarrass a very senior but unprepared minister' and a strong incentive exists therefore for ministers to hire their own economists.⁷¹ An example from the USA of the bargaining power of economists has been recounted by William R. Allen, who said that 'the Treasury has, upon occasion, sent economic and financial specialists to deal in conference with the historical and political generalists of the State Department, with the technical experts then blowing the opposition out of the water.'⁷²

Searching for the reasons behind the improvement in the standing of the language of economics takes us back to an earlier point on the increasingly economics-based training given to graduate entry administrators in the 1960s and 1970s. Dennis Bird recalled that 'in the 1970s the magic word "economics" permeated almost everything the [Civil Service] College did, like a leitmotif in the operas of Wagner' and while the

⁶⁹ A.W. Coats, 'Britain', *History of Political Economy*, vol. 13, 3 (1981), pp. 390-1.

⁷⁰ W.J. Barber, 'The spread of economic ideas', in Colander and Coats (eds.), *The spread of economic ideas* (1989), p. 120 footnote.

⁷¹ J. Markoff and V. Montecino, 'The ubiquitous rise of economists', *Journal of Public Policy*, vol. 13, 1 (1993), pp. 43-4.

⁷² W.R. Allen, 'Economics, economists and economic policy', *History of Political Economy*, vol. 9, 1 (1977), p. 85.

Fulton Report may have been far from fully implemented, its call for more economic training and more specialist economists manifestly did not go unheeded.⁷³ As with the case of departmental budget setting, a virtuous upwards spiral could have been set into motion by a joint increase in economists and economics-trained administrators that resulted in more receptiveness to increased numbers of economists in government. Additionally, while figures on the degree subjects studied by administrators are scarce, evidence does exist to show that a growing proportion of administrators held economics degrees over the postwar period. The graduate entry administrator class of 1956 was 35-strong and contained three people with economics degrees (8.6% of the intake) but by 1967 – when there were 117 GES members – Alec Cairncross, head of the GES from 1964 to 1969, could proudly report that over 300 administrators held degrees in economics (12.5% of all members of the administrative class), including 25 administrators with postgraduate degrees in economics.⁷⁴

With such a substantial number of administrators trained in economics it might seem surprising that this readily available pool of talent was not tapped with administrators ‘re-branded’ as economists, especially with the recruitment difficulties faced by the GES, as mentioned earlier in the section. However, files from the Public Record Office reveal that in 1962 Alec Cairncross had considered retraining administrators as economists but could only identify a handful with good economics degrees whom he considered suitable.⁷⁵ Any possibility of a significant level of administrator re-training was halted in 1965 as a senior Treasury official argued that it was more desirable to keep administrators with an economics background within the administrative class and there existed a shortage of those at the level of Principal in the administrative class which would be further exacerbated by a switching of administrators into economists.⁷⁶

⁷³ D.L. Bird, *The civil service college* (1995), pp. 50-1; Fulton Report point in: W. Keegan and R. Pennant-Rea, *Who runs the economy?* (1979), p. 37.

⁷⁴ 1956 data in: J.S. Fulton, *The civil service* (3 vols., 1968), iii, 4-5; 1967 GES data in: P. Hennessy, ‘Economists multiply and thrive’, *The Times*, 24 November 1975; 1967 administrator data in: A. Cairncross, *Essays in economic management* (Aldershot, 1993), p. 191.

⁷⁵ Letter dated 22 May 1962 in: ‘Central control’, 1962, TNA: PRO T 216/767.

⁷⁶ Minutes of meeting dated 5 February 1965 in: TNA: PRO T 199/988.

The GES grew instead in the late 1960s and 1970s through an influx of economists hired from outside Whitehall and importantly for the institutional credibility of the GES, these new economists were not primarily academic economists on secondment but were usually young graduates. Recruiting new graduates rather than mid-career academics on temporary contracts was initially not envisaged for the GES, as mentioned earlier in this section, and provoked some controversy at the time. Professor Ely Devons angrily mocked the GES in a 1965 *Guardian* article for ‘snatching graduates into Government service when they are still in their nappies’ but Devons’s outburst was to no avail.⁷⁷ Nevertheless, one advantage of the shift towards young economists was to create for the first time the option of a lifelong career as a government economist for a substantial number of economics graduates, which bolstered the institutional credibility of the GES. One interviewee, who joined the GES in 1973, recalled that the GES in the early 1970s was already close to completing the transition towards being viewed as a professional body offering a legitimate career for young economists as opposed to being an institution catering for a small number of academics on placements.⁷⁸ Furthermore, a 1973 letter sent by Donald MacDougall to Treasury officials contained a request for extra office staff to aid him in his work as head of the GES as ‘the Economic Service is now increasingly a career service’ and MacDougall had to spend more and more time organising placements in different departments for his growing number of GES careerists.⁷⁹

By the late 1970s, government economist and academic Alan Peacock could uncontroversially state that economists ‘may still be regarded in parts of Whitehall as arrivistes but it is not denied that they have arrived.’⁸⁰ The GES was, by the close of the decade, an organisation that represented an established branch of civil servants with a professional bond capable of overcoming the traditionally strong departmental loyalties of Whitehall thanks to its rotation of economists around departments.⁸¹ Yet, while the GES may have become a recognised part of government, this did not mean, necessarily, that economists were given equal treatment and status by their administrator peers. Interviews conducted with government economists active in the

⁷⁷ E. Devons, ‘A plan for economists’, *The Guardian*, 26 March 1965.

⁷⁸ Interview No. 14, *Senior government microeconomist*, 13 March 2008.

⁷⁹ Letter dated 24 May 1973 in: ‘Deployment’, 1972-3, TNA: PRO T 365/23.

⁸⁰ Quoted in: W. Keegan and R. Pennant-Rea, *Who runs the economy?* (1979), p. 37.

⁸¹ For more on departmental loyalties in Whitehall, see: E.E. Bridges, *Portrait of a profession* (Cambridge, 1950).

1970s unanimously expressed the point that economists were firmly separated from non-economists in departments (including the Treasury, albeit to a less rigid degree).⁸² For example, one interviewee joined the civil service as a Treasury economist in 1973 but switched into the administrative stream once it became obvious that his promotion chances would be aided greatly by leaving the GES.⁸³ Another interviewee commented that economists in non-Treasury departments were only called upon in narrow economic areas if the department's Permanent Secretary was interested in using economists – otherwise they were rarely used.⁸⁴ Along similar lines, Phyllis Colvin remarked that the interest of the minister, as well as the Permanent Secretary, was a major determining factor in the integration and use of economists in departments.⁸⁵

Therefore, while the numbers of economists employed in government rose at a strikingly fast rate throughout the 1960s and 1970s (at a compounded annual rate of 28 percent between 1964 to 1975) their influence, and the influence of economics more generally, almost certainly did not enjoy an equivalently stratospheric and consistent rise.⁸⁶ Nevertheless, the existence of substantially greater numbers of civil servants trained in economics, whether in the GES or amongst administrators given economics training via the Centre for Administrative Studies and then the Civil Service College, ensured that an important measure of the influence of economics, the language of economics, began to be spoken, rather than sneered at, in Whitehall. A highly significant factor for the growing influence of economics was witnessed not in the well-publicised macroeconomic sphere but in the microeconomic sphere, where the application of budgeting and planning tools such as cost-benefit analysis successfully spread across a wide range of government departments. Yet, the increasing development of economics and economists in government was far from assured with the election of the Thatcher administration in 1979 and Section 3.3 goes on to discuss why the association of government economists with a 'Keynesian

⁸² Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 6, *Former senior Treasury economist*, 23 October 2007; Interview No. 7, *Former senior civil servant*, 25 October 2007; Interview No. 11, *Former senior government economist*, 9 November 2007.

⁸³ Interview No. 7, *Former senior civil servant*, 25 October 2007.

⁸⁴ Interview No. 6, *Former senior Treasury economist*, 23 October 2007.

⁸⁵ P. Colvin, *The economic ideal* (Manchester, 1985), pp. 58-9.

⁸⁶ 28 percent figure from T.W. Hutchison, *Knowledge and ignorance in economics* (Oxford, 1977), p. 66.

consensus' by Thatcherites meant that, from the vantage point of May 1979, economists and economics in government appeared to be in danger of losing much of their new found influence.

Section 3.3: 1979: a transition point for civil servant economists?

The election on 4 May 1979 of a new Prime Minister and government so clearly concerned with economic policy could be assumed to be, at first glance, a development that would have assured the continued importance of the Government Economic Service into the 1980s. This assumption was far from being valid, however, as the Conservative government were initially tremendously skeptical of the commitment of GES economists to the new political regime. The incoming government's skepticism stemmed from the association of government economists with Keynesian economic policies and the overall 'Keynesian consensus' that Thatcherites were determined to dismantle.⁸⁷ The extent to which government economists actually were pro-Keynesian (and hostile to monetarism and Thatcherite economics more generally) in 1979 has remained a topic of vigorous debate amongst academics, journalists and politicians to the present day. This section sets out both to analyse the debate over a supposedly Keynesian GES and to inject some novel evidence in the shape of interviews with former GES economists. Additionally, the closely linked question of whether there was a generational shift in the beliefs of economists around the late 1970s and early 1980s and the role, if any, that Margaret Thatcher played in expeditiously promoting the younger generation is also explored in this section. Finally, the machinations over the Treasury macroeconomic model in the late 1970 and early 1980s are analysed in order to test the extent of change, and the commitment to change, by GES economists in the early Thatcher years.

The association of Keynesianism with government economists can be traced back to the Second World War and the academic economists brought into the Economic Section for the duration of the hostilities, as mentioned in the preceding section. By the 1950s Keynesian beliefs reigned supreme amongst government economists. For example, David Henderson joined the Economic Section of the Treasury in 1957 as a self-identified Keynesian and was pleased to discover that his fellow Treasury economists thought of themselves as Keynesians too.⁸⁸ Yet, from the mid-1960s Keynesian beliefs started to come under concerted attack from monetarists using new theories such as Friedman's expectations augmented Phillips curve and the GES

⁸⁷ Chapter 2 contains a definition of, and more detail on, the 'Keynesian consensus.'

⁸⁸ D. Henderson, *Innocence and design* (Oxford, 1986), p. 3.

began to be criticised for holding persistently strong Keynesian beliefs into the 1970s and beyond.⁸⁹ A 1970 article in *The Economist* reported on a speech delivered by Alec Cairncross, recently retired as the head of the GES, which dismissed Friedmanites as a ‘school of thought which comes very close to the old [interwar] Treasury view derided by Keynes.’⁹⁰ *The Economist* castigated Alec Cairncross for his derision of monetarism and claimed that Cairncross was:

what most modern economists would call an extremist in his dislike of Friedmanite policies . . . [and] had what most economists round the world would regard as a buzzing bee in his bonnet.⁹¹

The critique of GES economists holding firm Keynesian views in the 1970s (and up to the early 1980s), unlike the bulk of ‘modern’ economists, has continued to be expressed to the present day. For instance, writing on the topic of the controversial 1981 budget, economic journalist David Smith argued that the Treasury at the time ‘was overwhelmingly staffed by Keynesian economists left over from the 1960s and 1970s.’⁹² Philip Booth echoed David Smith’s sentiments by noting that during the period of the 1981 budget ‘the economic establishment in the civil service shared identical views’ to Keynesian academic economists in the UK.⁹³ Summing up, political scientist Peter Hall pithily put across the beliefs of advocates of what could be termed the GES-Keynesian critique with the claim that the ‘vast majority of government economists were virtually as Keynesian in 1979 as they had been in 1970.’⁹⁴

One undoubted believer in the GES-Keynesian critique was Margaret Thatcher and as Thatcher distrusted both civil servants and economists (she blamed civil servants for the ‘failed Keynesian-Beveridge consensus’ and claimed in 1979 to have ‘never understood Economists’), it is unsurprising that she was hostile towards the civil servant economists of the GES.⁹⁵ A revealing example of Margaret Thatcher’s dislike of government economists and their Keynesian leanings can be found in a spoof four

⁸⁹ For more on Friedman’s expectations augmented Phillips curve, see R. Backhouse, *The Penguin history of economics* (2002), pp. 296-7.

⁹⁰ ‘Anti-Friedmanism’, *The Economist*, 25 July 1970.

⁹¹ ‘Anti-Friedmanism’, *The Economist*, 25 July 1970, pp. 69-70.

⁹² D. Smith, ‘How Maggie beat the experts’, *Sunday Times*, 12 March 2006.

⁹³ P. Booth, ‘364 economists’, in Booth (ed.), *Were 364 economists all wrong?* (2006), pp. 97-8.

⁹⁴ P.A. Hall, ‘Policy paradigms’, *Comparative Politics*, vol. 25, 3 (1993), p. 287.

⁹⁵ Civil servant quote in: P. Hennessy, *Whitehall*, Rev. ed. (1990), pp. 591-2; ‘Economists’ quote in: M. Thatcher, ‘Speech to Parliamentary Press Gallery’, *Thatcher Archive Online*, 5 December 1979.

minute *Yes Minister* sketch written and performed by Thatcher in 1984. Thatcher decided to base the sketch on the premise of the Prime Minister (played by herself) wishing to abolish government economists as they ‘never agree on anything. They just fill the heads of politicians with all sorts of curious notions, like the more you spend, the richer you get.’⁹⁶ In 1980, a senior government economist anonymously expressed his fears that Thatcher also harboured suspicions that government economists were ‘all Keynesian fine-tuners . . . [who had been used by previous Labour administrations] as a vehicle to expand public expenditure’, a point similar to Alan Walters’s description of government economists as ‘arch-rationalizers’ as quoted in Section 3.2.⁹⁷

The abolition of government economists may have remained a fiction, albeit an evidently enjoyable fiction for Mrs Thatcher, but the new Conservative government did immediately endeavour to undertake a ‘process of de-Keynesianisation’ of the GES.⁹⁸ The most significant step in the de-Keynesianisation process was indisputably the announcement made in October 1979 that the new head of the Government Economic Service would be Terry Burns, a 35 year old monetarist academic from the London Business School. The ‘decapitation strategy’ of appointing a monetarist outsider as the head of the GES was not only symptomatic of the government’s desire to change radically the beliefs of the GES, it was also a move by Margaret Thatcher to effect a generational change in the GES and the civil service more widely, discussed later in this section. Furthermore, Terry Burns’s task was assisted from early 1981 to the time of the 1983 general election by the appointment of Alan Walters, another monetarist academic, from Johns Hopkins University, as the Prime Minister’s personal economic adviser (and thus a competing source of ‘official’ economic advice against the GES, giving GES economists an extra inducement to offer advice along the lines the Prime Minister wished to hear). The dual appointment of Walters and Burns led one Treasury official to comment that: ‘[w]e were petrified at what one of these real monetarists might actually do’, a remark which suggests that the GES-

⁹⁶ M. Thatcher and B. Ingham, ‘Thatcher script for Yes Minister’, *National Viewers’ and Listeners’ Awards*, 20 January 1984, copy available from the author.

⁹⁷ P. Hennessy, ‘Union panel’, *The Times*, 8 April 1980.

⁹⁸ P. Hennessy, *Whitehall*, Rev. ed. (2001), p. 396.

Keynesian critique does possess some real merit as the Treasury official had evidently never met a 'real' monetarist in government before.⁹⁹

The anonymous Treasury official quoted above may have been petrified by the prospect of 'real monetarists' but with regard to Terry Burns's mission to change the beliefs of GES economists Burns tended towards the gentle tactics of persuasion rather than the iron fist. For example, Peter Hennessy reported on a two-and-a-half day seminar held at the Civil Service College in January 1980 on the topic of 'monetarism in practice.'¹⁰⁰ All GES members at economic adviser and senior economic adviser grades were invited to the seminar, where the speakers were: Terry Burns as the principal speaker on 'policy options in the United Kingdom'; Adam Ridley (special adviser to the Chancellor, Geoffrey Howe), who spoke on the 'political economy of monetarism' with some balance given by the Labour MP Denzil Davies on the same theme; Bank of England economist Charles Goodhart, who spoke on 'implementing monetary targets'; City economist Richard Coughlan, whose topic was 'monetarism and the City'; and, academic economists William Buiter, Alan Budd and John Flemming, on the topics of 'what is monetarism?', 'monetarism, the international dimension' and 'monetarism and the company sector' respectively.¹⁰¹ However, de-Keynesianisation for most government economists was perhaps akin to pushing at an open door, for as Nigel Lawson has recently noted:

It was clear to a demoralized official Treasury that the [postwar] consensus had been tested to destruction, with the result that, although senior officials were sceptical, to say the least, of the new course we decided to chart, they had no alternative to offer.¹⁰²

Geoffrey Howe painted a similar picture to Nigel Lawson in his autobiography, writing that Treasury Permanent Secretary Douglas Wass:

was sceptically eager, along with most of his colleagues, to join in a genuinely fresh and determined onslaught on the "British disease" with which they had grappled so long.¹⁰³

⁹⁹ 'Sir Alan Walters', *Sunday Times*, 24 July 1988.

¹⁰⁰ P. Hennessy, 'Monetarists', *The Times*, 16 February 1980.

¹⁰¹ P. Hennessy, 'Monetarists', *The Times*, 16 February 1980.

¹⁰² N. Lawson, 'Changing the consensus', in Davies (ed.), *The chancellors' tales* (Cambridge, 2006), p. 115.

¹⁰³ G. Howe, *Conflict of loyalty* (1994), p. 126.

Furthermore, Peter Hennessy reported that GES economists made favourable comments about the January 1980 monetarism seminar at the time and, importantly, a slightly later newspaper article by Hennessy observed that the early hostility from the Thatcher government to the GES had died down by around Easter 1980 as it became apparent that the GES was not in fact a hotbed of unreconstructed Keynesians.¹⁰⁴

Therefore, given that the Thatcher government had itself concluded within a year of taking office that there was no serious Keynesian threat emanating from the GES, the claims mentioned earlier by Peter Hall, Philip Booth and David Smith that a large majority of government economists were Keynesians in 1979 requires a reassessment. While no definitive answer can be supplied as there exists no survey of the beliefs of GES economists in 1979, the stepping down of 'de-Keynesianisation' by the government in less than a year of taking office does suggest that government economists who may have viewed themselves as Keynesians in 1979 were not on the whole *committed* Keynesians and quickly adapted to the new regime. Peter Cropper, Geoffrey Howe's political adviser from 1979 to 1982, stated in a 1983 interview that he 'didn't feel on arrival [to the Treasury, that] one was confronting a collection of officials who were deeply committed . . . to some set of policies which we were challenging.'¹⁰⁵ Hugo Young has adroitly pointed out that the Treasury had already been implementing, albeit 'a little shame-facedly,' monetarist policies for three years prior to 1979 – as a condition of the loan from the IMF in 1976 – and that there 'were officials, and even economists, beginning to emerge as monetarists, disillusioned with the failures of Keynesianism.'¹⁰⁶ Interviews conducted for this chapter support the view that Keynesian beliefs were still prevalent in the GES in 1979 but also show that, crucially, Keynesianism was under challenge in 1979 and quickly lost the bulk of its followers by the early 1980s. For instance, in accordance with Hugo Young, there were undoubtedly a growing number of GES economists who were sympathetic to monetarism prior to the election of the Thatcher government. One of the interviewees, a Treasury macroeconomist, identified himself as being sympathetic to monetarism in early 1979 and two noneconomist civil servants remarked that they sensed a move

¹⁰⁴ P. Hennessy, 'Monetarists', *The Times*, 16 February 1980; P. Hennessy, 'Union panel', *The Times*, 8 April 1980.

¹⁰⁵ H. Young and A. Sloman, *But, Chancellor* (1984), p. 36.

¹⁰⁶ H. Young, *One of us* (1991), pp. 154-5.

amongst the more politically astute economists to monetarism at this time.¹⁰⁷ Furthermore, another government economist recalled that there were arguments over Thatcherite policies amongst government economists in 1979 but that the arguments had died down by 1981.¹⁰⁸ A Treasury microeconomist noted that Treasury officials were 'comfortable with Keynesianism' in 1979 but being 'comfortable' is not the same as being 'committed' and thus it should be no surprise that government economists could quickly become 'comfortable' with Thatcherite economics instead.¹⁰⁹

Nevertheless, there certainly did exist some committed Keynesian economists in government in 1979, mainly concentrated in the older generation, and through a combination of gentle pushing and voluntary jumping, something of a generational shift was enacted towards those who, as one former government economist suggested, were born after the wartime era and were more likely to believe in the efficiency of markets.¹¹⁰ Over the span of the first Thatcher government many committed Keynesians either: retired (such as Douglas Wass, the Permanent Secretary to the Treasury from 1974-83); moved away from the Treasury centre of power to more interventionist but less powerful departments like the Department of Trade and Industry; left the civil service altogether for more Keynesian-inclined bodies like the National Institute for Social and Economic Research (NIESR); or, in the most extreme case, that of Henry Neuberger (admittedly not in the senior generation as he was 36 at the time), the head of the Treasury's domestic economic forecasting and analysis team, left to become the economic adviser to the Labour leader.¹¹¹ By 1984, political scientist Colin Thain could only find scant details on 'pockets of reconstructed and unreconstructed Keynesians' that he suspected were lingering in Whitehall.¹¹²

¹⁰⁷ Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 5, *Former Treasury civil servant*, 23 October 2007; Interview No. 7, *Former senior civil servant*, 25 October 2007.

¹⁰⁸ Interview No. 11, *Former senior government economist*, 9 November 2007.

¹⁰⁹ Interview No. 6, *Former senior Treasury economist*, 23 October 2007.

¹¹⁰ Interview No. 1, *Former senior government economist*, 8 July 2004.

¹¹¹ DTI comment in: Interview No.13, *Senior Treasury economist*, 26 November 2007; NIESR comment in: Interview No. 9, *Former Treasury economist*, 9 November 2007; Henry Neuberger in: 'Economising on economists', *The Economist*, 7 September 1985 and J. Carr, 'Henry Neuberger [sic]' *The Guardian*, 11 January 1999.

¹¹² C. Thain, 'The Treasury and Britain's decline', *Political Studies*, vol. 32, 4 (1984), p. 586.

Keynes himself, in the latter (and usually unquoted) part of his famous musings on the power of ideas, showed that he was aware of the power of generational thinking in the civil service:

for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest.¹¹³

Similarly, former Thatcherite politician David Howell, reflecting on the 1980s, remarked that the struggle in the Conservative party was not between monetarists and Keynesians but between one generation and the next, which led Howell to ponder whether the same might have been true for government economists at the time.¹¹⁴ Indeed, the thoughts of Keynes and Howell are supported by the comments of all five of the interviewees for this chapter who were active in the civil service in 1979, each of whom noted that support for Keynesianism had in fact been strongest in the older generation.¹¹⁵ Chapter 2 suggests that part of the reason for a generational difference in the views of economists could perhaps have been the introduction of monetarist teaching in British economics departments in the 1960s and 1970s (albeit not in a wholehearted fashion at Oxford and Cambridge in particular) and this partial explanation was supported by a senior GES economist who was interviewed by Peter Hennessy in 1980. Hennessy remarked that ‘monetarist economics became a part of most university courses in the mid-1960s when the bulk of today’s GES were cutting their intellectual teeth’ and quoted the GES economist as agreeing that ‘anyone who had gone through the London School of Economics master’s course in the last 10 years would have had a fair dose of academic monetarism’.¹¹⁶ One institution that embraced monetarist teaching, the London Business School, supplied the new, and extremely young for such a position, head of the GES in Terry Burns. The appointment of Terry Burns, aged 35 in 1979, was in itself a significant generational change in the GES and one interviewee remarked that there was talk amongst the

¹¹³ Quoted in: H.D. Kurz, 'Whither the history of economic thought?' *European Journal of the History of Economic Thought*, vol. 13, 4 (2006), p. 473.

¹¹⁴ D. Howell, 'Keynesianism', in Hill (ed.), *Keynes, money and monetarism* (Basingstoke, 1989), pp. 93-4.

¹¹⁵ Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 6, *Former senior Treasury economist*, 23 October 2007; Interview No. 7, *Former senior civil servant*, 25 October 2007; Interview No. 13, *Senior Treasury economist*, 26 November 2007; Interview No. 1, *Former senior government economist*, 8 July 2004.

¹¹⁶ P. Hennessy, 'Union panel', *The Times*, 8 April 1980.

young government economists at the time of having t-shirts printed bearing the slogan ‘I’m younger than the Chief Economic Adviser.’¹¹⁷

Evidently, Burns’s appointment was not a ‘natural’ generational change from within the GES but one implemented by Margaret Thatcher and a large academic and political literature exists that examines whether or not there was what is termed a ‘Thatcher effect’ in the senior civil service as a whole, the most well-known investigation being the working party set up by the Royal Institute of Public Administration (RIPA) in 1987.¹¹⁸ Those who advocated the ‘Thatcher effect’ during the first half of the 1980s maintained that appointments in the senior civil service were politicised under Thatcher to the extent that ‘she promoted or appointed individuals who . . . were at least sympathetic to the [Conservative] party’s policies and, in particular, to the neo-liberal, monetarist policies of the early 1980s’ but by the second half of the 1980s the Thatcher effect charge evolved into something considerably more meek and merely alleged that Thatcher had created a subtle preference for top civil servants with a ‘can-do’ attitude.¹¹⁹ While Terry Burns’s appointment seems to fit perfectly the early 1980s variant of the Thatcher effect charge, an authoritative quantitative and qualitative study by political scientist David Richards of all promotions and appointments to the senior civil service from 1979-1990 found that there was no concerted attempt to accelerate the promotion of younger and more ‘sympathetic’ officials and thus only a heavily watered down variant of the Thatcher effect charge, if at all, could be made – a conclusion that was shared by the 1987 RIPA report.¹²⁰

The findings of David Richards and the RIPA working party correspond with the earlier point made in this section that ‘de-Keynesianisation’ in the GES did not amount to much after 1981 but nevertheless, there are two more interesting examples of Thatcher-influenced generational change worth raising. The Permanent Secretary of the Treasury in 1979 was Douglas Wass and he had publicly expressed doubts over monetary targeting in 1978 with the result that the government bypassed Wass and

¹¹⁷ Interview No. 11, *Former senior government economist*, 9 November 2007.

¹¹⁸ For a list of the main contributions on the ‘Thatcher effect’ see: D. Richards, *Appointments in the higher civil service* (Glasgow, 1993), p. 1; RIPA, *Top jobs in Whitehall* (1987).

¹¹⁹ D. Richards, *Appointments in the higher civil service* (Glasgow, 1993), pp. 3-4.

¹²⁰ D. Richards, *Appointments in the higher civil service* (Glasgow, 1993), p. 11; RIPA, *Top jobs in Whitehall* (1987), p. 51.

instead turned to Alan Walters, Terry Burns and Peter Middleton – Wass’s successor in 1983 – for advice.¹²¹ Peter Middleton was a Treasury administrator rather than economist (but he did hold a bachelors degree in economics from Sheffield and a masters degree in economics from Bristol) and, similarly to Terry Burns, he was known to be a staunch monetarist prior to 1979.¹²² In Middleton’s case, his belief in monetarism stemmed from the humiliating experience of negotiating with the IMF in 1976 for financial assistance for the UK and he was rewarded with a controversial promotion over several more senior Treasury men to replace Douglass Wass in 1983.¹²³ Peter Middleton’s influence was great enough for Anthony Seldon to deem Middleton the most influential civil servant of the 1980s, greater even than the Cabinet Secretary Robert Armstrong thanks to Middleton’s ‘influence on the evolution of [economic] policy during the period.’¹²⁴ Therefore, while there may not have been a civil service-wide Thatcher effect, the promotion of Peter Middleton in the Treasury and the appointment of Terry Burns in the GES is evidence that within the field of economic policy there was an important Thatcher-directed generational change.

One means of investigating the generational change amongst civil servants responsible for economic policy is through investigating the evolution of the Treasury macroeconomic model of the UK (or more simply, the ‘Treasury model’) over the early Thatcher transition period. In 1978 the Keynesian-influenced Treasury model contained over 650 equations and by the early 1980s the model had ballooned still further to contain over 1000 equations.¹²⁵ When the government published the Treasury model in 1980 it was still predominantly Keynesian in its assumptions and when trade union economists ran the 1981 budget through the published model they found that unemployment was expected to rise significantly as a result of the budget

¹²¹ P. Hennessy, *Whitehall*, Rev. ed. (2001), pp. 663-4.

¹²² Education of Peter Middleton in: Centre for Effective Dispute Resolution, ‘Biography of Sir Peter Middleton’, www.cedr.com, copy available from the author.

¹²³ IMF point in: ‘This man is writing the Budget’, *The Independent*, 16 March 1991; promotion point in D. Richards, *Appointments in the higher civil service* (Glasgow, 1993), p. 20.

¹²⁴ A. Seldon, ‘The Cabinet Office’, *Public Administration*, vol. 68, 1 (1990), p. 120.

¹²⁵ 650 figure in: D. Wass, ‘The changing problems of economic management’, *Economic Trends*, no. 293 (1978), p. 101; 1000 figure from Interview No. 2, *Former senior Treasury economist*, 12 October 2007.

changes.¹²⁶ However, while the trade union economists were working on the published model, Terry Burns (an academic macroeconomic forecaster in his previous job) was helping undertake a review of the model, a review that was described by *The Times* in 1983 as only involving ‘a few technical adjustments’ but three interviewees with knowledge of the model at the time have unanimously confirmed that the review in fact led to a massive overhaul of the model.¹²⁷ Interestingly, the changes made to the model – the incorporation of international monetarism and rational expectations theory, changes to the effects of lower inflation on the savings ratio, a crowding out mechanism and, overall, a huge reduction in the number of variables thanks to these changes – were not enforced by Terry Burns against the wishes of hostile economists working on the Treasury model but were instead spearheaded by the Treasury model team with Burns acting more as an encouraging overseer than as an enforcer.¹²⁸ One government economist who was heavily involved with the Treasury model at the time – including writing papers on the subject of incorporating rational expectations into the model – said that he wished to make the model ‘less of a machine’, illustrating the concerns he and fellow economic modellers held with the Keynesian model.¹²⁹ When the 1981 budget was run through the revised model the predicted rise in unemployment was much less dramatic than with the old model and these results were shown to skeptical trade union leaders at a NEDO meeting, with NEDO economists spending the subsequent two months explaining to the trade unions exactly how such a different picture was achieved.¹³⁰

The Treasury model is a useful example of the changes in the late 1970s and early 1980s, for it showed Terry Burns as an important figurehead of generational change in the GES and demonstrated that not only did GES economists quickly adapt to the changing economic and political climate, they actively clamoured for a degree of change that their critics have not allowed for. While the overall findings of this

¹²⁶ HM Treasury, *Macroeconomic model* (1980); Interview No. 4, *Former senior government and academic economist*, 16 October 2007.

¹²⁷ P. Hennessy, 'Breaking the logjam', 2 August 1983; Interview No. 4, *Former senior government and academic economist*, 16 October 2007; Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 11, *Former senior government economist*, 9 November 2007.

¹²⁸ Interview No. 4, *Former senior government and academic economist*, 16 October 2007; Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 11, *Former senior government economist*, 9 November 2007.

¹²⁹ Interview No. 11, *Former senior government economist*, 9 November 2007.

¹³⁰ Interview No. 4, *Former senior government and academic economist*, 16 October 2007.

section do not dispute the GES-Keynesian critique that a majority of government economists were most likely Keynesians in 1979, this section does find that the majority of government economists were not *committed* Keynesians in 1979 and many had dropped their Keynesian leanings by the early 1980s. The vast majority of the GES changed allegiance quickly enough for an initially suspicious government to drop a process of 'de-Keynesianisation' by very early on the 1980s and many of those who were genuinely committed Keynesians, predominantly from an older generation, left government service at this time, further speeding up generational change and adaptation to the new regime. Therefore, the GES survived and had to some extent won over the new Conservative government by the early 1980s but whether the GES went on to thrive in the 1980s is a separate question and one that is tackled in the next section.

Section 3.4: The influence of economics and civil servant economists in government II. The 1980s.

Section 3.2 outlined the strikingly large growth in the size of the GES in the 1960s and 1970s but noted that this was accompanied by and related to, a more modest and less consistent growth in the influence of economists and economics in government more generally. The 1980s bore witness to a very different trajectory in economist numbers. In a 1981 article, historian of economic thought Bob Coats confidently predicted that ‘it is clear that the peak in the numbers of professional economists . . . in Whitehall has been passed’ and as Figure 3.3 below shows, there was indeed around a 13% cut in economist numbers from the peak of 1978 to the trough of 1984.¹³¹ However, Bob Coats’s prediction was proved to be incorrect by the end of the decade as Figure 3.3 goes on to show a rapid recovery in economist numbers in the mid-to-late 1980s with the 1978 peak exceeded by 1989 (and GES numbers kept on growing in the 1990s and into the 2000s, with numbers exceeding 1000 by 2008, as Figure 3.1 in the chapter introduction details). The early 1980s cuts in the GES might seem unsurprising given Margaret Thatcher’s distrust of the GES, as outlined in Section 3.3, but when the recruitment figures of the GES are compared to the recruitment figures of the administrative class – as Figure 3.4 will detail in a novel approach – it appears that the more pertinent question to be tackled is not why economist numbers were initially cut then stabilised over the 1980s but rather why economist recruitment held up so well compared to that of administrators. Beyond the debate over the fluctuating size of the GES in the 1980s there are a number of contrasting narratives on the influence of economics and government economists that require careful treatment in order to tease out a cohesive account. On the one side, the influence of economists and economics rose with the growing influence of the Treasury (and to a lesser extent the growing influence of other economist-heavy departments involved in privatisation work, particularly the Department of Energy) but conversely, morale was weakened in the GES through increased competition with other economic advisers and a more ‘top-down’ government that was less inclined to listen to advice from civil servant economists.

¹³¹ A.W. Coats, 'Britain', *History of Political Economy*, vol. 13, 3 (1981), p. 401.

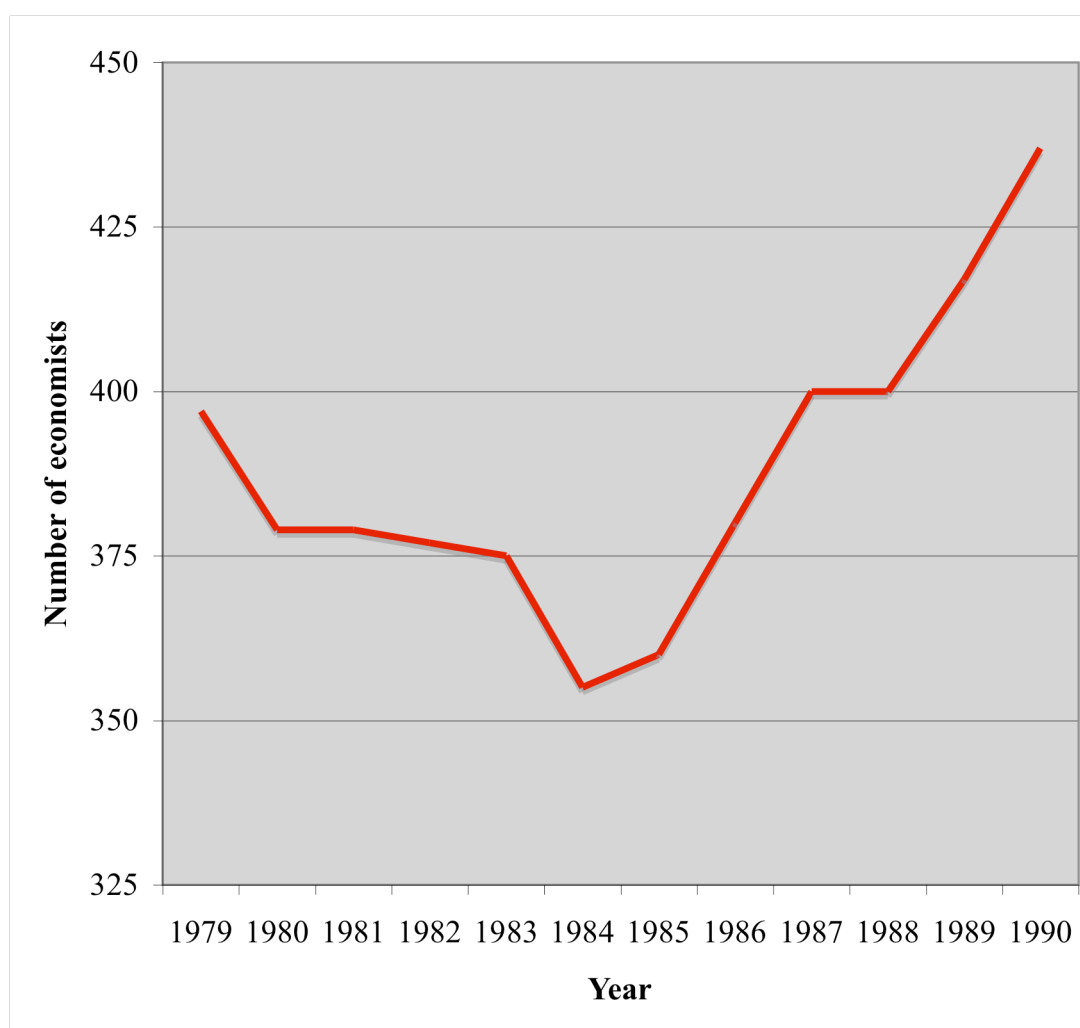
Section 3.3 explained that the incoming Thatcher government was suspicious of the GES and the civil service as a whole. Furthermore, given the poor condition of the government's finances bequeathed by the outgoing administration and the philosophy of a new government that was 'more concerned with the principles of good housekeeping than with those of economic planning,' an obvious area to begin cutting expenditure was in Whitehall itself.¹³² Within the first month of coming to power, Margaret Thatcher appointed Derek Rayner of Marks and Spencer (who had worked as a civil servant on defence procurement prior to joining Marks and Spencer) to lead a small team, given the moniker of 'Rayner's raiders' by the press, charged with scrutinising Whitehall expenditure.¹³³ Rayner's team was hugely successful and by 1987 300 scrutinies had been carried out, with savings of over £1 billion made, the equivalent of 22 new hospitals in 1987 prices.¹³⁴ Figure 3.3 below supplies the relevant statistics on the cuts made to the GES.

¹³² A. Gray and B. Jenkins, 'The state of policy analysis', in Gray and Jenkins (eds.), *Policy analysis and evaluation* (1983), p. 11.

¹³³ P. Hennessy, *Whitehall*, Rev. ed. (1990), pp. 592-4.

¹³⁴ P. Hennessy, *Whitehall*, Rev. ed. (1990), p. 599.

Figure 3.3: Growth of the Government Economic Service, 1979-90



Sources: P. Hennessy, 'Union panel', 8 April 1980, p. 4; R. Backhouse, 'Economics in mid-Atlantic', in Coats (ed.), *The development of economics* (2000), pp. 19-39; M. Thatcher, 'House of Commons Prime Minister's Questions', *Thatcher Archive Online*, 9 March 1982, copy available from the author; P. Hennessy, 'Breaking the logjam', 2 August 1983; 'Economising on economists', *The Economist*, 7 September 1985; R. Johnson, 'Heaven is a spell in the Treasury', *Financial Times*, 17 October 1990; R. Atkins, 'City demand', *Financial Times*, 24 August 1988; GES, *GES directory* (1989).

Note: data points for 1982, 1986 and 1990 are extrapolated from other years.

Figure 3.3 above shows a retrenchment in economist numbers from 379 in 1979 to 355 in 1984. Historian Brian Harrison has posited that the reason behind this early 1980s cut in GES numbers was not a Thatcher-led ideological attack on economists or even merely part of a Whitehall-wide trimming of the civil service but was instead the result of a realisation within government that the need for 'experts' in government had been exaggerated in the 1960s and therefore:

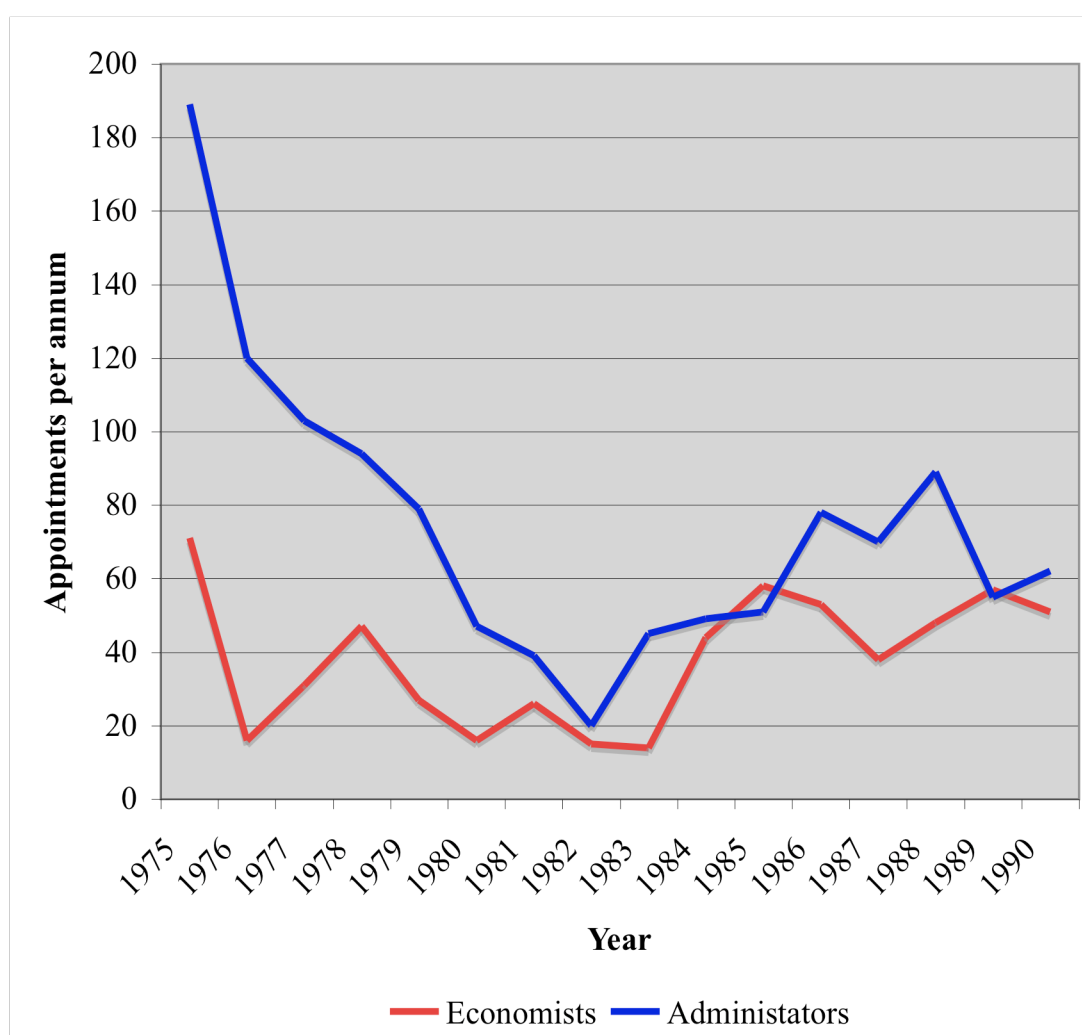
the continuous increase in the number of economists in the Government Economic Service – from twenty-one in 1964 to 317 in 1975 – was not so obviously beneficial as to be thought worth continuing into the 1980s.¹³⁵

However, deeper investigation provides good reasons to dismiss both Harrison's contention of a 1980s backlash against economists as well as the alternative explanation of an ideological attack on economists. The explanation for the early 1980s cuts as simply a small part of a general Whitehall efficiency drive remains as the sole plausible reason for the cuts.

Firstly, as Figure 3.3 above shows, the GES rapidly recovered from the low of 1984 and went on to reach a new high of around 437 economists by 1990, which tells us that any supposed backlash against economists in the 1980s was extremely short-lived and thus of little significance (and Section 3.3's findings on the quick abandonment of 'de-Keynesianisation' of the GES supports the view that any backlash was very short-lived). Secondly, and most importantly, by using Figure 3.4 and Table 3.1 below, we can observe that economists were not specially singled out for staffing reductions in the early 1980s and the relative strength of economists in government actually improved in both the early 1980s and across the 1980s as a whole.

¹³⁵ B. Harrison, *The transformation of British politics* (Oxford, 1996), p. 308.

Figure 3.4: Recruitment of economists and administrators, 1975-90



Sources: Civil Service Commission, *Annual report* (all reports from 1975 to 1990 inclusive).

Figure 3.4 shows that the administrative class witnessed a far greater drop in recruitment than the GES in the late 1970s and early 1980s (a 48% fall for administrators in 1978-84 against a fall of 13% for economists in the same period). Figure 3.4 also tells us that the GES quickly recovered and then exceeded its late 1970s level of recruitment by the late 1980s whereas the administrative class witnessed a substantially smaller recovery than the GES (in proportional terms) in the late 1980s. Therefore, the GES grew relatively stronger compared to administrators in manpower terms over the 1980s. Table 3.1 below follows by comparing economists with a similar branch of specialists, statisticians.

Table 3.1: Statisticians and economists in government, 1979-89

	1979	1984	1989
Statisticians	9001	6451	4228
% change from 1979	-	-28%	-53%
Economists	397	355	428
% change from 1979	-	-11%	8%

Source: C. Huhne, 'Lawson's number is up', *The Independent on Sunday*, 29 July 1990.

Table 3.1 above demonstrates that statisticians suffered greater proportional cuts in the early 1980s than economists did and furthermore, that statistician numbers were still being cut in the late 1980s during a period when the number of economists was growing to an all-time high. Additionally, William Plowden has noted that another grouping of government specialists, scientists, saw their numbers drop by 44 percent from 1979 to 1995.¹³⁶ Assessing this point on the fall of scientist numbers together with Figure 3.4 and Table 3.1 provides strong evidence to refute claims that economists were singled out for cuts in the 1980s. The strength of economists in numerical terms improved relative both to administrators and to comparable branches of specialists, such as statisticians and scientists. Again, this finding ties in with the point made in Section 3.3 that Thatcherites realised early in the 1980s that de-Keynesianisation of the GES was not required whereas the ministerial suspicion of civil servants in general remained throughout the 1980s under Mrs Thatcher's leadership. Hence, the 'cuts' in economists of the early 1980s were not an economist-centred backlash and can be ascribed instead to a particularly mild variant of the general Whitehall efficiency drive of the time. The new question that now arises from the evidence garnered above is why did government economists do so relatively well in this period of financial retrenchment in Whitehall?

Commentators on the GES have never analysed the GES's growth with respect to the growth of administrators or other specialists before but some authors have discussed more generally why economists in government might be well catered for in periods of

¹³⁶ W. Plowden, 'Teaching the government to think', *Times Higher Education Supplement*, 21 February 1997.

financial retrenchment. John Markoff and Veronica Montecino, in a international study of the growth of government economists, gave the powerful explanation that one ‘of the functions of post-Keynesian administrator-economists is to offer counsel as to who should lose their posts’ and thus economists can prosper while other civil servants lose their jobs.¹³⁷ Markoff and Montecino’s contention is well supported in our case of interest by the point that a key member of Derek Rayner’s team responsible for looking for potential efficiencies was a young GES economist called Dave Allen.¹³⁸ Additionally, one contemporary newspaper article gave the explanation of one GES member, John Barber, for the continuing high use of GES economists by the new Thatcher government. Mr Barber said that:

If you are looking hard at projects in the public sector with a view to cutting them, you need all sorts of appraisals that economists are trained to do, particularly in [the departments of] Environment and Transport.¹³⁹

The sorts of appraisals that Mr Barber obliquely refers to are those that come under the umbrella of cost-benefit analysis and a noteworthy point here is that it was the skills of microeconomists that proved useful in cutting public expenditure, not those of macroeconomists (Section 3.5 goes on to discuss government microeconomists in the 1980s).

Economists, therefore, possess high use value during government efficiency drives and the same applies to the Treasury, the department that oversees public expenditure. Hennessy noted that the Treasury’s ‘relative power surged to renewed heights after 1979’ and given that the Treasury was where the GES was headquartered and was the single largest and most prestigious employer of GES economists (with 17% of GES economists in 1980 and 20% of GES economists in 1989), a rise in the power of the Treasury could be expected to have a positive knock-on effect on the GES.¹⁴⁰ Similarly, political scientist Richard Rose has argued that a major reason for the relative success of economists and economics in government compared to other social

¹³⁷ J. Markoff and V. Montecino, 'The ubiquitous rise of economists', *Journal of Public Policy*, vol. 13, 1 (1993), pp. 42-3.

¹³⁸ Dave Allen reference in: P. Hennessy, *Whitehall*, Rev. ed. (1990), p. 594.

¹³⁹ P. Hennessy, 'Union panel', *The Times*, 8 April 1980.

¹⁴⁰ Quote from: P. Hennessy, *Whitehall*, Rev. ed. (2001), p. 396; 17% figure extrapolated from: A.W. Coats, 'Britain', *History of Political Economy*, vol. 13, 3 (1981), p. 395; 20% figure extrapolated from: GES, *GES directory* (1989); prestigious point in: P. Colvin, *The economic ideal* (Manchester, 1985), p. 58.

sciences is that the Treasury is the natural home for government economists and as the Treasury is *the* central department, its patronage has helped the spread of economics in Whitehall.¹⁴¹ Furthermore, the rising influence of the Treasury in the 1980s could itself have partly stemmed from the rising prominence in government of Treasury economists. Former Central Policy Review Staff (CPRS) employees Tessa Blackstone and William Plowden, writing on the power and influence of the Treasury, noted that Treasury generalists in the 1980s were:

supported by a specialist elite, in the form of professional economists, of a quality unmatched in other departments, working with the generalists in an integrated way still rare in Whitehall.¹⁴²

Section 3.2 argued that economists and generalists were on the whole kept apart in the Whitehall of the 1970s, including the Treasury – albeit to a lesser extent – but in the 1980s the Treasury led the way in bringing economists into the heart of government departments. One interviewee, a former Treasury economist, noted that by the mid-1980s economists in the Treasury were physically working alongside administrators in the same teams rather than being segregated in the more ‘hands-off’ advisory role that had characterised GES economists in the 1960s and 1970s.¹⁴³ On a related point, political scientist Keith Dowding believed that the Treasury was the department which most quickly dropped the generalist with a humanities degree tradition and instead embraced ‘professional economists from a wider social-class background [who] have [subsequently] reached and dominated at the top’ with positive results for the intellectual calibre of the Treasury.¹⁴⁴ Keith Dowding did not supply any figures to support his claim of the Treasury’s disavowal of the generalist ‘amateur’ tradition but Table 3.2 below provides some validation for Dowding, showing as it does a strong preference for economics and science graduates at the Treasury in the early 1980s.

¹⁴¹ R. Rose, *Policy research and government policy* (Glasgow, 1982), p. 9.

¹⁴² T. Blackstone and W. Plowden, *Inside the Think Tank* (1990), p. 84.

¹⁴³ Interview No. 10, *Former senior Treasury economist*, 9 November 2007.

¹⁴⁴ K.M. Dowding, *The civil service* (1995), p. 122.

Table 3.2: Recruitment of administrators to the Treasury, 1982

Degree subject	Number of entrants
Economics	6
Maths/economics	2
PPE	1
Economics, accountancy and financial management	1
Logic with maths	1
Environmental biology	1

Source: H. Young and A. Sloman, *But, Chancellor* (1984), p. 32.

Table 3.2 above suggests that it should not be surprising that economists and administrators become more integrated in the Treasury of the 1980s as many of the younger generation of administrators were to some extent economists themselves and more than *au fait* with the language and thought of economics – as a 1983 BBC Radio 4 show put it, everyone in the Treasury ‘now reckons to be some species of economist.’¹⁴⁵ While more data on the degree type of Treasury officials is unfortunately not available, political scientist Martin Bulmer supported the findings of Table 3.2 by stating in a 1988 article that in the Treasury ‘many of the generalist administrators now have degrees in economics.’¹⁴⁶ Peter Middleton, Permanent Secretary to the Treasury from 1983 to 1991, is the most famous 1980s example of a Treasury generalist with an economics background (Section 3.3 noted that Middleton held two degrees in economics) and Table 3.2 demonstrates that he was by no means an outlier either.

Peter Middleton’s successor in 1991 as Permanent Secretary to the Treasury was Terry Burns, promoted from his previous post as head of the GES and Chief Economic Adviser. Burns’s appointment as Permanent Secretary was the first time that a government economist had gone on to lead the Treasury and as such was the clearest sign possible that economists had come to be firmly embedded in the Treasury by the early 1990s. Terry Burns did much in the 1980s to increase the influence of economists in the Treasury and in the government more broadly, not only by his close association with Margaret Thatcher but also through the Medium Term Financial Strategy (MTFS), an idea initially developed by Burns and other economists

¹⁴⁵ H. Young and A. Sloman, *But, Chancellor* (1984), p. 29.

¹⁴⁶ M. Bulmer, ‘Social science expertise’, *Governance*, vol. 1, 1 (1988), p. 32.

at the London Business School.¹⁴⁷ The individuals interviewed for this chapter who were asked about the significance of Terry Burns were unanimous in commenting that he played a decisive role in increasing the profile of economists in government.¹⁴⁸ Certainly, for some Treasury economists, the 1980s was a period of great influence, with one interviewee commenting that economists provided much of the intellectual leadership in the Treasury at the time and then-Treasury economist Rachel Lomax, in a 1983 interview, went even further and confidently claimed that economists were ‘the higher intellectuals of the [Treasury] building’.¹⁴⁹ The Treasury was not the only department where economists enjoyed great influence, one interviewee noted that in the Department of Energy, electricity privatisation was led by economists (privatisation is studied in more detail in Chapter 5).¹⁵⁰

Nevertheless, many government economists were much less enamoured with the level of influence they possessed in the 1980s than the sources quoted above. Indeed, the low morale of the GES was discussed throughout the 1980s in contemporary media stories with morale seemingly affected by a range of factors, including: the cuts of the early 1980s; low pay, especially after the 1986 ‘big bang’ deregulation of the London Stock Exchange; difficulties in achieving promotion and status, especially compared to administrators; the impression that government economists were losing out in the ‘marketplace in economic ideas’ to other advisers; and, a feeling that economists were being used merely to justify political decisions rather than to offer impartial advice. Starting with the Rayner-inspired cuts of the early 1980s (detailed in Figure 3.3 near the start of the section) *The Economist* noted their effects in a article published in 1985 by stating that ‘morale has taken a beating [in the GES] after six years of cuts.’¹⁵¹ From the perspective of the present day, the cuts of the early 1980s appear to be a poor decision because the cuts made little savings as they were quickly reversed but the cuts still left a longer term legacy of damaged morale. However, the cuts could not be expected to have had a significant effect on the influence of economists or

¹⁴⁷ R. Backhouse, ‘Economics in mid-Atlantic’, in Coats (ed.), *The development of economics* (2000), p. 30; C. Thain, ‘The education of the Treasury’, *Public Administration*, vol. 63, 3 (1985), p. 264.

¹⁴⁸ Interview No. 2, *Former senior Treasury economist*, 12 October 2007; Interview No. 6, *Former senior Treasury economist*, 23 October 2007; Interview No. 13, *Senior Treasury economist*, 26 November 2007.

¹⁴⁹ Interview No. 2, *Former senior Treasury economist*, 12 October 2007; H. Young and A. Sloman, *But, Chancellor* (1984), p. 29.

¹⁵⁰ Interview No. 11, *Former senior government economist*, 9 November 2007.

¹⁵¹ ‘Economising on economists’, *The Economist*, 7 September 1985.

economics in government as the cuts in economist recruitment were small in comparison to the cuts in administrator recruitment (as Figure 3.4 shows) and thus the position of economists saw a relative improvement.

Moving on to other factors that caused low morale, taking together the complaints of low pay, low status and poor promotion prospects in the GES gives a range of indicators that could suggest that government economists were relatively weak in their influence. One fictional example of the low status that economists could still be held in is supplied by the BBC's satirical television series, *Yes Minister*. In an episode entitled *The Challenge*, first broadcast in November 1982, we encounter an economist by the name of Dr Richard Cartwright.¹⁵² Dr Cartwright works for a fictional department responsible for local government and is unflatteringly described in the book based on the television show as having the 'shambling figure of an elderly schoolboy'.¹⁵³ Interestingly, Dr Cartwright is revealed to be happy with his low status relative to administrators (he explains to his minister that he can rise no higher than the rank of Undersecretary) as 'the cult of the generalist had such a grip on Whitehall that experts accepted their role as second-class citizens with equanimity and without rancour'.¹⁵⁴ While we should be careful not to read too much into a fictional account that may have been based on an outdated image of government economists, the example of Dr Cartwright is illustrative of the point that in many of the non-Treasury departments, economists (and other specialists) had still not achieved equivalent treatment with generalists more than a decade after the publication of the Fulton Report. Economists did receive equivalent treatment with generalists in terms of their salaries but their promotion prospects were much worse, especially in the early 1980s. An article in *The Times* explained that promotion prospects were poor for economists in the early 1980s as the huge expansion in GES numbers in the early 1970s had inadvertently created a demographic bulge in the GES, with economists now 'stuck in a lump, [with] 195 of them at economic adviser level'.¹⁵⁵ By the late 1980s, however, the promotion prospects of economists had much improved but morale had not as the change in promotion prospects was caused by an exodus of government

¹⁵² Date of broadcast from: The Yes (Prime) Minister Files, 'Yes minister series 3, episodes 1-3', www.yes-minister.com, copy available from author.

¹⁵³ J. Lynn and A. Jay, *The complete yes minister* (1989), p 380.

¹⁵⁴ J. Lynn and A. Jay, *The complete yes minister* (1989), p. 381.

¹⁵⁵ P. Hennessy, 'Breaking the logjam', 2 August 1983.

economists to the private sector. A boom in the London financial services industry after the ‘big bang’ deregulation of the London Stock Exchange in 1986 caused a sudden upsurge in the demand for City economists, pushing up wages and decreasing the relative attractiveness of the GES. In 1987 alone 10% of GES economists resigned, including a startling 30% of economic advisers in the Treasury.¹⁵⁶ In 1988 the yearly resignation rate in the GES rose even higher to 11% and in the 1989 the yearly resignation rate surged to 22% of GES staff.¹⁵⁷ Recruitment to the GES also become more problematic in the late 1980s with, for example, only two candidates for every graduate entry position in 1987, a level that the Civil Service Commission described as being far below the minimum required to ensure high quality entrants.¹⁵⁸ However, the migration to the City quickly dropped to manageable levels by the time of the early 1990s recession as banks cut back on ancillary employees such as economists and the earlier problem of limited promotion prospects was itself eased by this late 1980s flight from the GES.¹⁵⁹

More attractive salary packages in the City was not the only reason proffered by current or potential government economists for their dissatisfaction with the GES in the 1980s and more significantly, claims that Thatcherite government ministers were less willing than their predecessors to take heed of disinterested advice from government economists were also aired. One well known economist who expressed his views on the diminishing influence of the GES in the 1980s was Charlie Bean. Bean was interviewed on a BBC Radio 4 programme in 1985, where he unfavourably compared his time in the Treasury in the early 1980s with that of early 1979.¹⁶⁰ For Bean:

Morale in the Treasury was really very good [in early 1979], certainly among the economists . . . And it was very noticeable when I came back [from the USA] two years later that morale had dropped quite significantly for the economists. They felt that the sort of work they were doing was much more in the nature of justification of politics rather than serious analysis of different policy options.¹⁶¹

¹⁵⁶ R. Atkins, 'City demand', *Financial Times*, 24 August 1988.

¹⁵⁷ R. Johnson, 'Heaven is a spell in the Treasury', *Financial Times*, 17 October 1990.

¹⁵⁸ D. Walker and F. Gibb, 'Concern at 'sorry state' of service', *The Times*, 31 May 1988.

¹⁵⁹ R. Johnson, 'Heaven is a spell in the Treasury', *Financial Times*, 17 October 1990.

¹⁶⁰ P. Hennessy, *Whitehall*, Rev. ed. (2001), pp. 682-3.

¹⁶¹ P. Hennessy, *Whitehall*, Rev. ed. (2001), pp. 682-3.

One interviewee for this chapter, who was one of the high number of Treasury economists who resettled in the City in 1987, added to Charlie Bean's comments by noting that it was apparent to him that economists outside the Treasury, especially those with a media profile (as many City economists had), were taken more seriously by the government.¹⁶² Another interviewee added that a further disincentive to remaining in the GES was that it was difficult to publish much economic research as ministers were worried that the media may have used it against the government, a problem that did not exist in the City or in academia.¹⁶³

GES economists also faced greater competition from outside government as the marketplace in economic ideas greatly expanded in the 1970s and 1980s and greater competition from within government as 'irregulars', most notably Alan Walters, were brought in to directly advise ministers (Chapter 4 studies the development of the marketplace in economic ideas in 1974-79, as outlined by Peter Hall, and argues that the marketplace continued developing into the 1980s).¹⁶⁴ Alan Walters spent two periods as personal economic adviser to Margaret Thatcher, once from 1981 to 1983 and a second time in 1989 that precipitated the resignation of then-Chancellor Nigel Lawson, a strong sign of the significance of Walters as an alternative source of economic advice in opposition to the Treasury. Alan Walters's time in government was steeped in controversy from the very day of his appointment as his salary of £50,000 (double that of the Prime Minister) annoyed the considerably lower paid professional government economists and was thought to have been offered as 'he was one of the very few economists who agreed with her [Thatcher].'¹⁶⁵ Nevertheless, Walters did work somewhat better with government economists than was first thought likely, particularly thanks to his belief that monetary policy was too tight in 1981.¹⁶⁶ Indeed, Alan Walters thought he had rubbed along well enough with government economists to enable him to boast in 1989 that after 'this auspicious beginning [the improvement in the economy from summer 1981], I acquired a considerable reputation at the Treasury and the Bank of England, and I received their full co-

¹⁶² Interview No. 9, *Former Treasury economist*, 9 November 2007.

¹⁶³ Interview No. 3, *Former Inland Revenue economist*, 15 October 2007.

¹⁶⁴ P.A. Hall, 'Policy paradigms', *Comparative Politics*, vol. 25, 3 (1993), pp. 275-96.

¹⁶⁵ 'Sir Alan Walters', *Sunday Times*, 24 July 1988.

¹⁶⁶ 'Sir Alan Walters', *Sunday Times*, 24 July 1988.

operation during the next years.¹⁶⁷ One anonymous Treasury official begged to differ and was reported as saying that Walters was ‘a fairly unlovable character . . . [and] he is not even a very good economist.’¹⁶⁸ Furthermore, Alan Walters was not the only competition for the GES inside government. Margaret Thatcher, especially in the early 1980s, regularly invited a range of other economists to Downing Street, such as City economists Gordon Pepper and Tim Congdon.¹⁶⁹ The Treasury, headquarters of the GES, was not even a bastion of GES-only economic advice, as Nigel Lawson held private meetings from 1986 with figures that included Walter Eltis, Geoffrey Maynard, Patrick Minford, Samuel Brittan and Mervyn King.¹⁷⁰

While it was far from unusual for ministers to seek alternative sources of economic advice in the 1960s and 1970s, it is fair to make the point, as Leslie Hannah did, that economic ‘irregulars’ were particularly dominant in the 1980s.¹⁷¹ Economic irregulars such as Alan Walters may have caused damage to the morale of the GES but they showed that the influence of economics and economists more broadly conceived was far from diminishing in government at the time. Furthermore, the government did clearly still value the GES as the recruitment figures to the GES, especially compared to that of administrators and comparable specialists, showed a strong preference by the government for a large in number GES, in both absolute and relative terms, over the decade as a whole. Looking back to the low morale caused by the promotion log-jam of the early 1980s and the subsequent exodus of government economists to the City post-1986 and it is evident that both of these problems were of a short term variety and did not constitute a serious threat to the influence of economists and economics in government even if they may have seemed to have done so to contemporaries. The problem of a low status given to economists in many non-Treasury departments was, however, a more important factor that partly inhibited the influence of economics and economists at the time. Even more significant is the claim that Thatcherite ministers were less willing to listen to the advice of the GES than their predecessors, although, as noted at the start of this paragraph, this is not the same

¹⁶⁷ A. Walters, 'My deviationist economics', *The Independent*, 26 October 1989.

¹⁶⁸ 'Sir Alan Walters', *Sunday Times*, 24 July 1988.

¹⁶⁹ Interview No. 7, *Former senior civil servant*, 25 October 2007.

¹⁷⁰ R. Backhouse, 'Economics in mid-Atlantic', in Coats (ed.), *The development of economics* (2000), p. 30.

¹⁷¹ L. Hannah, 'Economic ideas', in Furner and Supple (eds.), *The state and economic knowledge* (Cambridge, 1990), p. 355.

as economists in general becoming less influential in government as a wider range of economic advisers were consulted by Thatcherites instead. Conflicting evidence exists on the influence of the GES in the 1980s but clear evidence does exist to suggest that the head of the GES, Terry Burns, was greatly influential and that the Treasury took economists more seriously as they became better integrated with administrators (and Treasury administrators became more likely to have an economics background, such as Peter Middleton). The likelihood of ministers listening to disinterested advice from the GES may have declined over the 1980s, as critics such as Charlie Bean have proposed, but this is not the same as arguing that the influence of economists and economics declined. What economists critical of the government's attitude to the GES and economists who were much more positive (such as John Barber, quoted near the start of this section) may agree on is that the influence of those espousing monetarist and free market-oriented economics rose, along with the influence of those involved in economic appraisals that could be used to cut public expenditure, whereas the influence of economists with dissenting economic views diminished in the 1980s.

Those advocating dissenting economic views were strongly associated with the Keynesian macroeconomic school of thought whereas areas of economics that Thatcherites preferred such as monetarism, economic liberalism in general and microeconomic appraisal techniques in particular, range across the spectrum of macroeconomics and microeconomics. Therefore, based on this Thatcherite preference we can make the prediction that microeconomics in the GES would increase in importance over the course of the 1980s and the following section tests whether this was in fact the case.

Section 3.5: A microeconomic revolution? The 1980s.

Chapter 2 argued that while the coming of Thatcherism in the economic policy sphere was (and still is) often portrayed as a clash between two schools of macroeconomic thought, Keynesianism and monetarism, monetarism was only one strand of Thatcherite economic thinking and much of Thatcherite economic thinking was oriented towards microeconomics. This section explores the question of whether or not the intellectual interest in microeconomics amongst Thatcherites translated into a shift in the work of the Government Economic Service towards microeconomics in the 1980s. To understand the importance of microeconomics in the 1980s GES, a brief review of the development of microeconomics in government in the postwar period is undertaken followed by an analysis of the number (and field of work) of GES microeconomists and macroeconomists in the 1980s. Leading on from the analysis of 1980s GES staff, the question of the changing prestige attached to microeconomists and macroeconomists is tackled as the numbers of certain types of economists may not be as important a factor as the prestige accorded to them.

Starting with the immediate postwar period, it is evident that one result of the Keynesian revolution, as documented in Section 3.2, was that macroeconomics was the dominant strain of economics in government. David Henderson joined the Economic Section in the Treasury in 1957, and, reflecting on those days, remarked that:

My own view of the world, at the time when I was still a newcomer in Whitehall, was I think widely shared in the profession and by informed people outside it. I thought that issues of macroeconomic policy were of dominant importance¹⁷²

Henderson's macroeconomic dominance point is further emphasised by a 1961 article of his that disbelievingly noted that the Ministries of Labour, Transport, Housing and Local Government plus the Board of Trade (all 'natural' homes for microeconomists) did not employ any economists at all while the Treasury (the 'natural' home for macroeconomists) and the Ministry of Agriculture (a somewhat separate area from the rest of government economics) were the only two large employers of government

¹⁷² D. Henderson, *Innocence and design* (Oxford, 1986), p. 7.

economists at the time.¹⁷³ However, Section 3.2 also noted that by the 1960s and 1970s – at the same time that macroeconomics was undergoing something of a crisis – microeconomists in government were successfully becoming ever more involved in applying cost-benefit techniques across a range of departments, from transport to education to health. While the success of microeconomists in the 1960s and 1970s is little mentioned in the academic literature, a 1968 article by the economic historian Michael Postan did approvingly remark on an ‘incipient swing among economists towards the micro-economic problems of government’ after the difficulties encountered by then Labour advisers Nicholas Kaldor and Thomas Balogh, as outlined in Section 3.2.¹⁷⁴ Nevertheless, the prestige of microeconomists in government remained relatively low until at least the late 1970s. One former Treasury microeconomist recalled in an interview conducted for this chapter that Treasury microeconomists in the 1970s were herded together on the top floor of the Treasury building and kept away from the policymakers while a 1979 investigation into the formation of government economic policies contended that it was not until the late 1970s that ‘officials who had previously felt that these things were beneath them began to pay more and more attention to micro-economic matters’.¹⁷⁵

The prestige attached to macroeconomists may have still been greater in 1979 than that attached to microeconomists but as Table 3.3 below shows, microeconomists were considerably more numerous in government than their macroeconomist brethren by 1979.

¹⁷³ D. Henderson, 'The use of economists', *Oxford Economic Papers*, vol. 13, 1 (1961), pp. 7-8.

¹⁷⁴ P. Colvin, *The economic ideal* (Manchester, 1985), p. 69.

¹⁷⁵ Interview No. 10, *Former senior Treasury economist*, 9 November 2007; W. Keegan and R. Pennant-Rea, *Who runs the economy?* (1979), p. 36.

Table 3.3: Distribution and classification of GES economists in 1979

Department	Microeconomists	Macroeconomists	Unknown	Total
Treasury	17	43	4	64
Department of the Environment and Transport	51	3	6	60
Department of Trade and Industry	33	9	4	46
Overseas Development Administration	12	2	23	37
Department of Employment	22	10	4	36
Ministry of Agriculture, Fisheries and Food	16	5	5	26
Scottish Office	25	0	0	25
Department of Energy	11	4	3	18
Department of Health and Social Security	13	0	4	17
Other departments	42	9	17	68
Total	242	85	70	397
Percentage	61%	21%	18%	

Source: GES, *GES directory* (1979).

Note: 'Unknown' refers to those listed with job descriptions that are too vague to allow classification or are incompatible with the microeconomic or macroeconomic categories.

Looking at Table 3.3, the continuing prestige attached to macroeconomists in the 1980s can perhaps be understood by linking the points that the Treasury was the most prestigious department (as it was the core department for economic policy, the headquarters of the GES and the largest employer of economists) and that the Treasury was also overwhelmingly a macroeconomics department which contained the largest grouping of macroeconomists in both absolute and relative terms. Nevertheless, out of those economists that we can confidently classify as being either a macroeconomist or a microeconomist, 242, or 74%, were microeconomists with only 85 or 26% employed as macroeconomists. Table 3.4 below supplies the equivalent figures for 1989, allowing a comparison across the decade.

Table 3.4: Distribution and classification of GES economists in 1989

Department	Microeconomists	Macroeconomists	Unknown	Total
Treasury	24	49	5	78
Department of the Environment and Transport*	47	4	1	52
Overseas Development Administration	6	0	31	37
Department of Health and Social Security*	31	0	1	32
Department of Trade and Industry	22	5	4	31
Scottish Office	26	0	0	26
Department of Employment	17	3	3	23
Ministry of Agriculture, Fisheries and Food	15	4	4	23
Department of Energy	11	5	2	18
Other departments	75	13	8	96
Total	274	83	59	416
Percentage	66%	20%	14%	

Source: GES, *GES directory* (1989).

Notes: * refers to a department that was split into two by 1989 but is kept together in this table for comparison with the 1979 figures; 'Unknown' refers to those listed with job descriptions that are too vague to allow classification or are incompatible with the microeconomic or macroeconomic categories.

Comparing Table 3.4 with Table 3.3 shows that there was a swing away from macroeconomists and towards microeconomists over the 1980s but that the magnitude of the swing was fairly small. The number of macroeconomists dropped by two from 1979 to 1989, from 85 to 83 and the number of microeconomists increased by 32, from 242 to 274. Out of those that we can confidently classify as being either a macroeconomist or a microeconomist, the percentages changed from 74% classified as microeconomists in 1979 to 77% classified as microeconomists in 1989, undoubtedly a shift towards favouring microeconomists but arguably not a significant change. Interestingly, the Treasury kept roughly the same proportion of macroeconomists to microeconomists from 1979 to 1989 and given the argument made in the preceding paragraph about the prestige of the Treasury, we could

therefore predict, on the basis of Tables 3.3 and 3.4, that macroeconomists maintained an incontestably high level of prestige over microeconomists throughout the decade.

Testing the prediction of an unchanging disparity of prestige amongst the two branches of economists over the 1980s can be explored using evidence from government economists, ministers and the small amount of contemporary and academic literature on the topic. The introductory paragraph made the point that Thatcherites were strongly interested in microeconomics and a powerful example of a Thatcherite minister with a keen interest in microeconomics existed in the shape of Nigel Lawson. Lawson was Chancellor of the Exchequer from 1983-9 but was also Financial Secretary to the Treasury from 1979-81 (and Energy Secretary from 1981-3) and he made his concern for microeconomics clear from his time as Financial Secretary onwards. In a 1981 speech in Zurich, Lawson argued that the word 'monetarism' was inadequate as a description of the government's economic policy and that there were in fact twin strands of government economic policy, one on the microeconomic side and one on the macroeconomic side, which he conjoined with his supposedly self-coined phrase the 'enterprise culture' (the real origins of the 'enterprise culture' phrase are discussed in Chapter 4).¹⁷⁶ Lawson's most famous articulation of the economic philosophy of the Thatcher administrations came in 1984, with the delivery of the Mais Lecture at the City University Business School. Lawson's Mais Lecture explained that the government had shifted from the postwar consensus of using macroeconomic policy to promote growth and microeconomic policy to control inflation to using instead macroeconomic policy to control inflation and 'microeconomic (or supply-side) policy, such as tax and labour market reform, to provide the conditions favourable to improved performance in terms of growth and employment.'¹⁷⁷ This reversal of economic policy required a passive macroeconomic policy and an activist microeconomic policy and can be taken as a strong signal of the increased importance placed on microeconomics during the Thatcher governments. However, Nigel Lawson made the accusation in his memoirs that the Treasury and the Government Economic Service did not sufficiently change to incorporate the Thatcherite shift towards microeconomics. Lawson contended that:

¹⁷⁶ N. Lawson, *The view from No. 11* (1993), pp. 63-5.

¹⁷⁷ N. Lawson, *The view from No. 11* (1993), pp. 9 and 416-21.

Partly because of the Treasury's obsession with short-term economic forecasting, partly because of the strong Keynesian tradition in the UK, the Chief Economic Advisor is invariably a macro-economist, and Terry [Burns] was no exception. I increasingly felt the lack of a first-class micro-economist, with a good understanding of tax and financial issues, who was broadly sympathetic to what I was seeking to do.¹⁷⁸

Terry Burns himself was only too aware of the criticism that the Treasury (and by extension, the most prestigious segment of the GES) possessed too great an attachment to macroeconomics over the course of the 1980s. Burns rebutted that the Treasury was not overly wedded to macroeconomics but merely that this was the misjudged public perception of the Treasury (as to what Burns thought of Lawson, the ultimate insider, sharing this public perception, we sadly do not know). Burns bemoaned the fact that 'public comment usually accords far too much importance to the Treasury's role in macro- as opposed to microeconomic policy' and pointed out that the Treasury spent much of its time working with other departments in a self-chosen role as an advocate for improved supply-side economic performance.¹⁷⁹

Nigel Lawson was skeptical of Terry Burns's description of a microeconomics-oriented Treasury and with Table 3.4 showing a continued dominance of macroeconomists in the Treasury in 1989 we have good reason to hold greater sympathy with Lawson's belief. Interviews conducted for this chapter provide further support for Lawson claims of a highly macroeconomics-oriented Treasury. One former civil servant who worked in Margaret Thatcher's Private Office recalled that macroeconomists Terry Burns and Alan Walters were the only economists who regularly appeared in Thatcher's office and the Deputy Chief Economic Adviser (the top microeconomist at the time), Ian Byatt, did not really feature.¹⁸⁰ A former Treasury economist remarked that macroeconomists were still in the ascendance during his time at the Treasury in the mid-1980s as the perceived 'big hitters' were all macroeconomists.¹⁸¹ Additionally, another former Treasury economist made the point that microeconomics was the poor relation to macroeconomics in the Treasury of the late 1970s and early 1980s (Treasury microeconomists were snobbishly regarded as

¹⁷⁸ N. Lawson, *The view from No. 11* (1993), p. 265.

¹⁷⁹ T. Burns, 'Some reflections on the Treasury', in Holly (ed.), *Money, inflation and unemployment* (Aldershot, 1994), pp. 43-4.

¹⁸⁰ Interview No. 7, *Former senior civil servant*, 25 October 2007.

¹⁸¹ Interview No. 9, *Former Treasury economist*, 9 November 2007.

being on a par with the less well thought of Department for Trade and Industry by the macroeconomists) but that by the late 1980s there was undoubtedly some shift in the power balance towards microeconomists.¹⁸²

One example of an informed critic who worked outside government but shared Lawson's view that macroeconomic favouritism existed in the Treasury was David Simpson, a professor of economics at Strathclyde University. In a trenchant attack in 1987, David Simpson wrote that the Treasury 'houses a concentration of professional economists performing largely redundant activities'.¹⁸³ Simpson went on to make the point that:

Since 1979, the Government has deregulated and decontrolled the economy, yet as the number of instruments of economic policy has shrunk, the number of economists employed in Government service has increased.¹⁸⁴

However, David Simpson's supposed paradox of an increasingly deregulated economy presided over by a growing number of government economists is not a paradox at all. Tables 3.3 and 3.4 illustrate that the growth in the size of the GES came entirely from an increase in the number of microeconomists and looking at where exactly this growth in microeconomists occurred, as Table 3.5 below does, shows why a deregulated economy could non-paradoxically accommodate a greater number of government microeconomists.

Table 3.5: Departments with largest growth in microeconomists, 1979-89

Department	Microeconomists in 1979	Microeconomists in 1989	Increase
Department of Health and Social Security*	13	31	18
Training Agency	N/A	18	18
Treasury	17	24	7
Office of Fair Trading	8	15	7
Employment Service	N/A	6	6
Monopolies and Mergers Commission	6	10	4

Note: * refers to a department that was split into two in 1988 but is kept together in this table for comparison with the 1979 figures.

¹⁸² Interview No. 6, *Former senior Treasury economist*, 23 October 2007.

¹⁸³ D. Simpson, 'Wanted, a mission', *Financial Times*, 20 August 1987.

¹⁸⁴ D. Simpson, 'Wanted, a mission', *Financial Times*, 20 August 1987.

The departments listed in Table 3.5 all have valid explanations for increasing employment of microeconomists over the 1980s era of deregulation. The Department of Health and Social Security (DHSS) worked in an area that did not witness significant deregulation in the 1980s, furthermore, as noted in Section 3.2 and Section 3.4, with the pressure on public finances in the 1980s, demand for microeconomists to work in big spending departments such as the DHSS increased as microeconomists could be used to try and limit rises in departmental spending. Moving on to the Training Agency and the Employment Service, both fitted comfortably into Nigel Lawson's activist microeconomic policy as they were intended to correct market failures and hence required microeconomists to identify these market failures (in this case in the labour market), as Lawson explained in the Mais Lecture, 'micro policy is . . . wholeheartedly designed to make the economy work better'.¹⁸⁵ The Office of Fair Trading and Monopolies and Mergers Commission similarly fitted into Lawson's activist approach to microeconomic policy as they used microeconomists to identify market failures and as the Thatcher government put more emphasis on using 'supply-side policy . . . to promote growth and employment' in Lawson's words then more staff were needed to do the 'promoting'.¹⁸⁶ Finally, the Treasury could arguably have required more microeconomists at a time of deregulation, for as Terry Burns was quoted as remarking earlier in this section, the Treasury took it upon itself to promote the need for deregulation and supply-side policies to other departments and thus needed more microeconomists to make its case.

The study in this section of government microeconomists illustrates the importance of comparing the rhetoric of ministers (and civil servants) with the actual work performed by civil servants. Thatcherite ministers, most notably Nigel Lawson, made great reference to a change in government economic policy from an activist macroeconomic policy to an activist microeconomic policy, a shift that the Chief Economic Adviser Terry Burns was, unsurprisingly, keen to insist had been implemented. While this shift towards microeconomics may sound 'revolutionary' if taken at face value, on closer inspection there was no revolution in terms of staffing but instead a small evolution in favour of microeconomics by the end of the 1980s. In 1979 the GES was already overwhelmingly staffed by microeconomists, 242 of them,

¹⁸⁵ N. Lawson, *The view from No. 11* (1993), p. 416.

¹⁸⁶ N. Lawson, *The view from No. 11* (1993), p. 421.

with only 85 macroeconomists. By 1989 the ratio of microeconomists to macroeconomists had only increased by three percentage points, with 274 microeconomists and 83 macroeconomists in the GES. Significantly, the Treasury remained the largest and most prestigious department for economists and it was in the Treasury that macroeconomists were dominant, in both prestige and in numbers, in both 1979 and 1989. Nevertheless, there was some shift towards microeconomists as the focus on supply-side policies and a concern to keep control of public expenditure were both favourable to the recruitment of microeconomists but to call this shift a revolution would be a misnomer.

Section 3.6: Conclusion

‘By then, if the Government Economic Service has thrived, the papers may be thought to have historical value.’¹⁸⁷

Note dated 20 August 1965 from a Treasury official justifying the decision to keep the records on the creation of the GES in the Public Record Office with a 30 year bar on access.

This chapter examines both economics in government and civil servant economists from the 1960s to the 1980s and makes the argument that civil servant economists are understudied, yet distinctive and of enough historical interest to be worthy of study separate from other economic advisers.

Section 3.2 focuses on the influence in government of economics and civil servant economists in the 1960s and 1970s and argues that a significant, positive increase in influence occurred over the period. Yet, this growth in influence was not of a comparable scale or consistency as the massive growth in GES numbers over the same period might initially suggest. Administrators became increasingly trained in economics and the language of economics began to dominate the Treasury but politicians retained a degree of skepticism over the value of economics and economists. Furthermore, economists were generally kept apart from administrators in departments, which acted as a break on the growing influence of economists.

Section 3.3 deals with the specific question of whether or not the GES could accurately be described as being Keynesian in 1979 and concludes that while the majority of GES members probably could be described as being Keynesian in 1979, the quick adaptation by the GES to the new Thatcher regime suggested that government economists were not *committed* Keynesians in 1979. The speedy adaptation by the GES to the Thatcher administration was helped by: the experiences of the 1970s; retirements and resignations by committed Keynesians; and, by a generational change that was partly stimulated by Thatcher herself.

¹⁸⁷ Endnote dated 20 August 1965 in: TNA: PRO T 199/875.

Section 3.4 concentrates on the 1980s and refutes claims that the GES was singled out for downsizing in the early 1980s by arguing that the GES improved its relative strength compared to administrators and related specialists and had even grown to an all time high in numbers by the late 1980s. Section 3.4 also argues that the influence of economics and economists did increase significantly in government over the 1980s, partly thanks to a favouring of economists during cost-cutting conditions and the increasing prominence of the Treasury over the decade. However, the most influential economists were often ‘irregulars’ like Alan Walters and the propensity of ministers to listen to disinterested economic advice from GES economists declined.

Section 3.5 continues with the 1980s but concerns itself with an investigation of microeconomists in government. Thatcherites placed a greater emphasis on microeconomics but the section discovers that the GES did not significantly change over the 1980s to incorporate this Thatcherite preference, both in terms of the proportion of microeconomists and the prestige attached to microeconomists in the GES. However, the GES was already dominated in numerical terms, if not in status terms, by microeconomists in 1979.

The chapter taken as whole puts forward the view that economics and economists in government continued to grow in influence from the 1960s to the 1980s. However, we should not assume that the rise in influence of economics and economists was steady and continuous as the importance that politicians and senior civil servants placed on economics and economists varied with the personalities and conditions of the time.

Chapter 4: Thatcherite politicians and the marketplace in economic ideas

Section 4.1: Introduction

One interesting development over the 1960s and 1970s which was closely linked with the formation of Thatcherite economic thinking was the substantial growth of what has been termed the ‘marketplace in economic ideas’ and this chapter assesses and builds on the existing body of academic work on this marketplace. While an arguably new and distinctive *marketplace* in economic ideas was created, which moved beyond the previous policymaking circle of politicians, Whitehall, the Bank of England and a small number of favoured academics, the need for *marketing* economic ideas and policies – another topic of study for this chapter – had long existed and was recognised as such. Alec Cairncross, very much a member of the older, more closed, British economic policy world as an academic turned government economist, admitted in 1968 that there ‘is a marketing aspect to [economic policy] advising as well as a production aspect.’¹ Similarly, the emerging marketplace in economic ideas had parallels with the interwar years where the depression ‘precipitated a fragmentation of authority’ and gave an opportunity to Keynes and his followers such as Richard Kahn to influence and challenge political debate.²

The phrase ‘marketplace in economic ideas’ is most strongly associated in the academic literature with the political scientist Peter Hall, although the phrase predates the work of Hall.³ Hall argued that the Treasury lost much of its influence over government ministers in the mid-1970s after a ‘series of mistaken forecasts and policy failures’ that cast doubt on Keynesian views of the economy.⁴ The Treasury’s loss of influence spurred on agents who advocated monetarist policies in a dramatic expansion over 1975 to 1979 of a marketplace in economic ideas outside Whitehall.⁵ The media, City brokerage houses and new research institutes were all identified by

¹ A. Cairncross, ‘The work of an economic adviser’, *Public Administration*, vol. 46, 1 (1968), p. 5.

² M.J. Oliver and H. Pemberton, ‘Learning and change’, *Governance*, vol.17, 3 (2004), p. 422.

³ An early usage of the phrase appears in: W.W. Brown and M. Reynolds, ‘d’Arge and Hunt on externalities’, *Environmental Affairs*, vol. 1, 4 (1972), p. 837.

⁴ P.A. Hall, ‘Policy paradigms’, *Comparative Politics*, vol. 25, 3 (1993), p. 285.

⁵ P.A. Hall, ‘Policy paradigms’, *Comparative Politics*, vol. 25, 3 (1993), pp. 285-6.

Hall as newly significant players in this marketplace, alongside already existing players such as political parties and organised interest groups.⁶

Peter Hall centred on the transition from Keynesianism to monetarism in late 1970s Britain but economic historians Michael Oliver and Hugh Pemberton, in an extension of Hall's work, have added that New Classical macroeconomics, supply-side economics and public choice theory were all ideas which circulated in the marketplace and provided an important intellectual stimulus for Thatcherism.⁷ This chapter will include the broad range of marketplace ideas that Oliver and Pemberton set out, as well as adding Austrian ideas to the mix and studying the degree of congruence between the ideas circulating in the marketplace. Furthermore, a wider range of marketplace players will be analysed and over a longer time period than those identified by Hall, from politicians on the 'buying' side to businessmen, the City and City economists, thinktanks, financial journalists and academic economists on the 'selling' side. Analysis of the development in the marketplace in economic ideas often halts in 1979, as Hall's analysis did, which gives the misleading impression that Thatcherite ideas were fully formed in 1979 and did not evolve over 11 years in power. Oliver and Pemberton's analysis, however, extended to the 1980s but concentrated on macroeconomic changes.⁸ This chapter does not assume that the marketplace in economic ideas had served its purpose by 1979 and instead studies the continued development of the marketplace in the 1980s in both macroeconomic and microeconomic areas.

Extending Hall's analysis both chronologically and in terms of the number of different economic ideas circulating in the marketplace greatly extends the area of study. However, the scope of work will be reduced by concentrating on studying the marketplace in terms of its influence upon Thatcherite thinking and policy rather than the broader influence of the marketplace upon other politicians, other elites and the general public. The chapter is structured into sections dealing with various segments of the marketplace in economic ideas. Section 4.2 begins the chapter proper with a study of sellers in the marketplace, concentrating on the economic ideas and

⁶ P.A. Hall, 'Policy paradigms', *Comparative Politics*, vol. 25, 3 (1993), p. 289.

⁷ M.J. Oliver and H. Pemberton, 'Learning and change', *Governance*, vol.17, 3 (2004), pp. 430-1.

⁸ M.J. Oliver and H. Pemberton, 'Learning and change', *Governance*, vol.17, 3 (2004), pp. 432-4.

economists associated with those ideas peddled in the marketplace. Section 4.3 continues the theme of sellers in the marketplace, this time with a focus on the ‘middlemen’ such as businessmen, thinktanks, journalists, the City and City economists who did much of the selling in the marketplace and charts their influence upon Thatcherite politicians. Section 4.3 moves on to study the interaction of Thatcherite politicians and the media in the area of the changing language used to describe the market and market-oriented thinking from the 1960s to the 1980s. Finally, Section 4.5 concludes the chapter by focussing on Thatcherite buyers and studies how and why Thatcherite politicians ‘bought’ and adapted various economic ideas from the marketplace. As the chapter will show, the structure employed of studying economic ideas then middlemen purveying these ideas then finishing with Thatcherite buyers should not be taken as implying that Thatcherite economic thinking was created by a simple and linear process of transmitting ideas from ‘economic thinkers’ to ‘economic doers.’ Thatcherite politicians were far from being empty vessels waiting to be filled up with ideas from sellers in the marketplace in economic ideas but were instead well-informed buyers who cherry-picked and adapted ideas to fit their own pre-existing thinking.

Section 4.2: Sellers in the marketplace I: economic ideas and economists

Historians of economic thought typically ignore the role of politicians in the development of economics but as Bradley Bateman has argued, ‘Thatcher is at the center of the history of economic ideas at the end of the twentieth century’ as she played a part in the collapse of the Keynesian consensus, the rise and fall of monetarism, the fall of the Soviet Union and the rise of neoliberalism.⁹ Studying the reception of Thatcherite politicians to the economic ideas of the time can give us a better understanding of the economic thought of the period. For instance, as has been well documented in the academic literature, a coalition of New Right economic ideas ranging from supply-side economics, monetarism and rational expectations, Austrian economics and public choice economics was assembled by economists and marketplace agents, often originating in the USA, with the aim of rolling back the state in the USA, Britain and across the world.¹⁰ However, as this section will argue, when we study the reception of these four schools of economic thought – supply-side, monetarism/rational expectations, Austrian and public choice – by Thatcherite politicians, we can see that this coalition of ideas could be at times a fractious coalition with different, sometimes incommensurable, ideas which jostled for attention and had widely varying levels of influence upon the thinking and policies of Thatcherite politicians.

A case in point is the example of supply-side economics although supply-side economics has an unusual twist in that it was mainly developed by financial journalists, Jude Wanniski of the *Wall Street Journal* being the most famous proponent, rather than by academic economists as the other New Right schools of thought were.¹¹ The term ‘supply-side economics’ was coined in 1976 by an opponent of the supply siders, Herbert Stein of the University of Virginia but the intellectual

⁹ B.W. Bateman, 'Margaret Thatcher in the history of economic thought,' *Journal of the History of Economic Thought*, vol. 24, 3 (2002), p. 308.

¹⁰ See, for example: D. Harvey, *A brief history of neoliberalism* (Oxford, 2005); D. Yergin and J. Stanislaw, *The commanding heights* (1998); M. Prasad, *The politics of free markets* (2006); R. Cockett, *Thinking the unthinkable* (1995) and R.S. Turner, *Neo-liberal ideology* (Edinburgh, 2008).

¹¹ M.J. Oliver, *Whatever happened to monetarism?* (Aldershot, 1997), p. 46; D.W. Parsons, *The power of the financial press* (Aldershot, 1989), pp. 144-71.

roots of supply-side thinking go much further back in history.¹² Firstly, there existed an older, broader, academic school of what could be termed ‘supply siders,’ such as Martin Feldstein, who believed in a greater emphasis than Keynesians had on ‘the factors that increase the potential supply of output – capital accumulation, technical progress, improvements in the quality of the labor force, freedom from regulatory interference and increases in personal incentives.’¹³ Secondly, the beliefs of the newer group of supply siders, whom Herbert Stein had coined the term for, which centred around the claim that cutting taxes would stimulate incentives strongly enough to increase government revenue (famously embodied in the Laffer curve) had long been articulated in writings on political economy.¹⁴

Eighteenth century satirist Jonathan Swift made one of the earliest references to the possibility of government revenues increasing after a tax cut in a paper written in 1728 and Swift’s work was later referred to approvingly by David Hume and Adam Smith.¹⁵ Moving on to the nineteenth century, French economist Arsene-Jules-Emile Juvenal Dupuit (1804-66) expressed a theory which can be regarded as identical to the Laffer curve.¹⁶ Continuing in the nineteenth century, the ‘trickle-down theory’ that ‘if you will only legislate to make the well-to-do prosperous, their prosperity will leak through to those below’ was proposed by American presidential candidate William Jennings Bryan in 1896.¹⁷ Francis Wheen recorded that this first use of the term ‘trickle-down theory’ occurred in the 1932 American presidential campaign by Democrats pouring scorn on Herbert Hoover’s plan to precipitate an economic recovery through tax cuts for the rich.¹⁸ However, searching *Hansard* shows that the term ‘trickle-down’ (if not ‘trickle-down theory’) appeared three times in parliamentary debates in the 1920s, the first in 1922, when Labour MP Mr W.

¹² D. Smith, *The rise and fall of monetarism* (1991), p. 133 and M.J. Oliver, *Whatever happened to monetarism?* (Aldershot, 1997), p. 46.

¹³ M. Feldstein, ‘Supply side economics’, *American Economic Review*, vol. 76, 2 (1986), p. 26.

¹⁴ Key belief of supply siders in: P. Jackson, ‘Policy implementation’, in Jackson (ed.), *Implementing government policy initiatives* (1985), pp. 26-7; for more on the Laffer curve, see: R. Middleton, ‘Laffer curve’, *Economics department seminar, University of Warwick* (1997).

¹⁵ B. Bartlett, ‘Jonathan Swift’ *History of Political Economy*, vol. 24, 3 (1992), pp. 745-6.

¹⁶ R. Middleton, ‘Laffer curve’, *Economics department seminar, University of Warwick* (1997), p. 2.

¹⁷ F. Wheen, *How mumbo-jumbo conquered the world* (2004), pp. 18-9.

¹⁸ F. Wheen, *How mumbo-jumbo conquered the world* (2004), pp. 18-9.

Graham railed against the belief that ‘if there was lavish national expenditure some portion of it would trickle down to the working classes’.¹⁹

Trickle-down theory or ‘trickle-down economics’ bore much in common with supply-side economics as the supply siders concentrated on reducing high marginal tax rates for top-rate taxpayers, successfully embodied in the USA by the Economic Recovery Act of 1981 and the Tax Reform Act of 1986.²⁰ David Stockman, then a senior Republican civil servant, admitted in a famous interview in 1981 that, it is ‘kind of hard to sell “trickle down” . . . so the supply-side formula was the only way to get a tax policy that was really “trickle down.” Supply-side is “trickle-down” theory.’²¹

On the other side of the Atlantic, Mrs Thatcher had long been an advocate of trickle-down economics even though she never used the precise phrase (Section 4.4. has more on Thatcher and trickle-down economics). As early as 1951, Thatcher raised a strong concern that ‘very high taxation reduces incentive to greater effort at all levels, as extra work does not seem worthwhile when the Chancellor of the Exchequer takes such a large slice of the additional earnings’ and by 1967 Mrs Thatcher made a more direct connection to trickle-down economics by claiming in a Budget debate that, if ‘the Government were more concerned to further the remarkable people, the ordinary pensioners and the ordinary people would do very much better.’²² Similar trickle-down sentiments were repeated by Mrs Thatcher in 1977 when she said that the whole community would benefit from free enterprise as ‘[w]hen the tide comes in, all the boats rise’ and in 1988, when she was quoted in a newspaper interview remarking that because ‘the top [incomes of society] goes up, we are able to distribute much, much more.’²³

¹⁹ 1922 debate in: *Hansard (Commons)*, 5th series, 13 February 1922, vol. 150, col. 684 and ‘Parliament: the Geddes report, Mr Asquith’s speech, Sir R. Horne’s statement, House of Commons’, *The Times*, 14 February 1922; later 1920s debates in: *Hansard (Commons)*, 5th series, 10 July 1928, vol. 219, col. 2138 and *Hansard (Commons)*, 5th series, 4 December 1928, vol. 223, col. 118.

²⁰ D. Fullerton *et. al.* ‘Tax policy’, in Feldstein (ed.), *American economic policy* (1994), p. 166.

²¹ W. Greider, ‘David Stockman’, *The Atlantic*, December 1981, pp. 46-7.

²² First quote in: M. Thatcher, ‘Letters on economic policy’, *Thatcher Archive Online*, 30 March 1951. Shortened quote in: J. Campbell, *Margaret Thatcher*, vol. 1, ‘The grocer’s daughter’ (2000), p. 174; full quote in: *Hansard (Commons)*, 5th series, 17 April 1967, vol. 745, col. 128.

²³ J. Campbell, *Margaret Thatcher*, vol. 2, ‘The iron lady’, (2000), pp. 247 and 546.

With Thatcher's belief in trickle-down economics it would not be surprising if supply-side theories proved to be popular amongst Thatcherite politicians and Hugh Stephenson thought that Thatcher did indeed adopt Laffer curve-style thinking. Stephenson has argued that the cut in top rate taxes to 60% in Thatcher's first budget was influenced by the Laffer curve idea and he supplied as evidence a comment Thatcher made in a contemporary television interview. Mrs Thatcher said:

People assume that if you cut rates, you've got to recoup it elsewhere. But this is not necessarily true, as a cut in taxes will lead to *larger* incentives and therefore *larger* output and a *larger* tax take [emphasis in original transcription].²⁴

However, it is more likely that the milder, older strain of supply-side economics (of the Martin Feldstein variety) held greater influence with Thatcherites than the newer, more extreme, supply-side theories that tax cuts could increase revenue. Monica Prasad has noted that the British cuts in top and average income tax rates were funded by rises in indirect taxes and the proceeds of various privatisations, suggesting that the government did not believe that the income tax cuts would increase revenue by themselves and even Hugh Stephenson has admitted that the Laffer curve idea 'was not an operational assumption within the Treasury.'²⁵ The memoirs of Geoffrey Howe and Jock Bruce-Gardyne (economic secretary to the Treasury, 1981-83) both claim that they were not influenced by the newer supply-side beliefs exemplified by the Laffer curve although Howe stated that the top tax rates could be cut without a loss in revenue and that it was only the cuts in the basic rate of income tax which were revenue-losing.²⁶ Furthermore, the likelihood of Thatcherites adopting new supply-side ideas was adversely affected by the skeptical reception of new supply-side ideas from British monetarists, with Patrick Minford for example advising Margaret Thatcher that the Laffer curve was nonsense.²⁷ Supply siders held a long-running dispute with monetarists over the extent to which controlling inflation should take precedence over increasing incentives and for Thatcherites it was the (British) monetarists who won out over the (American) supply siders, at least in the 1970s and

²⁴ H. Stephenson, *Mrs Thatcher's first year* (1980), p. 49.

²⁵ M. Prasad, *The politics of free markets* (2006), pp. 104 and 118; H. Stephenson, *Mrs Thatcher's first year* (1980), p. 49.

²⁶ G. Howe, *Conflict of loyalty* (1994), pp. 128-9; J. Bruce-Gardyne, *Ministers and mandarins* (1986), p. 50.

²⁷ F. Wheen, *How mumbo-jumbo conquered the world* (2004), p. 19.

the early-to-mid 1980s.²⁸ By the late 1980s however, Roger Middleton has noted that Laffer curve thinking had made significant inroads amongst Thatcherites, as shown by Lawson's 1988 income tax-cutting budget.²⁹ Lawson claimed in his budget speech that 'a reduction in the top rates of income tax can over time result in a higher, not a lower, yield to the Exchequer.'³⁰

Supply-side beliefs of the trickle-down economics sort, if not the newer, Laffer curve-style thinking, were important to Thatcherites but as we have seen, these ideas had long been advocated by Margaret Thatcher and were not 'taught' to Thatcherites by supply siders in the marketplace. We have also seen that newer supply siders were hampered by disagreements with their monetarist coalition partners, perhaps unsurprisingly as monetarists were an especially disputatious lot, prone to infighting and methodological squabbles with Austrian school economists. Chapter 2's definition of monetarism explained that there were a number of different monetarist schools of thought, from the Friedmanite American monetarism to the American new classical or rational expectations school to British monetarism incorporating the international monetarism of Alan Budd and Terry Burns and the rational expectations monetarism of Patrick Minford. As with the fight for influence between British monetarists and American supply siders, it was the British monetarists (including the City economists and financial journalists discussed in Section 4.3) who proved to be the most influential with Thatcherites, as Chapter 3 showed in its description of changes made to the Treasury model.³¹

A further school of thought in the New Right coalition with an involvement in macroeconomics was the Austrian school. However, Austrian economics was hostile to macroeconomics in general and as such was hostile to both Keynesianism and

²⁸ A. Gamble, *The free economy and the strong state*, 2nd ed. (Basingstoke, 1994), pp. 53-4.

²⁹ R. Middleton, 'Laffer curve', *Economics department seminar, University of Warwick* (1997), pp. 28-29.

³⁰ Quoted in: R. Middleton, 'Laffer curve', *Economics department seminar, University of Warwick* (1997), p. 29; *Hansard (Commons)*, 6th series, 15 March 1988, vol. 129, cols. 1006-13.

³¹ For more on the disagreements between American and British monetarists, see: D. Blake, 'Thoughts of the monetarists', *The Times*, 15 December 1981, p. 10; P. Minford, 'Inflation', in Roy and Clarke (eds.), *Margaret Thatcher's revolution* (2005), pp. 50-66 and T. Congdon, 'British and American monetarism', in Hill (ed.), *Keynes, money and monetarism* (Basingstoke, 1989), pp. 38-72.

monetarism.³² For both monetarism and Keynesian rested on, in the words of Hayek, a:

naive superstition that the world must be so organised that it is possible by direct observation to discover simple regularities between all phenomena and that this is a necessary presupposition for the application of scientific method.³³

While at first glance it may seem absurd to consider that a Hayekian view of macroeconomics was adopted by Thatcherite politicians (as to do so would have involved disregarding the validity of macroeconomic variables), the switch to an activist microeconomic policy and a passive macroeconomic policy, heralded by Nigel Lawson's 1984 Mais Lecture, was acknowledged by Lawson as possessing strong Hayekian influences in its privileging of microeconomics over macroeconomics.³⁴ Furthermore, Thatcherites took 'Hayek's side in his debate with Friedman on the issue of the role of monetary policy in an overall economic policy' by arguing that monetarism was a necessary but not sufficient condition for revitalising a market economy in Britain, as exemplified by Keith Joseph's 1974 Preston speech, which Margaret Thatcher approvingly referred to in 1979 with the comment that 'mere monetary policies won't work. Monetarism was never enough, just to quote Keith Joseph.'³⁵

On the microeconomic side, the microeconomics of Thatcherism had in it a mix of Austrian and neoclassical thinking but it was the Austrian strain that was the more dominant of the two (Chapter 5 considers neoclassical influences on Thatcherite competition policy). A 1980 paper by Nigel Lawson criticised the neoclassical theory of perfect competition and the use of neoclassical economics to justify government intervention to correct market failure.³⁶ Lawson's criticism rested on the Hayekian grounds that 'individual agents acting on imperfect information can operate a market

³² For more on Austrian disagreements with monetarism and the Chicago school more broadly, see: M. Skousen, *Vienna & Chicago* (Washington, DC, 2005); and B. Caldwell, 'Hayek: right for the wrong reasons?', *Journal of the History of Economic Thought*, vol. 23, 2 (2001), pp. 141-51.

³³ Quoted in: S. Brittan, *Is there an economic consensus?* (1973), p. 81.

³⁴ N. Lawson, *The view from No. 11* (1993), p. 14 and N. Lawson, 'Changing the consensus', in Davies (ed.), *The chancellors' tales* (Cambridge, 2006), pp. 123-4.

³⁵ First quote and Preston speech in: R. Cockett, *Thinking the unthinkable* (1995), p. 247; Thatcher quote in: M. Thatcher, 'Speech to parliamentary press gallery', *Thatcher Archive Online*, 5 December 1979, copy available from the author.

³⁶ N. Lawson, *The new Conservatism* (1980), reprinted in N. Lawson, *The view from No. 11* (1993), p. 1045.

system quite successfully' and the public choice theory grounds that 'while markets are undoubtedly imperfect, so is the State.'³⁷

Moreover, Austrian economics, with its focus on the market as a process rather than the market as a stationary state (the position of neoclassical economics), placed emphasis, particularly in the work on Joseph Schumpeter, on dynamic competition and the role on the entrepreneur in this competitive market.³⁸ Cambridge economist Frank Hahn, who had astutely argued that Thatcherite microeconomics contained the Hayekian strand that markets protect liberty and provide greater information flows than planning plus the Schumpeterian strand of belief in dynamic competition, also noted that Thatcherism and Schumpeterian economics shared the same hero: the entrepreneur.³⁹

Austrian economics then, had a good 'fit' with Thatcherite beliefs in its advocacy of the entrepreneur (the Thatcherite attachment to entrepreneurs is described in the following section) and Austrian ideas did seem to play a genuinely influential role, judging by the frequent number of times that Austrian, particularly Hayekian, language and arguments were used by Thatcherite politicians (Section 4.5 contains more on Hayek and Thatcherites) as well as the recruitment of Austrian-style economist Stephen Littlechild to prominent posts implementing the regulation of privatised industries (discussed in Chapter 5). The Austrian disagreements with monetarists, unlike the disagreements between monetarists and supply siders, did not appear to hamper the adoption of Austrian views by Thatcherites, who either sided with Austrians, as Keith Joseph and Margaret Thatcher did in their 'monetarism is not enough' comments or pragmatically used Austrian ideas in the microeconomic sphere but not in the macroeconomic sphere.

The final New Right school of economic thought often associated with Thatcherites is public choice theory and like Austrian economics, public choice theory had much in it of potential use for microeconomic policymaking. Public choice theory, or the

³⁷ N. Lawson, *The view from No. 11* (1993), p. 1045.

³⁸ Market as a process not a state in: B. O'Loughlin, 'The diffusion of ideas' (2005), p. 40; Schumpeter in: F. Hahn, 'On market economies', in Skidelsky (ed.), *Mrs Thatcher's economic reform* (1988), pp. 113-16.

³⁹ F. Hahn, 'On market economies', in Skidelsky (ed.), *Mrs Thatcher's economic reform* (1988), pp. 113-15.

‘Virginia school’, built on 1950s work from Kenneth Arrow on the impossibility of constructing a social welfare function and from Anthony Downs on modelling political party competition under the assumption that politicians try to maximise utility by maximising votes.⁴⁰ In the 1960s and 1970s public choice theory developed by applying the neoclassical model that individuals were utility maximisers to bureaucrats, with bureaucrats postulated as maximising their utility through maximising the size of their bureau and other variables such as their power, salary and general working conditions.⁴¹ Key public choice works included James Buchanan and Gordon Tullock’s *The calculus of consent* (1962) and Mancur Olson’s *The logic of collection action* (1965) and by 1967 Buchanan had become an adviser to the Institute of Economic Affairs (IEA).⁴²

Public choice theorists, unlike monetarists or supply siders, did not seem to have an especially fractious relationship with other strands of economically liberal thinkers, although this is not to say that their assumptions were necessarily shared by other groupings in the New Right coalition. Austrian economist Joseph Schumpeter, for instance, thought that altruism played a part in bureaucratic motivations as well as self-interest and considered the growth of bureaucracies to be an inevitable complement to modern economic development and democracy.⁴³ However, Schumpeter aside, public choice theories did on the whole fit harmoniously with other New Right theories and with the pre-existing skepticism of bureaucracies you might expect to find in a right-wing Conservative movement such as Thatcherism.

Evidence exists that Thatcherites keenly read and learnt about public choice literature both directly and indirectly. On the indirect side, an internal note from Nigel Lawson to fellow Thatcherites in 1978 approvingly cited a lecture by Samuel Brittan as ‘the best recent analysis of the root causes of Britain’s economic problem.’⁴⁴ Samuel Brittan’s lecture in turn drew heavily upon the work of public choice theorist Mancur Olson, with Samuel Brittan arguing that Britain unduly suffered from organised producer groups such as trade unions, which had built up over the long periods of

⁴⁰ F. Schneider, ‘Is there a European public choice perspective?’ *Kyklos*, vol. 48, 2 (1995), p. 291.

⁴¹ N. Thompson, ‘Hollowing out the state’, *Contemporary British History*, vol. 22, 3 (2008), pp. 359-60.

⁴² N. Thompson, ‘Hollowing out the state’, *Contemporary British History*, vol. 22, 3 (2008), p. 369.

⁴³ N. Thompson, ‘Hollowing out the state’, *Contemporary British History*, vol. 22, 3 (2008), pp. 356-7.

⁴⁴ N. Lawson, ‘Comments circulated’, *HOSK 1*, 5 June 1978.

relative stability in the country.⁴⁵ Similarly on the indirect side, Margaret Thatcher has stated her great fondness for BBC television programme *Yes, Minister*, saying for example in a 1983 interview that 'I adored "Yes, Minister". I thought it was marvellous—so true, some of them.'⁴⁶ Anthony Jay, one of the creators of the *Yes, Minister* and the successor *Yes, Prime Minister* series, has subsequently revealed that:

public choice economics, which explains why this [conflict between politicians and civil servants interested in career advancement] was going on, was at the root of almost every episode of *Yes Minister* and *Yes, Prime Minister*.⁴⁷

More directly, Thatcherite Nicholas Ridley favourably commented on public choice theorist William Niskanen's *Bureaucracy, servant or master?* (1973) and a number of Keith Joseph's and Margaret Thatcher's speeches showed an awareness of public choice arguments – a bibliography included with an edited version of Thatcher's speeches even contained two public choice works, Buchanan and Wagner's *Democracy and deficit* (1977) and Buchanan and Develotoglou's *Academe in anarchy* (1971).⁴⁸ Moreover, while the empirical evidence for public choice theory has subsequently been found to be lacking, public choice theory did have some influence over a range of Thatcherite reforms.⁴⁹ Reforms such as the introduction of quasi-markets in health, the contracting out of public services, privatisation and the various re-organisations of the civil service have been linked to varying degrees with a level of public choice influence.⁵⁰

Reviewing the overall influence of the four main schools of economic thought on Thatcherism – supply side, monetarism/rational expectations, Austrian and public choice – we can see that all of the schools of thought possessed a good 'fit' with

⁴⁵ S. Brittan, 'How British is the British sickness?' *Journal of Law and Economics*, vol. 21, 2 (1978), pp. 266-7.

⁴⁶ M. Thatcher, 'Interview for *The Sun*', *Thatcher Archive Online*, 28 February 1983, copy available from the author; see also: M. Thatcher, 'TV interview', *Thatcher Archive Online*, 19 July 1984, copy available from the author and E.J. Evans, *Thatcher and Thatcherism*, 2nd ed. (2004), p. 54.

⁴⁷ A. Curtis, *The trap*, 'Part 1', (BBC television documentary, 11 March 2007), 36:00 onwards.

⁴⁸ N. Thompson, 'Hollowing out the state', *Contemporary British History*, vol. 22, 3 (2008), pp. 371-2.

⁴⁹ Empirical evidence lacking in: R. Middleton, *Government versus the market* (Cheltenham, 1996), p. 80; A. Offer, *Why has the public sector grown so large?* (Oxford, 2003), p. 12; K. Theakston, *The civil service* (Oxford, 1995), p. 140 and J. Le Grand, *Motivation, agency, and public policy* (Oxford, 2003), p. 83.

⁵⁰ N. Thompson, 'Hollowing out the state', *Contemporary British History*, vol. 22, 3 (2008), p. 374; A. Curtis, *The trap*, 'Part 1', (BBC television documentary, 11 March 2007), 50:00 onwards; K. Theakston, *The civil service* (Oxford, 1995), p. 122 and J. Le Grand, *Motivation, agency, and public policy* (Oxford, 2003), pp. x and 9-10.

existing Thatcherite thinking and to a varying extent helped to shape Thatcherite thinking and policies. Austrian and public choice ideas were the most unambiguously popular with Thatcherites whereas with monetarism and rational expectations it was mainly the British branches of the theory which gained traction with Thatcherites. Supply-side ideas were also only influential in part with newer supply-side ideas such as the Laffer curve having at best a mixed reception from Thatcherites and suffering from criticism from British monetarists. Examining the reception of economic ideas only gives us a partial picture of the selling side of the marketplace however; for a fuller picture we need to understand the intermediaries and agents in the marketplace who were attempting to sell ideas to Thatcherites – as the following section sets out to do.

Section 4.3: Sellers in the marketplace II: thinktanks, journalists, businessmen and the City of London

Ideas do not transmit themselves to policymakers on their own but need advocates or, more bluntly, sellers, in order to spread. Thatcherite politicians were far from being passive recipients of approaches from sellers of ideas. On the contrary, Thatcherites were keen to seek out novel ideas to win the ‘battle of ideas’ and as Mrs Thatcher said in a 1975 speech to the Federation of Conservative Students:

we find ourselves once again, as we were in 1945, faced with a situation in which far too many of the influential opinion-formers are left-wing in outlook . . . The intellectual counter-attack is as important as the counter-attack in Parliament and in the constituencies. If we can win the battle of ideas, then the war will already be half-won . . . We want your ideas as ammunition, and we need you as shock-troops in the forefront of the attack.⁵¹

Yet, Mrs Thatcher and other Thatcherites did not turn to Conservative students when seeking new ideas but to thinktanks, journalists, businessmen and those working in the financial sector in the City of London. Much of the effort of seeking out new ideas was expended by Keith Joseph and from the crucial period of 1975 onwards – when Margaret Thatcher was leader of the Conservative party – in the words of Hugo Young, ‘Joseph articulated ideas, Howe formulated policies, and Mrs Thatcher was the essential conduit from one to the other’.⁵²

Claiming that Thatcherites, and Keith Joseph in particular, looked to the burgeoning marketplace in economic ideas in the 1970s is unlikely to be disputed but gauging the level of impact the generators and propagators of ideas had upon Thatcherite thinking and policies is a hotly contested area of debate in the academic literature. This section aims to contribute both to the analysis and to the factual detail of the debate over the importance of the marketplace in economic ideas in the 1970s as well as moving into the less well researched period of the 1980s to study the evolution of the marketplace.

⁵¹ ‘Battle of ideas’ in E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 4; Speech in: M. Thatcher, ‘Speech to Federation of Conservative Students’, *Thatcher Archive Online*, 24 March 1975, copy available from the author; speech also quoted in: E.H.H. Green, *Thatcher* (2006), p. 23.

⁵² B. Harrison, ‘Mrs Thatcher’, *Twentieth Century British History*, vol. 5, 2 (1994), p. 211; H. Young, *One of us* (1989), p. 107.

Starting with the influence of the financial sector, often referred to as the ‘City of London’ or simply, ‘the City’, one might expect a great deal of close support and interchange of ideas from the City towards the Conservative party for as Margaret Reid has claimed, the ‘City of London votes Conservative almost to a man.’⁵³ Thatcherites undoubtedly spent a great deal of time liaising with important City figures; archival records show that Margaret Thatcher and some of her advisers regularly met with City groups whilst in opposition and plans were made for these meetings to continue when in power.⁵⁴ Margaret Thatcher also received economic briefings from John Sparrow of merchant bank Morgan Grenfell in the late 1970s.⁵⁵ However, meetings with and briefings from City figures does not mean, necessarily, that ideas from the City were incorporated by Thatcherites. Margaret Thatcher was wary of the City, preferring instead the manufacturing sector, perhaps stemming from her father’s belief that:

to buy himself [Alfred Roberts, Mrs Thatcher’s father] shares he thought was a form of gambling. And that was wrong and there was a slight criticism of anyone who did that. That was not sound. It was right to create and build up a business but not right to go in and out of the Stock Exchange.⁵⁶

Therefore, although some intellectual influence from the City did exist in the areas of monetarism (covered in the following paragraphs), the attitude of Mrs Thatcher means that we should not be surprised to find that the Conservative party was not ‘captured’ by the City in this period, to use Keith Middlemas’s terminology.⁵⁷ For instance, although the stock market was greatly deregulated in the early and middle years of the Thatcher administrations, ‘the puritan side of Thatcherism brought state regulation back’ with the 1987 Financial Services Act following a series of City scandals.⁵⁸

⁵³ M. Reid, ‘Mrs Thatcher and the City’, in Kavanagh and Seldon (eds.), *The Thatcher effect* (Oxford, 1989), p. 49.

⁵⁴ G. Howe, ‘Sir Geoffrey Howe to MT’, *Thatcher Archive Online*, 5 February 1979, copy available from the author; G. Cardona, ‘The PSBR in 1979/80’, *THCR* 2/12/2/5, 15 February 1979.

⁵⁵ J. Sparrow, ‘Economic briefings’, *THCR* 2/6/1/242, March 1977 – November 1978.

⁵⁶ Wary of the City in: M. Reid, ‘Mrs Thatcher and the City’, in Kavanagh and Seldon (eds.), *The Thatcher effect* (Oxford, 1989), p. 49; Quote in: M. Thatcher, ‘Interview’, *Thatcher CD-ROM*, 28 January 1981; for more on Thatcher and the City, see: A. Banzky von Ambroz, ‘Victorian values in Thatcherism’ (Oxford Univ. B.A. thesis, 2008), Chapter 1, copy available from the author.

⁵⁷ K. Middlemas, ‘The party’, in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 487.

⁵⁸ K. Middlemas, ‘The party’, in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 488.

The City too was not, especially in the opposition years of the 1970s, an unalloyed supporter of Mrs Thatcher and Conservative party. Newspaper articles of the time reported that the City was concerned that Mrs Thatcher was creating a middle class protest party and felt that the Labour party could be a 'more authentic defender of capitalist interests'.⁵⁹ While City opinion did become much more favourable to the Conservatives after the 1978-9 'winter of discontent,' the point remains that the City's direct influence upon Thatcherites was small and instead it was the indirect influence generated by changes in the financial markets in the 1970s which had the greater influence on the intellectual development of Thatcherism.⁶⁰

With the crumbling of the Bretton Woods system from the late 1960s, the financial markets gained much more influence upon the British and American governments.⁶¹ In the British case, the City became particularly influential thanks to the growth of the Euromoney market and changes in the gilt market following the 1971 White Paper on Competition and Credit Control.⁶² The changes in the gilt market were particularly important as the changes made it more valuable for banks to be able to predict interest rate movements and the banks and brokerage house began to hire economists to assist them in making these predictions.⁶³ As early as 1970 *The Economist* had picked up on the beginnings of this hiring boom for economists and recognised that 'some of the brightest young talent in the world of economics is to be found in the merchant banks.'⁶⁴ These new City economists began publishing their analyses in company-produced circulars that were distributed to clients and as the gilt market became more cohesive and competitive over the 1970s more interest was taken by City economists in money supply figures and thence in monetarism.⁶⁵ Furthermore, as bankers began to believe in monetarism, their actions in the gilt market (such as going on 'strike' when they disapproved of government money supply figures) forced the Bank of

⁵⁹ W. Grant, 'Business interests', *Government and Opposition*, vol. 15, 2 (1980), pp. 144-5; G. Therborn, *What does the ruling class do when it rules?* (1978), p. 193.

⁶⁰ City opinion in: W. Grant, 'Business interests', *Government and Opposition*, vol. 15, 2 (1980), p. 145.

⁶¹ R. Middleton, *Charlatans or saviours?* (Cheltenham, 1998), p. 342.

⁶² P.A. Hall, 'Keynesianism to monetarism', in Steinmo *et al.* (eds.), *Structuring politics* (Cambridge, 1992), pp. 101-3; W. Keegan and R. Pennant-Rea, *Who runs the economy?* (1979), p. 134.

⁶³ P.A. Hall, 'Keynesianism to monetarism', in Steinmo *et al.* (eds.), *Structuring politics* (Cambridge, 1992), pp. 101-2.

⁶⁴ 'Widening Whitehall's corridors', *The Economist*, 4 July 1970.

⁶⁵ P.A. Hall, 'Keynesianism to monetarism', in Steinmo *et al.* (eds.), *Structuring politics* (Cambridge, 1992), pp. 101-2; D. Smith, *The rise and fall of monetarism* (1991), p. 81.

England and the Treasury to adopt monetarist measures to keep the market working, much to the displeasure of the then Labour government.⁶⁶

Therefore, while no conscious strategy existed in the City to encourage politicians of any party to adopt monetarism, the City's response to external changes that affected the financial markets brought forth monetarist ideas from a new breed of City economists and the beginnings of monetarist behaviour from the Treasury and the Bank of England as a necessary response to market conditions.⁶⁷ City economists such as Gordon Pepper, author of the keenly-followed Greenwell's *Monetary Bulletin*, were significant in propagating and legitimising monetarism in the City and in broader intellectual circles. We also know that Thatcherites took the work of City economists seriously – for example, a 1978 note written by special adviser Adam Ridley for Keith Joseph discussed in detail contemporary issues of Greenwell's *Monetary Bulletin* and Adam Ridley went on to meet regularly with Gordon Pepper and reported Pepper's views back to senior Thatcherites.⁶⁸ Gordon Pepper, along with fellow City economist Harold Rose plus financial journalist Samuel Brittan and a number of monetarist academics became unofficial advisers to Nigel Lawson in 1986 (previously mentioned in Chapter 3) although their influence appeared to have been weak given the late timing of their formation and their many disagreements over policy.⁶⁹ Hence, the City may not have exerted a great deal of influence on the broader economic thinking of Thatcherites but it did provide a flow of monetarist advice to Margaret Thatcher and her colleagues as well as indirectly legitimising monetarist policies.

The growing number and influence of City economists from the 1970s bore many resemblances to changes in financial journalism over the same period. As with City

⁶⁶ W. Keegan and R. Pennant-Rea, *Who runs the economy?* (1979), p. 133-4; P.A. Hall, *Governing the economy* (Cambridge, 1986), p. 97.

⁶⁷ For more on monetarism in the Bank of England and the Treasury, see: M. Fourcade-Gourinchas and S.L. Babb, 'The rebirth of the liberal creed', *American Journal of Sociology*, vol. 108, 3 (2002), pp. 533-80 and A. Baker, 'Nebuleuse', *Review of International Political Economy*, vol. 6, 1 (1999), pp. 79-100.

⁶⁸ For more on Gordon Pepper, see: G.T. Pepper, *Inside Thatcher's monetarist revolution* (Basingstoke, 1998) and G.T. Pepper and M.J. Oliver, *Monetarism under Thatcher* (Cheltenham, 2001); Adam Ridley note in: A. Ridley, 'Bank of England quarterly on inflation', *THCR* 2/6/1/97, 26 June 1978; examples of Pepper meetings in: A. Ridley, 'Conversation with Gordon Pepper', *THCR* 2/12/2/5, 24 January 1979 and A. Ridley, 'Monetary position in the last two weeks', *THCR* 2/12/2/5, 20 February 1979.

⁶⁹ N. Lawson, *The view from No. 11* (1992), pp. 389-90.

economists, the number and output of financial journalists was small until the early 1970s but then grew substantially across the decade. In 1972 there were around 200 articles in the British quality press on economic policy issues but by 1975-7 the number had leaped to around 3,000 per annum.⁷⁰ The growth of both City economists and financial journalists in the 1970s was precipitated by the increasing size and strength of financial markets although the economic troubles of the times, which increased the demand for economic reporting was also likely to have been a significant factor for the growth in financial journalism.⁷¹ As with City economists, the views of financial journalists were taken seriously by Thatcherites and internal reports between Thatcherites often referred to articles written by financial journalists.⁷² In terms of their influence upon Thatcherites, financial journalists share in common the conclusion already reached for City economists: that the influence of financial journalists was most important in the indirect method of legitimising and propagating the monetarist message rather than directly changing Thatcherite thinking or policies.

However, there is more to an account of financial journalists than merely recounting parallels with City economists. The profession of financial journalism possesses a longer history than that of City economists and an older school of 'sound money men' exemplified by Harold Wincott of the *Financial Times* existed in the 1950s and into the 1960s. Thatcherite politician John Biffen has even claimed that if he had a mentor in free market economics, 'it was probably Harold Wincott.'⁷³ Yet, the sound money men were replaced by a younger generation of Keynesian-educated financial journalists, including Nigel Lawson, as mentioned earlier in the chapter, as well as Samuel Brittan and Peter Jay amongst others.⁷⁴ Many of these Keynesian journalists experienced what William Keegan called their 'first pangs of disillusionment' with Keynesianism in the late 1960s and began to convert to monetarism.⁷⁵ As early as

⁷⁰ R. Middleton, *Charlatans or saviours?* (Cheltenham, 1998), p. 334.

⁷¹ M. Fourcade-Gourinchas and S.L. Babb, 'The rebirth of the liberal creed', *American Journal of Sociology*, vol. 108, 3 (2002), p. 552; D.W. Parsons, *The power of the financial press* (Aldershot, 1989), p. 210.

⁷² For a small sample, see: N. Lawson, 'Comments circulated', *HOSK I*, 5 June 1978; A. Ridley, 'Some main economic issues', *THCR* 2/6/1/97, 30 June 1978 and A. Ridley, 'Monetary position in the last two weeks', *THCR* 2/12/2/5, 20 February 1979.

⁷³ Quoted in: R. Cockett, *Thinking the unthinkable* (1995), p. 169.

⁷⁴ R. Roberts and D. Kynaston, *City state* (2001), p. 11.

⁷⁵ W. Keegan, *Mrs Thatcher's economic experiment* (1984), pp. 41-3.

May 1968, Peter Jay wrote an article for *The Times* entitled 'Inflation – is the money supply crucial?' and Samuel Brittan began to write similar articles for the *Financial Times* in the same period.⁷⁶

By the mid-1970s, monetarist viewpoints were the norm in three of the four British quality newspapers – the *Financial Times*, the *Daily Telegraph* and *The Times*, with *The Guardian* being the sole exception.⁷⁷ Even the tabloid newspapers gave attention to monetarist views, with the *Daily Mirror* covering what it called the 'money war' between Keynesians and monetarists.⁷⁸ One monetarist financial journalist, Tim Congdon, who wrote for *The Times* from 1973-6 (and then became a City economist) even contributed to the theoretical development of a distinctively British variant of monetarism.⁷⁹ Financial journalists naturally had a wider readership than City economists and arguably were influential in making Thatcherite views more acceptable to non-Thatcherite politicians – in Richard Cockett's opinion most 'Conservative and Labour MPs learnt more about economic liberalism from the journalism of Samuel Brittan and Peter Jay than they did from their own party 'research' organizations or from the universities.'⁸⁰

Therefore, while financial journalists could not exert the sort of pressure upon government institutions to adopt monetarist policies which the City did, financial journalists were able to spread monetarist ideas more widely than City economists thanks to their wider reach and in the case of the older school of 'sound money' writers, had some formative impact on Thatcherite politicians. Assessing the impact of financial journalists and City economists is aided by the fact that these groups were relatively small and homogenous. Analysing the influence upon Thatcherism of a much larger and diverse grouping such as businessmen requires, however, considerably more caution in order to avoid making generalisations.

A great number of influential Thatcher-supporters could be classed as 'businessmen' but that is not to say that Thatcherite politicians safely followed what could be termed

⁷⁶ D. Smith, *The rise and fall of monetarism* (1991), pp. 35-6.

⁷⁷ P.A. Hall, 'Keynesianism to monetarism', in Steinmo *et. al.* (eds.), *Structuring politics* (Cambridge, 1992), p. 108.

⁷⁸ B. Calvert, 'The popular press' (Coventry Univ. Ph.D. thesis, 2000), p. 48.

⁷⁹ See: T. Congdon, *Reflections on monetarism* (Aldershot, 1992).

⁸⁰ R. Cockett, *Thinking the unthinkable* (1995), p. 325.

‘business interests’ when in power. Thatcherite relations with the major business lobby group, the Confederation of British Industry (CBI), deteriorated over the 1970s and 1980s and while small business were lauded in Thatcherite speeches, over the 1980s ‘more small businesses went bankrupt each year than were created and survived.’⁸¹ Nevertheless, one business lobby group, the Institute of Directors (IoD), thrived under Thatcherism and a significant number of businessmen were closely associated with the Thatcherite project, as Table 4.1 below demonstrates.

Table 4.1: Influential Thatcherite businessmen

Businessman	Connection
Denis Thatcher	Margaret Thatcher’s husband
David Young	Involved in CPS from 1976, became CPS Director in 1979 then adviser to DTI after 1979 election. Thatcher nominated Young for the House of Lords in 1984, government minister from 1984-9
David Wolfson	Management experience in Great Universal Stores, the family firm. Unpaid chief of staff for Thatcher, 1979-85
John Hoskyns	Head of Downing Street Policy Unit, 1979-82, director-general of the Institute of Directors, 1984-89
Norman Strauss	Manager with Lever Brothers and worked in the Downing Street Policy Unit, 1979-82
Robin Ibbs	Director of ICI, worked for the CPRS in the Cabinet Office from 1980-82 then part-time adviser to the Prime Minister on efficiency and effectiveness in government, 1983-88
Derek Rayner	Worked for Marks and Spencer then brought in by Thatcher to find efficiencies in the civil service, 1979-82
Ian MacGregor	Non-executive director of British Leyland, 1977-80, chairman of British Steel, 1980-83 (selected by Keith Joseph), chairman of the National Coal Board, 1983-86
Nigel Vinson	Founded Plastic Coatings Ltd. Treasurer of the CPS, 1974-80 and trustee of the IEA

Sources: J. Ranelagh, *Thatcher’s people* (1992), p. 12-4; Debrett’s People of Today, www.knowuk.co.uk; Who’s Who, www.ukwhoswho.com; P. Hennessy, *Whitehall* Rev. ed. (1990), pp. 594-8 and M.W. Kirby, ‘MacGregor, Sir Ian Kinloch’, *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author.

⁸¹ E.H.H. Green, *Thatcher* (2006), p. 73.

The table above indicates that many of the high-profile policy problems of the Thatcher years were tackled by businessmen, from the reorganising and slimming down of the civil service, as Derek Rayner and Robin Ibbs focused on, to managing major nationalised industries, as Ian MacGregor did. Such was the preponderance of businessmen in Thatcherite circles that it is likely that much of the economic advice Thatcherite politicians received came from businessmen rather than economists. The economic advice offered by businessmen does not fit into the two neat categories of economic advice that political scientist Wayne Parsons has used, ‘Getting It From Experts – GIFE’ or ‘Do-It-Yourself-Economics – DIYE,’ originally coined by David Henderson.⁸² What could be termed ‘businessmen’s economics’ is a combination of DIYE and GIFE as businessmen can be regarded as economic experts in a more practical, empirical, way but are usually not economic experts in the sense of possessing detailed knowledge of formal economic theory and reasoning.

John Hoskyns, in his memoirs of the Thatcher years, acknowledged that offering ‘businessmen’s economics’ was part of his advisory role in the Downing Street Policy Unit but made some attempt to play down its importance by claiming that:

I shared Samuel Brittan’s scepticism about “businessmen’s economics”. But I did believe that we [businessmen] could learn, and then perhaps offer better thinking than would otherwise be available [from civil servants, academic economists and journalists].⁸³

Yet, records from the time in question show that Hoskyns was not in fact very shy about offering advice that could be termed ‘businessmen’s economics’ and as previously quoted in Chapter 2, Hoskyns regarded himself as a self-taught economist because he felt he understood the importance of the price mechanism, unduly neglected by Keynesian academics in the opinion of Hoskyns. Hoskyns bemoaned the level of economic literacy in the nation as whole and amongst Thatcherite politicians too, whom he feared were destabilising the government’s finances after only three months in power ‘out of sheer technical ignorance.’⁸⁴

⁸² D.W. Parsons, *The power of the financial press* (Aldershot, 1989), pp. 196-7.

⁸³ J. Hoskyns, *Just in time* (2000), p. xiv.

⁸⁴ Economic literacy of nation in: J. Hoskyns, ‘Note by Hoskyns’, *HOSK 1*, 28 September 1978 and J. Hoskyns, ‘Draft note’, *HOSK 1*, 18 February 1979; economic literacy of Thatcherite politicians quoted in: J. Tomlinson, ‘Mrs Thatcher’s macroeconomic adventurism’, *British Politics*, vol. 2, 1 (2007), p. 12.

Thatcherite politicians, as noted above, were not particularly receptive to Hoskyns' economic advice though and neither were they particularly receptive to working in the business-like way that Hoskyns and colleague Norman Strauss were used to. Hoskyns recalled in his memoirs and also noted at the time that Thatcher and other politicians initially regarded Hoskyns's precise definitions of terms and objectives as 'management mumbo-jumbo' and were less than keen on the use of diagrams, quantitative data and other tools of analysis commonly used in business.⁸⁵ Hence, it was not surprising that John Hoskyns and Norman Strauss lasted only three years in the Downing Street Policy Unit before resigning but they did leave a legacy in their 'Stepping Stones' work on trade union reform and national revival which 'help[ed] to maintain the momentum for a radical reform of trade union law' as Nigel Lawson said, but admittedly was never implemented in a form that Hoskyns and Strauss approved of.⁸⁶

On a broader level, the Thatcherite relationship with businessmen as represented by lobby groups such as the CBI and the IoD was similarly prone to disagreements, with a varying but overall weak level of influence exerted. In the mid-1970s Margaret Thatcher and Keith Joseph were keen to reach out to business lobby groups and were rewarded by seventeen CBI member firms donating £1,000 each to Thatcher and Joseph's newly formed Centre for Policy Studies (CPS).⁸⁷ Thatcher and other members of the Shadow Cabinet held frequent meetings with the CBI and EEF (Engineering Employers' Federation) in the mid-1970s but the CBI and EEF did not hold much trust in Thatcherite politicians and with good reason. For example, the CBI wished Thatcher to keep to the Labour party's incomes policies and the Conservatives did not publicly dissent from this wish while in opposition but then went on to drop incomes policies when they achieved power.⁸⁸ Furthermore, Thatcherite rhetoric and policies were generally more amenable to smaller than to larger businesses and the business lobby groups began to fracture externally and internally into factions representing smaller and larger companies.

⁸⁵ J. Hoskyns, *Just in time* (2000), p. xii; J. Hoskyns, 'Copy of letter', *HOSK 1*, 25 January 1979.

⁸⁶ N. Lawson, *The view from No. 11* (1993), p. 18. For more on 'Stepping Stones', see: J. Hoskyns, *Just in time* (2000), pp. 39-66, 69-78, 129, 354, 387 and R. Cockett, *Thinking the unthinkable* (1995), pp. 272-4, 285, 294, 312 and 320.

⁸⁷ K. Middlemas, 'The party', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 484.

⁸⁸ E.H.H. Green, *Thatcher* (2006), pp. 64 and 72; K. Middlemas, 'The party', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 485.

As early as the publication of the Conservative policy document *The right approach to the economy* in 1977, small and large businesses had divided over whether to support policies such as high interest rates, tax reform and the abolition of the National Enterprise Board, with small business generally in favour and large businesses generally against.⁸⁹ When the Conservatives gained office, small business groups such as the Association of Independent Businesses enthusiastically supported Thatcherite policies to cut state subsidies, which had mainly helped larger firms, while the CBI could not decide whether to support or oppose the 1981 budget as its small business members were favourable and large business members hostile.⁹⁰

Small businesses and the entrepreneurs that ran them were especially important to Margaret Thatcher, the daughter of a small businessman. Thatcher's beliefs made her hostile to the CBI and she showed preference instead to the IoD, an organisation colourfully described by Jeremy Paxman as 'a once moribund association of small businessmen and oddball intellectuals, which revived itself by taking up Thatcherism almost before the term had been coined.'⁹¹ The CBI's influence was weak amongst many senior Conservatives, not only Margaret Thatcher. Nigel Lawson, who stated in his memoirs that he made the effort to invite each new CBI member to a personal meeting during his Chancellor, still 'rejected out of hand' limited proposals from the CBI 'such as the investment in infrastructure proposed in [the CBI's] *The Fabric of the Nation* (1985).'⁹²

Businessmen, therefore, were important to Thatcherism for the unusually high number of political advisers provided from their ranks but were not important in terms of selling specific ideas to Thatcherite politicians or in effectively lobbying ministers to implement favourable policies. The pre-existing pro-small business and pro-entrepreneur mindset that Margaret Thatcher and her supporters possessed is,

⁸⁹ K. Middlemas, 'The party', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 486.

⁹⁰ Association of Independent Businesses in: W. Grant, 'Business interests', *Government and Opposition*, vol. 15, 2 (1980), pp. 152-3; CBI split in: K. Middlemas, 'The party', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 489.

⁹¹ J. Paxman, *Friends in high places* (1990), p. 126; Thatcher preference of IoD over CBI in: J. Krieger, 'Testing social democracy's inner limits', *Journal of the History of Economic Thought*, vol. 24, 3 (2002), p. 345 and W. Grant, *Economic policy* (Basingstoke, 2002), p. 221.

⁹² N. Lawson, *The view from No. 11* (1992), p. 716; CBI proposals in: K. Middlemas, 'The party', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 490.

however, a significant aspect of Thatcherite economics and we should not forget that with such a range of businessmen advisers present over the Thatcher years, that 'businessmen's economics' was undoubtedly a part of Thatcherite economic thinking.

Where, perhaps, large businesses did achieve some indirect influence was through their ability to fund economically liberal thinktanks – with money provided by CBI member firms enabling the birth of the CPS already noted above. However, we cannot assume that big businesses achieved political influence through funding thinktanks as the degree of political success achieved by thinktanks in 1970s and 1980s Britain is a hugely contested area of academic debate.

The debate over the success of thinktanks was stimulated greatly by Richard Cockett's major work, *Thinking the unthinkable: think-tanks and the economic counter-revolution, 1931-1983*, first published in 1994. Cockett stressed the importance of free market thinktanks in developing and implementing Thatcherite policies but an article published in the same year as Cockett's book, by Radhika Desai, made the point that economic liberalism did not spread to the bulk of British intellectuals and economists (as Chapters 2 and 3 showed for academic and government economists) and thinktanks could be deemed therefore to have failed by their own self-proclaimed measure of success in winning the 'battle for ideas.'⁹³ The first lengthy response to Cockett's work, from Andrew Denham and Mark Garnett, heavily criticised Cockett for over-stating the importance of thinktanks thanks to Cockett's alleged dependence on an uncritical use of interviews with thinktank staff.⁹⁴ Denham and Garnett also noted that British intellectuals were not 'converted' to Thatcherism, as Radhika Desai had earlier said, and added that very few Conservative MPs could be classed as Thatcherite (around 20%), another indicator that the thinktanks had failed to achieve their goals.⁹⁵ Cockett quickly replied to Denham and Garnett's criticism and narrowed his argument in scope to say that politicians and political commentators *believed* that thinktanks were important (even if thinktanks were unimportant in reality) which meant that thinktanks should be treated as

⁹³ R. Desai, 'Second-hand dealers in ideas,' *New Left Review*, 203 (1994), p. 62.

⁹⁴ A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), p. 50.

⁹⁵ A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), p. 51.

important by historians writing on the period.⁹⁶ Cockett did receive some intellectual reinforcement for his original thesis however, in the work of Michael Oliver. Oliver argued that thinktanks were indeed important for influencing policymakers, if not the wider populace, was in itself a major achievement and Oliver went on to attack the work of Denham and Garnett for possessing a weak evidential basis for their claim that thinktanks had a limited impact on Thatcherite policy formation.⁹⁷

Concentrating only on the success of thinktanks in shaping Thatcherite thinking and policies avoids some of the problems encountered in the academic literature over the success of thinktanks as much of the debate has hinged over differing definitions of success. Interestingly, one area that Cockett, Desai, Denham, Garnett and Oliver all seemed to agree on, whether explicitly or implicitly, was that thinktanks did help to influence Thatcherite thinking, even if the authors disagreed over the influence upon policy. Yet, this is not to say that all academics writing on the topic of thinktanks have accepted the proposition that thinktanks were influential in shaping Thatcherite thinking. Maurice Cowling, for example, thought that the 'Institute for Economic Affairs, the economic movement and the Hayekian model have had a *tactical* use as antidotes to Keynesianism, as justifications for Capitalism, and as proof that the Conservative Party is a thinking party [emphasis added].'⁹⁸

Cowling correctly identified the Institute for Economic Affairs (IEA) as the key thinktank of interest to any assessment of influence over Thatcherite thinking. For the IEA is the oldest of the British free market thinktanks, founded in 1955 by entrepreneur Antony Fisher and has always aimed to influence the 'wider climate of opinion' rather than to influence policy directly.⁹⁹ While there is no evidence that IEA publications were read by senior Thatcherite politicians in the 1950s and 1960s, the IEA did begin to achieve substantial coverage from the Conservative-leaning newspaper the *Daily Telegraph* in the 1960s and IEA staff member Arthur Seldon wrote over sixty opinion pieces for the paper.¹⁰⁰ Yet, by the early 1970s, the IEA (with the help of economist Peter Bauer) had managed to gain the attention of Keith

⁹⁶ R. Cockett, 'Afterthoughts', *Contemporary British History*, vol. 10, 2 (1996), pp.87-9.

⁹⁷ M.J. Oliver, 'A response to Denham and Garnett', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), p. 80; M.J. Oliver, *Whatever happened to monetarism?* (Aldershot, 1997), p. 50.

⁹⁸ M. Cowling, *Mill and liberalism*, 2nd ed. (Cambridge, 1990), p. xli.

⁹⁹ J. Blundell, *Waging the war of ideas*, 2nd ed. (2003), p. 69

¹⁰⁰ R. Cockett, *Thinking the unthinkable* (1995), p. 184.

Joseph and Joseph's speeches began to abound in references to IEA publications and authors.¹⁰¹ While Keith Joseph had always been a supporter of free markets (although he misleadingly claimed to have been 'converted' to the case for free markets in the 1970s) the IEA seemed to provide a deeper intellectual grounding which helped further convince Joseph of the righteousness of his cause.¹⁰² Keith Joseph, in turn, had great influence over Margaret Thatcher and persuaded Thatcher to co-found the Centre for Policy Studies in 1974 in order to make the case for economic liberalism within the Conservative party and in a more party political way in general.¹⁰³

Margaret Thatcher went on to attend many events at the IEA and the CPS in the 1970s, where she met economists such as Hayek and Friedman and purportedly carefully noted down their speeches in a deferential fashion.¹⁰⁴ Upon her election as Prime Minister in May 1979, Mrs Thatcher sent a telegram to the IEA thanking them for laying the foundation work required for her victory and ennobled IEA staff member Ralph Harris, two indicators of the importance she attached to the IEA.¹⁰⁵ As with Keith Joseph, the intellectual influence of the IEA should not be overstated as Margaret Thatcher had long harboured free market views, as later sections of this chapter will detail. Nevertheless, the IEA did focus the attention of Margaret Thatcher, Keith Joseph and other Thatcherites on newer ideas from economically liberal academics, which bolstered the free market sympathies of Thatcherites.

For instance, the IEA and the CPS were major promoters of monetarism and Thatcherites embraced monetarist rhetoric and to a lesser extent, monetarist policy (discussed in Section 4.5).¹⁰⁶ Similarly, the IEA published many works influenced by Austrian economics and while Hayek, for example, was hardly a thinker new to Thatcherites, the IEA did introduce more of his writing, such as the 1972 publication

¹⁰¹ IEA influencing Joseph: A. Seldon, 'Conservative century', in Seldon and Ball (eds.), *Conservative century* (Oxford, 1994), p. 58 and B. Harrison, 'Mrs Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 212; for an example of a Joseph speech with many IEA references, see: K. Joseph, 'Speech at Preston', *Thatcher Archive Online*, 5 September 1974, copy available from the author.

¹⁰² 'Conversion' of Joseph in: A. Denham and M. Garnett, *Keith Joseph* (Chesham, 2001), p. 250 and A. Denham and M. Garnett, 'Sir Keith Joseph', *Journal of Political Ideologies*, vol. 7, 1 (2002), p. 66.

¹⁰³ Influence of Joseph over Thatcher in: D. Yergin and J. Stanislaw, *The commanding heights* (1998), p. 93; founding of CPS in: R. Cockett, *Thinking the unthinkable* (1995), pp. 182-3.

¹⁰⁴ J. Campbell, *Margaret Thatcher*, vol. 1, 'The grocer's daughter', (2000), p. 372.

¹⁰⁵ Telegram in: R. Cockett, *Thinking the unthinkable* (1995), p. 173; ennobling in: D. Yergin and J. Stanislaw, *The commanding heights* (1998), p. 108.

¹⁰⁶ R. Cockett, *Thinking the unthinkable* (1995), p. 150 and p. 285; C.S. Smith, 'Networks of influence', in Wagner *et. al.* (eds.), *Social sciences and modern states* (Cambridge, 1991), p. 140.

A tiger by the tail, which contained essays by Hayek attacking Keynesianism written over a span of 40 years.¹⁰⁷ Finally, the IEA was the main supporter of public choice theory in Britain, shown by the IEA's publication of important public choice works such as *The economics of politics* in 1978 and the IEA even brought public choice theorist James Buchanan to London for a series of seminars attended by Thatcher.¹⁰⁸

However, when the Conservative party was elected in 1979 the moderate influence of thinktanks upon Thatcherite thinking did not follow through to significant influence in the arena of policymaking. Keith Joseph, for instance, in his new role as Secretary of State for Industry, supplied his senior civil servants with a reading list of 29 items, including 19 IEA or CPS pamphlets but within a few months the civil servants believed that they had managed to get Joseph 'under control' and no further reading lists were issued by Joseph.¹⁰⁹ Joseph then became Secretary of State for Education and Science in 1981 and again greatly disappointed thinktanks by failing to introduce education vouchers for schools, accurately described as a 'crushing blow for the CPS and the IEA' by Richard Cockett.¹¹⁰

By the mid-1980s, some disillusionment had set in amongst economically liberal thinktanks as Thatcherite reforms in areas as diverse as health, the civil service and even seemingly radical privatisation policy failed to match the suggested prescriptions of the thinktanks.¹¹¹ Even the newer and more policy-oriented thinktank, the Adam Smith Institute (ASI, founded in 1976), which claimed to have fostered the policies of contracting out local services and the poll tax in the early 1980s, played a much smaller role in these policies than their claims warranted and did not see these ideas introduced until the tail-end of Thatcherism in any case.¹¹²

¹⁰⁷ R. Cockett, *Thinking the unthinkable* (1995), p. 196.

¹⁰⁸ A. Denham, *Think-tanks of the new right* (Aldershot, 1996), p. 14 and R. Middleton, *The British economy since 1945* (Basingstoke, 2000), p. 121 footnote; Buchanan seminar in: A. Curtis, *The trap*, 'Part 1', (BBC television documentary, 11 March 2007), 33:10 onwards.

¹⁰⁹ H. Stephenson, *Mrs Thatcher's first year* (1980), p. 36-7.

¹¹⁰ R. Cockett, *Thinking the unthinkable* (1995), p. 309; for more on education vouchers see: A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), pp. 53-4 and A. Denham, *Think-tanks of the new right*, (Aldershot, 1996), pp. 77-84.

¹¹¹ Disillusionment in: R. Desai, 'Second-hand dealers in ideas', *New Left Review*, 203 (1994), p. 59; health and civil service in: R. Cockett, *Thinking the unthinkable* (1995), pp. 309-15; privatisation in: A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), pp. 53-4.

¹¹² J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 503; R. Heffernan, 'Blueprint for a revolution?', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), pp. 73-87; A. Denham and

A further indignity was suffered by thinktanks in the 1990s with the publication of memoirs by most of the leading Thatcherites. The ASI did not receive a single mention in the memoirs of Thatcher, Lawson, Howe or Ridley while the CPS received only a brief mention in Thatcher's *The Downing Street years* and no substantial comment in Lawson's *The view from No. 11*.¹¹³ The IEA fared slightly better in Thatcherite memoirs, as Table 4.2 below shows, but was still only credited with a weak to moderate influence over Thatcherite thinking and no influence over policies aside from the abolition of exchange controls.

M. Garnett, Mark, 'Influence without responsibility?', *Parliamentary Affairs*, vol. 52, 1 (1999), p. 52 and A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), pp. 53-4.

¹¹³ R. Heffernan, 'Blueprint for a revolution?', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), p. 83.

Table 4.2: References to the IEA in memoirs of leading Thatcherites

Politician and memoir	Page No.	Comment	Significance
Geoffrey Howe, <i>Conflict of loyalty</i> (1994)	30-1	Claims to have written material similar to that of the IEA's for the Bow Group's <i>Crossbow</i> magazine	Small
	75	IEA was one of the few 'dissenting voices' in Britain	Small
	113	Had an 'important' link with the IEA	Medium
	141	A 1979 IEA pamphlet calling for abolition of exchange controls was a 'brave exception' to consensus opinion	Medium
	518	Recounted a 1986 speech where Howe praised the IEA for expanding the work of the Bow Group	Small
	603-4	Attended an IEA dinner in 1989	Small
Nigel Lawson, <i>The view from No. 11</i> (1992)	13-14	Mentioned that supported for Hayek in post-war Britain mainly in non-mainstream bodies like the IEA	Small
	854-7	Lecture given by Lawson to the IEA in July 1988	Small
	958	Speech given by Lawson at the IEA in October 1989	Small
Margaret Thatcher, <i>The Downing Street years</i> (1995)	None	None	None
Margaret Thatcher, <i>The path to power</i> (1995)	142	'Seminal' IEA pamphlet by Enoch Powell in 1967 on exchange rates and liquidity	Medium
	254	Mention of regularly attending IEA lunches in 1970s	Medium

However, while Andrew Denham and Mark Garnett have argued that 'it is significant that think-tanks are hardly mentioned in the memoirs from the Thatcher period' the problems inherent in using memoirs (and especially the memoirs of former politicians keen to settle old scores) as accurate historical sources, as outlined in Chapter 1, suggest that we should be somewhat skeptical of Denham and Garnett's claim of significance.¹¹⁴ Thatcherites may have been deliberately shy in mentioning thinktanks

¹¹⁴ A. Denham and M. Garnett, 'Influence without responsibility?', *Parliamentary Affairs*, vol. 52, 1 (1999), p. 52.

in their memoirs but their words and actions at the time are better indicators and these reveal more gratitude to thinktanks. Thatcher's telegram to the IEA in 1979 and ennobling of Ralph Harris have already been mentioned. Thatcher also awarded a CBE to IEA staff member Arthur Seldon in 1983, knighted IEA founder Antony Fisher in 1988, and claimed in 1987 (admittedly at an IEA dinner where some exaggeration may be expected) that:

[w]hat we have achieved since could not have been done without you . . .
[and] should you need a few political friends at the Commons end of Parliament, I think I know one or two people who will go forward with you.¹¹⁵

Therefore, while Thatcher was evidently not – to the extent that she claimed to be in 1987 – the political friend of the IEA (or of other thinktanks) when in power, neither did she disregard thinktanks to the extent that her memoirs, and those of other prominent Thatcherites, would suggest.

Unpicking the influence of sellers of economic ideas on Thatcherite politicians may be a complicated process but some tentative conclusions can still be drawn. For example, sellers in the marketplace in economic ideas such as City economists, financial journalists and thinktanks were important in providing monetarist advice to Thatcherites and in helping create a climate where the monetary policies of the late 1970s and early 1980s could be implemented through directly and indirectly legitimising monetarism. However, a unifying strand running through this section is that Thatcherites were very keen to listen to the advice of a wide range of agents, from businessmen to journalists to thinktanks but were less keen to use the advice received when in power, although we should not forget the importance of businessmen like Rayner, Ibbs and MacGregor in assisting Thatcherite policy goals. While Thatcherites were not 'captured' by big businesses or by the City or by thinktanks, these sellers were successful in promoting ideas and beliefs to Thatcherites, most notably monetarism but also Austrian and public choice ideas (through the IEA and CPS) as well as 'businessmen's economics' (thanks to the preponderance of businessmen in senior advisory roles like Hoskyns and Strauss).

¹¹⁵ N. McCord, 'Fisher, Sir Antony George Anson', *Oxford Dictionary of National Biography*, copy available from the author; Who Was Who, 'Seldon, Arthur', www.ukwhoswho.com, copy available from the author; M. Thatcher, 'Speech at Institute of Economic Affairs', *Thatcher Archive Online*, 7 April 1987, copy available from the author.

The first paragraph of this section noted that Thatcherites sought to win the ‘battle of ideas’ and one significant battleground was that of the very language used in political and economic debate, as Section 4.4 goes on to explore.

Section 4.4: The media, politicians and the language of the market

Language matters and as Robert Skidelsky put it, in ‘a post-Wittgensteinian world . . . [we are now aware that] reality is itself partly constructed by the language we use’.¹¹⁶ More specifically, the precise words and phrases used in public discourse and the meaning attached to them can give us a useful indication of the ebb and flow of economic ideas in the marketplace over time. Peter Hall recognised the importance of political language in understanding policy changes by commenting that:

the terms of political discourse privilege some lines of policy over others, and the struggle both for advantage within the prevailing terms of discourse and for leverage with which to alter the terms of political discourse is a perennial feature of politics. Organized interests, political parties, and policy experts do not simply “exert power”; they acquire power in part by trying to influence the political discourse of their day.¹¹⁷

This section concentrates on the language used by the media and by Thatcherite politicians to describe the market and market-oriented ideas in Britain from the 1960s to the 1980s and charts changes in the use and meaning of a wide range of different phrases. The media is worthy of study alongside politicians for the media is both a transmitter and a shaper (whether deliberately or not) of language on the market – as Wayne Parsons argues, ‘newspapers and magazines have been a major point of entry for economic theory and language into more general currency and (mis)usage.’¹¹⁸ Existing work from a recent doctoral thesis by Ben O’Loughlin has shown how conceptions of the market changed over time in British newspapers (and varied from conceptions of the market in American newspapers) and new research in this section extends O’Loughlin’s analysis with a detailed case study of the propagation of the metaphor of Britain as a business – ‘UK plc’ – in both British newspapers and by politicians.¹¹⁹ The section then moves on to a study of the degree of success Thatcherite politicians achieved in spreading their economic ideas through the use of slogans such as ‘popular capitalism’ and ‘enterprise culture’ by charting the appearance of the slogans in British newspapers. Thatcherites were very much aware

¹¹⁶ R. Skidelsky, ‘Thinking about the state’, in Green and Whiting (eds.), *The boundaries of the state* (Cambridge, 1996), p. 71.

¹¹⁷ P.A. Hall, ‘Policy paradigms’, *Comparative Politics*, vol. 25, 3 (1993), pp. 289-90.

¹¹⁸ D.W. Parsons, *The power of the financial press* (Aldershot, 1989), p. 3.

¹¹⁹ B. O’Loughlin, ‘The diffusion of ideas: ideas of the market in public policy in the US and UK, 1968-92’ (Oxford Univ. D.Phil. thesis, 2005).

that language mattered – one interesting example can be found in a 1979 briefing note by John Hoskyns for Keith Joseph where Hoskyns advised Joseph that the ‘language of crime helps to highlight the economic message: economic prison, guerrilla warfare, innocent victims’.¹²⁰ Finally, the ability of other players in the marketplace in economic ideas to influence political language and politicians via the media is analysed with a case study of the effect Roger Bacon and Walter Eltis’s 1970s theory – on the purportedly slow growth of the British economy – had upon Thatcherite politicians.

This section began by noting that language matters and that Ben O’Loughlin’s doctoral thesis has made an important contribution to the study of market language used during the rise of the New Right in both the USA and Britain. O’Loughlin started by tracking how metaphors used to describe the market economy changed over time in the editorial pages of the American and British quality press. O’Loughlin found that from 1968 – the start of his study period – *The Times* continued to use the metaphor of the market as a force of nature that caused physical ill-health to economies and currencies and this metaphor can be ‘seen as preparing the ground for later critiques of state management of the economy.’¹²¹ O’Loughlin also discovered that medical narratives of a ‘sick’ nation were much more in evidence in British than in American newspapers, while the metaphor of the economy as a locomotive recurred frequently in American editorials from 1968 to 1992 but stopped in British newspapers in 1976.¹²² O’Loughlin concluded powerfully by arguing that, in Britain:

As the train fell off the track, metaphorically and in a very real sense, so the economy became presented as a patient at the mercy of uncontrollable market and inflationary forces. This discourse inserted into debate the trajectory of economic thought . . . that understood “the market” as an abstract set of forces. As such, this contributed to the undermining of Keynesianism and lent legitimacy to the emerging New Right alternative.¹²³

O’Loughlin has shown how the use of metaphors can add legitimacy to certain ways of thinking and can even be a form of ‘early warning sign’ that suggest to us that a change of belief may be forthcoming. *The Times* had attacked libertarian views of the

¹²⁰ J. Hoskyns, 'Draft note', *HOSK I*, 18 February 1979.

¹²¹ B. O’Loughlin, 'The diffusion of ideas' (2005), p. 229.

¹²² B. O’Loughlin, 'The diffusion of ideas' (2005), p. 259.

¹²³ B. O’Loughlin, 'The diffusion of ideas' (2005), p. 259.

market in 1971 yet was already writing about the market in nature metaphors that supported libertarian views and thus it was not a great surprise that by 1974 *The Times* had fully embraced monetarist ideas.¹²⁴ Additionally, there exists another possible ‘early warning sign’ which O’Loughlin did not consider: the change in the use of a certain metaphor from aiding one particular conception of the economy to another. The metaphor of ‘Great Britain Limited’, that is, of the nation-state as a business, is one such example of a metaphor changing ideological ‘sides’ over time.

References to ‘Great Britain Limited’ or its variants, ‘UK plc’ or ‘UK Limited’, abound in newspapers and other publications today and while the metaphor first began to be used in the 1930s its contemporary usage only dates from the late 1960s. Yet, in the late 1960s there were two different meanings of ‘Great Britain Limited’ in circulation, with the meaning used today only triumphing in the 1980s. Beginning in the 1930s, the term ‘Great Britain Limited’ was first used by right-wing radicals who aimed to remedy the Great Depression by replacing wages and salaries with ‘dividends’ to ‘citizen shareholders’ calculated by drawing up national accounts in a similar fashion to the accounts of a company.¹²⁵ The usage of ‘Great Britain Limited’ waned in the 1940s and 1950s but in the late 1960s the metaphor suddenly found widespread prominence and a somewhat different meaning. With the vogue for economic planning in the 1960s (outlined in Chapter 3) the term ‘Great Britain Limited’ came to mean the idea that politics should be run in a more planned and corporate-like manner with a greater degree of co-operation between political parties – replacing ‘political dialogue’ with ‘boardroom discussions’ as *The Economist* put it in 1968.¹²⁶ Table 4.3 below supplies examples of the ‘Great Britain Limited’ metaphor from 1968 to 1974.

¹²⁴ B. O’Loughlin, ‘The diffusion of ideas’ (2005), pp. 229 and 234.

¹²⁵ S.D.W., ‘Book review’, *International Affairs* (Royal Institute of International Affairs 1931-1939), vol. 11, 4 (1932), p. 547; M.D. Colbourne, *The meaning of social credit* (1935), p. 249; A. Sykes, *The radical right in Britain* (2005), p. 78.

¹²⁶ ‘While Britain flounders’, *The Economist*, 9 March 1968.

Table 4.3: Examples of the ‘Great Britain Limited’ metaphor in *The Times* and *The Economist*, 1968-74

Source	Extract
'Lord Robens for 'G.B. Ltd', <i>The Times</i> , 1 March 1968	'Lord Robens, chairman of the National Coal Board, called forcefully yesterday for a “Great Britain Ltd.” within a democratic framework: “Not a businessman’s Government, but a business-like Government”, he suggested'
'While Britain flounders', <i>The Economist</i> , 9 March 1968	'Indeed, their [the political classes] actions might well decide whether there is to be a political dialogue at all, or whether it will be replaced by the boardroom discussions of Great Britain, Ltd.'
'Lover of politics, politicians’ friend', <i>The Economist</i> , 27 April 1968	'Others . . . will not accept Mr Fairlie’s powerful argument that the two-party system and the conflict it generates are essential to our democracy. Their concept of Great Britain Ltd is too recent to find a place in his book'
'A winning card', <i>The Economist</i> , 14 September, 1974	'But when the electorate thinks of a coalition it is looking for something considerably more than the remnants of Great Britain Ltd joining a majority Tory government'

The use of the ‘Great Britain Limited’ metaphor as shown in the extracts above can be considered part of the postwar consensus over planning for economic growth, which Thatcherites later rallied against (discussed in Chapter 1). However, the death of economic planning in the 1970s did not spell the death of the ‘Great Britain Limited’ metaphor and the metaphor began to acquire a more economically liberal hue.

Starting from the late 1960s, the same time as the use of the ‘Great Britain Limited’ metaphor in an economic planning context, the ‘Great Britain Limited’ metaphor was increasingly used to refer to running the nation-state as if it were an *actual* business that competed against other nation-state businesses rather than the economic planning usage of a business-*like* nation-state within a consensual, corporatist ethos that we see in Table 4.3. By the 1980s, the metaphor – now usually in the form of ‘UK plc’ – had come to be used only in this strict nation-state as an actual business form. Table 4.4 below shows the increasing prevalence of the ‘Britain as an actual business’ meaning embodied in the metaphor ‘Great Britain Limited’.

Table 4.4: Early examples of the ‘Great Britain Limited’ metaphor in its ‘nation-state as business’ usage in *The Times* and *The Economist*, 1969-84

Source	Extract
A. Lumsden, 'Anatomy of a miracle', <i>The Times</i> , 10 May 1969	'Germany AG is a much more successful enterprise just now than either Great Britain Ltd. or France Cie.'
M. Shanks, 'Inside Britain's biggest conglomerate', <i>The Times</i> , 23 May 1969	'It is to be hoped that . . . in time we involuntary shareholders in Great Britain Ltd. can expect to see an annual report in which our directors tell us what use they are making of the assets we have invested in them.'
F. Kinsman, 'Will the market reflect my sun-spot theory', <i>The Times</i> , 3 February 1973	'Queen Elizabeth I . . . was clearly an excellent chairman of what people nowadays like to call Great Britain Ltd.'
'Buy, buy Britain', <i>The Economist</i> , 16 October 1976	'If you were appointed finance director of Great Britain Ltd, you would not yet be quite in despair.'
'Schools brief: sterling on a switchback', <i>The Economist</i> , 30 January 1982	'The absence of exchange controls is helping to transform the balance sheet of Great Britain Ltd.'
S. Hogg, 'Does manufacturing matter any more?' <i>The Times</i> , 20 February 1984	'To the prosperity of Great Britain plc, valued-added [sic] is what matters'

The more market and competitive-oriented meaning of the ‘Great Britain Limited’ metaphor has unsurprisingly come to be associated with Margaret Thatcher – for instance, political scientist Brian Barry has referred to ‘Margaret Thatcher’s vision of Britain p.l.c.’ – although Thatcher only used the phrase once in all her public statements, in a speech delivered in 1981.¹²⁷ However, one of Thatcher’s favourite pressure groups, the Institute of Directors (IoD), did do much to popularise the ‘UK plc’ idea through frequent references, including a widely reported speech by the IoD Director-General, Peter Morgan, that conjoined ‘UK plc’ with militaristic metaphors of British citizens being ‘economic combatants’ in a ‘global economic war’ for prosperity.¹²⁸ The apogee of the idea that the nation-state was an actual business was, however, arguably not reached until the New Labour government of 1997-2001. New Labour introduced an annual report which recorded successes in meeting manifesto

¹²⁷ B. Barry, 'Nationalism' in Hutchinson and Smith (eds.), *Nationalism* (2000), pp. 1707; M. Thatcher, 'Speech to parliamentary and scientific committee', *Thatcher Archive Online*, 25 February 1981, copy available from the author.

¹²⁸ J. Paxman, *Friends in high places* (1990), p. 126; R.H. Roberts, 'Rhetoric', in Roberts and Good (eds.), *The recovery of rhetoric* (1993), pp. 224-38.

pledges in a style directly modelled upon the annual report of a public limited company, a development that had been predicted in an early mention of the ‘Great Britain Limited’ metaphor in *The Times* on 23 May 1969, listed in Table 4.4 above.¹²⁹

Ewen Green and Duncan Tanner have commented that ‘individual words may convey a myriad of meanings to a particular “public”’ and the ‘Great Britain Limited’ metaphor is an interesting example of a phrase that has taken a range of meanings over its period of use but has now settled on one particular meaning from the 1980s to the present.¹³⁰ The importance of the imputed meaning and use of particular words and phrases was understood well by those wishing to shift opinion in Britain towards economic liberalism at the time. One example appeared in a 1974 *Sunday Times* article by Ronald Butt.¹³¹ Butt argued that in the last decade, ‘the whole vocabulary of political and social debate has been captured by the left’ and that ‘the Conservative Party needs politicians with strong persuasive power and clear ideas’ to reverse the takeover of the language of politics by the Left.¹³² Butt’s article did not refer directly to Margaret Thatcher or to Keith Joseph but Joseph and Thatcher responded to Butt’s challenge and managed to change the very language of political debate by the 1980s. Keith Joseph’s mid-1970s university tours and regional speeches were platforms for Joseph to popularise phrases such as ‘the taxpayer’s money’ and the ‘anti-enterprise climate’ that may well have helped change the way the public thought about the state and other institutions, such as trade unions, called ‘job destroyers’ by Joseph in a reversal of their commonly perceived role at the time.¹³³

More generally, historian David Cannadine has credited Margaret Thatcher with making the ‘language of the customer and the consumer more pervasive than the language of class or of the producer.’¹³⁴ Much more specifically, Thatcher has been credited by Nigel Lawson with introducing the phrase ‘dependency culture’ although it is more likely that she popularised rather than coined the phrase, as the *Oxford English Dictionary* has traced the phrase back to a 1973 academic journal article on

¹²⁹ C. Painter, ‘Public service reform’, *Parliamentary Affairs*, vol. 52, 1 (1999), p. 100.

¹³⁰ E.H.H. Green and D. Tanner, ‘Introduction’, in Green and Tanner (eds.), *The strange survival of liberal England* (2007), p. 15.

¹³¹ R. Butt, ‘The Tory dilemma’, *Sunday Times*, 20 October 1974.

¹³² R. Butt, ‘The Tory dilemma’, *Sunday Times*, 20 October 1974.

¹³³ B. Harrison, ‘Mrs Thatcher’, *Twentieth Century British History*, vol. 5, 2 (1994), p. 212.

¹³⁴ D. Cannadine, *Class in Britain* (2000), p. 179.

Thailand.¹³⁵ Nigel Lawson also liked to think that he coined the phrase ‘enterprise culture’ in the 1980s.¹³⁶ However, ‘enterprise culture’ is most likely another invention of Keith Joseph’s as it appeared in a 1979 article in *The Guardian*, which recorded that ‘Sir Keith Joseph visited Scotland again in search of an “enterprise culture” which apparently eluded him on his last trip almost two months ago.’¹³⁷ Another Thatcherite phrase which possesses a longer history than had been previously supposed is ‘popular capitalism.’ Thatcher biographer John Campbell commented that ‘popular capitalism’ had previously been thought to have been coined by Michael Heseltine in 1986 but Campbell found that Heseltine had not used the phrase at all and the mention of ‘people’s capitalism’ by Nigel Lawson in a 1985 speech was probably the earliest equivalent usage.¹³⁸ ‘Popular capitalism’ can in fact be traced further back in time, for a 1980 article in *The Guardian* used the phrase in a report on the then Energy Minister David Howell in a way that suggests that ‘popular capitalism’ was already in common political usage in 1980.¹³⁹ Moving much further back in time, ‘popular capitalism’ was used in a speech by Conservative MP David Eccles in May 1949 and appeared again in an October 1963 speech by Conservative MP P.E. Walker.¹⁴⁰ Therefore, while ‘popular capitalism’ was and is undoubtedly still associated with Thatcherites, it had a longer history of use by the Conservative party than had been previously been assumed. This longer than suspected conservative use of the phrase ‘popular capitalism’ adds further support to Ewen Green’s thesis advanced in his *Ideologies of conservatism* (2002) that Thatcherite ideology had strong roots in the Conservative party that dated back to at least the 1950s.¹⁴¹ Equally, another Thatcher-favoured phrase, ‘property-owning democracy’, was also first widely used by the Conservative party in the early post-war years.¹⁴²

¹³⁵ N. Lawson, *The view from No. 11* (1992), p. 64; Oxford English Dictionary, ‘Dependency culture’, www.oed.com, copy available from the author.

¹³⁶ N. Lawson, *The view from No. 11* (1992), p. 64.

¹³⁷ P. Hetherington, ‘Joseph returns’, *The Guardian*, 9 August 1979.

¹³⁸ J. Campbell, *Margaret Thatcher*, vol. 2, ‘The iron lady’, (2000), p. 231.

¹³⁹ M. White, ‘In the gallery’, *The Guardian*, 4 November 1980.

¹⁴⁰ ‘Popular capitalism’, *The Times*, 3 May 1949; ‘Lord Home’, *The Guardian*, 12 October 1963.

¹⁴¹ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), pp. 218-9; L. Brockliss, ‘Obituary: E. H. H. Green’, *The Independent*, 23 September 2006.

¹⁴² A. Seldon, ‘Anthony Seldon interviews John Ramsden’, *Contemporary British History*, vol. 10, 1 (1996), pp. 168-85; S. Evans, ‘The not so odd couple’, *Contemporary British History*, iFirst article (2008), p. 8.

Moving back to the 1980s, Table 4.5 below gives an indication of the spread of the two Thatcherite phrases ‘enterprise culture’ and ‘popular capitalism’ across news media in the 1980s.

Table 4.5: Usage of the Thatcherite phrases ‘enterprise culture’ and ‘popular capitalism’

Phrase	Source	Number of references	
		Pre-1979	1979-1990
'Enterprise culture'	Margaret Thatcher's public statements	0	25
	<i>The Times</i>	0	298
	<i>The Guardian</i>	0	290
	<i>The Economist</i>	0	17
'Popular capitalism'	Margaret Thatcher's public statements	0	11
	<i>The Times</i>	1	193
	<i>The Guardian</i>	3	130
	<i>The Economist</i>	0	27

Sources: *Thatcher Archive Online*; *The Times Digital Archive, 1785-1985*; *LexisNexis*; *The Guardian Digital Archive*; *The Economist Historical Archive, 1843-2003*.

Note: *The Times* includes the *Sunday Times* after 1 July 1985.

Table 4.5 and the discussion over the ‘UK plc’ metaphor show us that Thatcherites were successful in encouraging the use of phrases associated with economic liberalism in media outlets and while assessing the impact of these phrases upon elite groups and the public at large is impossible to quantify, charting the proliferation of these phrases does at least demonstrate that the language of politics had shifted towards the Right by the 1980s in a way that would have no doubt pleased *The Times* journalist Ronald Butt in 1974. Furthermore, Ben O’Loughlin’s research informs us that it was not only the efforts of politicians like Keith Joseph and Margaret Thatcher that led a change in the language of politics but that newspaper editorials were independently shifting towards a conception of the market that aided economic liberals in the 1970s.

Adding another layer of depth to the changing political phraseology and interplay between newspapers and politicians at this time was the impact of other players in the marketplace in economic ideas. One especially significant case study can be found in

the shape of a series of newspaper articles written by two academic economists of the University of Oxford, Roger Bacon and Walter Eltis, and published by the *Sunday Times* over three successive weeks in November 1975.¹⁴³ Bacon and Eltis's work, subsequently published in 1976 as *Britain's economic problem: too few producers*, gives us a powerful example of how suppliers of economic ideas can greatly influence politicians through the medium of news media. Bacon and Eltis managed to repackage and develop older economic ideas in a way appropriate to the time and, in a development that has not been explored by the academic literature before, had their ideas subsequently repackaged by Thatcherite politicians to give further impetus to pre-existing Thatcherite rhetoric in favour of the 'wealth-creating sector.'

The Bacon and Eltis thesis (as it came to be known) stated that the main cause of Britain's slow growth was not the wage demands of unions or low productivity growth, as many other economists had speculated but could instead be explained by the large shift of labour into what was termed the 'non-market' sector where marginal productivity was zero or near-zero.¹⁴⁴ In their diagnosis of Britain's ills, Bacon and Eltis self-consciously harked back not only to the eighteenth century French physiocrat Francois Quesnay but to Adam Smith and other classical economists who wrote on the importance of the 'productive' sector of the economy, which Bacon and Eltis had repackaged as the 'market' sector.¹⁴⁵

More roots of the Bacon and Eltis thesis can also be found in much more recent economic thought, beginning with Colin Clark's hypothesis in 1945 that 'inflation and consequent (but undescribed) disruption will occur whenever taxes exceed one-fourth of GNP.'¹⁴⁶ Milton Friedman took up Colin Clark's baton and predicted in a 1976 article that the 'red line' where serious disruption – including the end of democracy – would occur was now set at a tax take of 60% of GNP.¹⁴⁷ A tax take of 60% of GNP was in fact reached by Britain in 1976 according to official figures

¹⁴³ R. Bacon and W. Eltis, 'How we went wrong', *Sunday Times*, 2 November 1975; R. Bacon and W. Eltis, 'The chances we missed', *Sunday Times*, 9 November 1975; R. Bacon and W. Eltis, 'What we should do', *Sunday Times*, 16 November 1975.

¹⁴⁴ 'Economics: new Oxford', *The Economist*, 29 November 1975.

¹⁴⁵ R. Bacon and W. Eltis, 'A budget message for Mr Healey', *Sunday Times*, 10 November 1974; R. Bacon and W. Eltis, *Britain's economic problem revisited* 3rd ed. (1996), pp. vii and xx.

¹⁴⁶ W.G. Watson, 'Review article', *Journal of Comparative Economics*, vol. 2, 1 (1978), p. 44.

¹⁴⁷ M. Friedman, 'The line we dare not cross', *Encounter* vol. 47, 5, November 1976, pp. 8-14.

(although the figures were subsequently shown to have been over-estimated), perfect timing for maximum impact by Friedman and the related Bacon and Eltis thesis, as David Smith has noted.¹⁴⁸ Furthermore, the American connection with the Bacon and Eltis thesis extended beyond Milton Friedman and monetarism – Avner Offer has linked the Bacon and Eltis thesis with ‘Baumol’s Law’ that the cost of public services will rise more quickly than the cost of market goods and the ‘Leviathan’ school of public finance.¹⁴⁹ Roger Middleton has further argued that the Bacon and Eltis thesis was bolstered by the growing public choice school of economics and has proposed that the Bacon and Eltis thesis could be considered a British version of the Laffer curve in its rhetorical appeal.¹⁵⁰

The rhetorical appeal was not the only similarity that the Bacon and Eltis thesis held with the Laffer curve; both theories suffered a near-total rejection by academic economists but still proved influential with policymakers. The Bacon and Eltis thesis was in the main utterly ignored by academic economists although one review article in the *Journal of Comparative Economics* decided to investigate the thesis and scathingly argued that, of the interesting questions raised by Bacon and Eltis, ‘they answer none convincingly’.¹⁵¹ The review article further attacked the Bacon and Eltis thesis with the comment that while the ‘analogy [with the physiocrat Quesnay] has great intuitive appeal, especially for taxpayers in revolt . . . [it] does not withstand even cursory examination.’¹⁵² Yet, while academia was either ignoring or scorning the work of Roger Bacon and Walter Eltis, politicians were busily lauding their work. Initially, politicians of the Right *and* the Left favourably talked up the recommendations of the Bacon and Eltis thesis, exactly as the two Oxford economists had hoped. For Bacon and Eltis had carefully argued that their work supported politicians aiming for structuralist change, ‘ranging from Tony Benn to Sir Keith Joseph’ and it was the centrist ‘tinkerer’ politicians of both parties who were in the wrong.¹⁵³

¹⁴⁸ D. Smith, *The rise and fall of monetarism* (1991), p. 75.

¹⁴⁹ A. Offer, *Why has the public sector grown so large?* (Oxford, 2003), p. 20.

¹⁵⁰ R. Middleton, *Towards the managed economy* (1985), p. 184; R. Middleton, ‘Laffer curve’ *Economics department seminar, University of Warwick* (1997), p. 20.

¹⁵¹ W.G. Watson, ‘Review article’, *Journal of Comparative Economics*, vol. 2, 1 (1978), p. 45.

¹⁵² W.G. Watson, ‘Review article’, *Journal of Comparative Economics*, vol. 2, 1 (1978), p. 47.

¹⁵³ R. Bacon and W. Eltis, ‘How we went wrong’, *Sunday Times*, 2 November 1975.

Indeed, Bacon and Eltis have subsequently claimed that the 1976 announcement by Labour Prime Minister Jim Callaghan of a change towards policies of export-led growth and public expenditure cuts were directly influenced by their work but while a contemporary article in *The Economist* highlighted the influence of Bacon and Eltis on a change in export policies, the requirements of the 1976 IMF intervention were a more likely cause of the public expenditure cuts.¹⁵⁴ However, it was Thatcherite politicians in the Conservative party who most successfully took up the ideas of Bacon and Eltis and the reasons behind why a certain policy prescription designed to appeal to both parties was only successfully taken up by a small number of politicians in one party can tell us much about how politicians adopt and adapt economic ideas in general.

The association of the Bacon and Eltis thesis with Thatcherite politicians can be explained by two reasons. One fairly basic reason was that the incumbent Labour government was soon to lose power and therefore did not have the time to engage with the ideas of Bacon and Eltis and the second, deeper, reason was that Thatcherites had already developed the idea of a ‘wealth-creating sector’ which dovetailed extremely well with the Bacon and Eltis thesis. Labour, however, had no equivalent pre-existing idea to hook the Bacon and Eltis thesis onto – the Alternative Economic Strategy (AES), probably the closest Labour match with the Bacon and Eltis thesis was a much poorer fit than the Thatcherite ‘wealth-creating sector’ idea as the AES concentrated only on the very largest manufacturers rather than manufacturing as a whole.¹⁵⁵

The Thatcherite phrase ‘wealth-creating sector’ neatly encapsulated the ideas of Bacon and Eltis but it was not a phrase that Bacon and Eltis ever used, they preferred to use the idea of ‘market’ and ‘non-market’ sectors instead. The first recorded use of the phrase ‘wealth-creating sector’ was in a speech by Thatcherite MP Patrick Jenkin in the House of Commons in 1968 and Jenkin used the phrase again in the Commons

¹⁵⁴ ‘Emaciated market’, *The Economist*, 24 April 1976. For more on the IMF intervention, see: K. Burk and A. Cairncross, *Goodbye, Great Britain* (1992) and D. Wass, *Decline to fall* (Oxford, 2008).

¹⁵⁵ For more on the Alternative Economic Strategy, see: N. Thompson, *Political economy and the Labour Party* (1996), Chapter 16 and J. Callaghan, ‘Rise and fall of the alternative economic strategy’, *Contemporary British History*, vol. 14, 3 (2000), pp. 105-30.

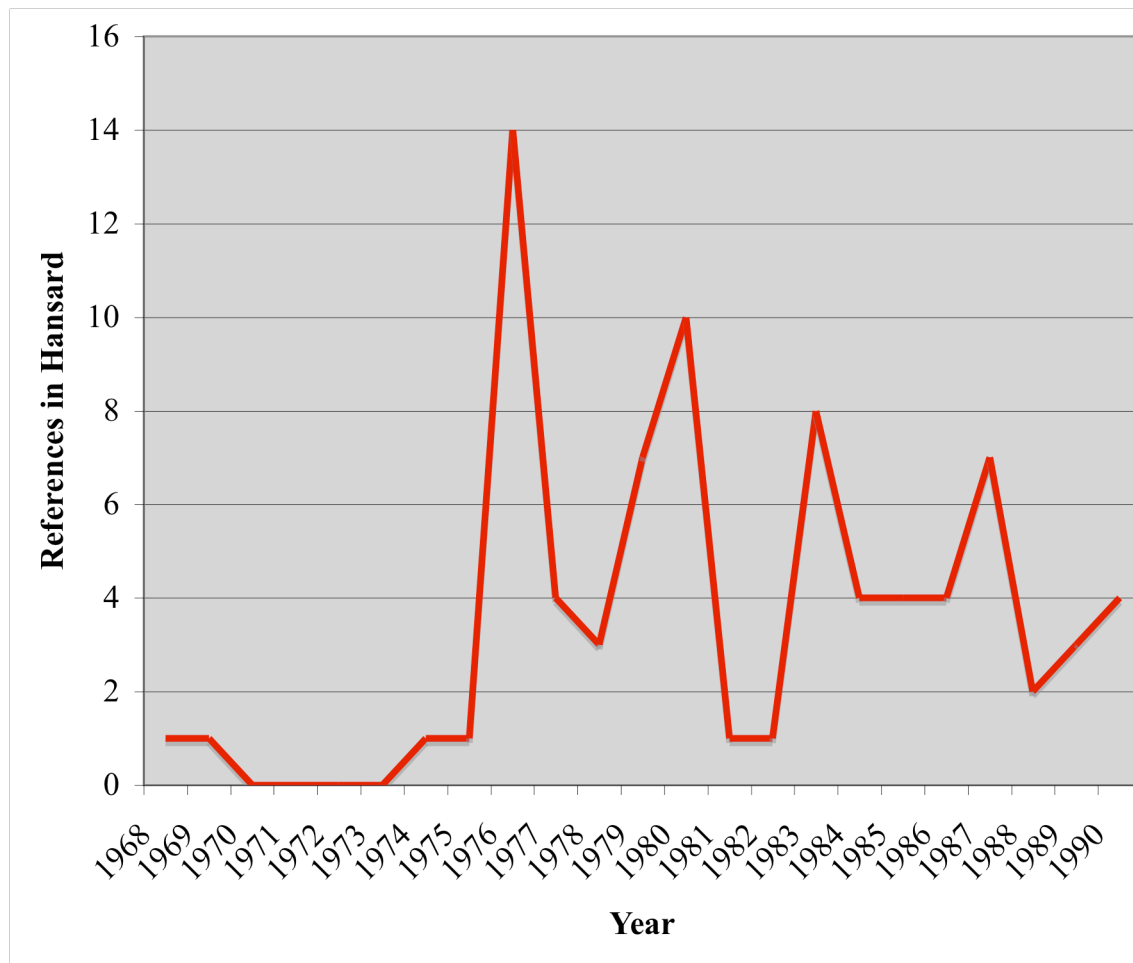
in 1969.¹⁵⁶ After 1969, the phrase did not recur in *Hansard* until 1976, the year after the Bacon and Eltis thesis had first appeared in the *Sunday Times*, whereupon it was used on 14 different occasions, including in speeches by such notable Thatcherites as Keith Joseph, Ian Gow and Mrs Thatcher herself.¹⁵⁷

1976 was an undoubted *annus mirabilis* for the usage of the hitherto barely used phrase ‘wealth-creating sector’ in *Hansard* and as Figure 4.1 below demonstrates, ‘wealth-creating sector’ regularly appeared in Parliamentary debates in the late 1970s and throughout the 1980s, although its level of use declined as the 1980s wore on. Table 4.6, below Figure 4.1, demonstrates that ‘wealth-creating sector’ was a phrase used almost exclusively by Conservative rather than Labour or Liberal politicians.

¹⁵⁶ *Hansard (Commons)*, 5th series, 28 November 1968, vol. 774, col. 857; *Hansard (Commons)*, 5th series, 13 May 1969, vol. 783, col. 1352.

¹⁵⁷ Keith Joseph in: *Hansard (Commons)*, 5th series, 10 March 1976, vol. 907, col. 43; Ian Gow in: *Hansard (Commons)*, 5th series, 1 April 1976, vol. 908, col. 1576; Margaret Thatcher in: *Hansard (Commons)*, 5th series, 24 November 1976, vol. 921, col. 19.

Figure 4.1: Occurrences of the phrase ‘wealth-creating sector’ in *Hansard*, 1968-90



Source: Hansard 1803-2005, <http://hansard.millbanksystems.com>, copy available from the author.

Table 4.6: Appearance of the phrase ‘wealth-creating sector’ in *Hansard*, 1968-90, by political party

Party	No. of appearances
Conservative	67
Labour	10
Liberal	2
Total	79

Note: one quotation by a Labour MP of a Conservative document which included the ‘wealth-creating sector’ phrase has been excluded.

Source: Hansard 1803-2005, <http://hansard.millbanksystems.com>, copy available from the author.

Therefore, given the leap in the use of the phrase ‘wealth-creating sector’ in 1976, almost immediately after the November 1975 articles by Bacon and Eltis which outlined their ideas of ‘market’ and ‘non-market’ sectors, it seems likely that

Thatcherites were successful in connecting their pre-existing phrase to the Bacon and Eltis thesis in an attempt to give greater purchase to Thatcherite ideas on the importance of wealth creation. Mrs Thatcher stressed the importance of wealth creation from her very earliest speeches, hence it is unsurprising that the Bacon and Eltis thesis strongly appealed to her and likeminded Conservatives. In a 1950 speech given upon her adoption as the Conservative Prospective Parliamentary Candidate for Dartford, Margaret Roberts (as she then was) was reported by a local newspaper as warning that only ‘by creating wealth could they spend it; that was something people often forgot. Socialism did not create anything new.’¹⁵⁸ In 1967, somewhat later than 1950 but still well before the appearance of the Bacon and Eltis thesis, Mrs Thatcher connected trickle-down economics (discussed in Section 4.2) with ideas that Bacon and Eltis would subsequently popularise:

I say that the future of people in industry depends tremendously on the small group of people who can create more wealth, and they are far more valuable to the ordinary working person than those of us who work here [in the House of Commons].¹⁵⁹

To summarise, Mrs Thatcher had long stressed the importance of wealth creation, which she thought was predominantly achieved by a small number of people in what Bacon and Eltis would call the ‘market sector’ and Thatcher believed that these wealth creators were considerably more important to the public at large than politicians, ‘non-market sector’ people in Bacon and Eltis’s terminology. With such pre-existing beliefs it is unsurprising that the work of Bacon and Eltis was successfully adopted by Thatcherites rather than Labour politicians and with the publication of Bacon and Eltis’s work the Thatcherite phrase ‘wealth-creating sector’ became much more heavily used in political debate. In addition to the increased use of the phrase ‘wealth-creating sector’ in *Hansard*, the phrase was also deployed in the important 1976 Conservative policy document, *The right approach* and, in an useful signifier of the importance of the phrase, Thatcherites began to refer to the ‘wealth-creating sector’ in their internal discussions on what was wrong with the British economy – Nigel Lawson stressed that he wanted to avoid intensifying ‘the problems

¹⁵⁸ M. Thatcher, ‘Speech at adoption meeting’, *Thatcher Archive Online*, 3 February 1950, copy available from the author.

¹⁵⁹ Quoted in: J. Campbell, *Margaret Thatcher*, vol. 1, ‘The grocer’s daughter’, (2000), p. 174.

of the wealth creating sector' in a 1979 briefing sent to Margaret Thatcher, Geoffrey Howe, Nicholas Ridley, Keith Joseph, Jim Prior and John Nott.¹⁶⁰

Post-1979, with the election of the Conservatives, the Bacon and Eltis thesis has been generally credited with influencing government policy although, in the opinion of political scientist Peter Jackson, the Bacon and Eltis thesis was only used as part of a strategy of providing:

an intellectual foundation for those crude policies that were aimed at rolling back the frontiers of the state . . . [as the policies] could now be done in the name of expanding the wealth creating base of the economy.¹⁶¹

The existence of speeches dating back to 1950 and internal documents referring to the 'wealth-creating sector' would suggest, however, a slightly less cynical interpretation as Thatcherites did seem genuinely to believe in a great need to support wealth creation although there can be little doubt that the Bacon and Eltis thesis was used to give greater credence to the wealth creation cause than it would otherwise have received. If we view the policies of the 1980s with the Thatcherite wealth creation rhetoric in mind we can see a host of major policies where the belief in the importance of wealth creation has been influential, from the cuts in the top rate of income tax from 83 percent to 40 percent across the Thatcher years to the decision in the 1981 budget to cut the Public Sector Borrowing Requirement (PSBR) at a time of recession. The link between the belief in the importance of wealth creation and the 1981 budget can be seen clearly in a memo written by Alfred Sherman to Mrs Thatcher prior to the 1981 budget, which warned Thatcher that continuing the 'monetary squeeze' of 1980-1 without cutting government spending would 'buckle the productive base on which all else rests' as 'monetary policies will only work if they are in tandem with measures to restore the private wealth-producing sector at the expense of the State and subsidised sectors.'¹⁶²

¹⁶⁰ Conservative Party, 'The right approach', *Thatcher Archive Online*, 4 October 1976, copy available from the author; N. Lawson, 'Current monetary policy', *THCR* 2/1/3/12A, 21 February 1979.

¹⁶¹ P. Jackson, 'Policy implementation', in Jackson (ed.), *Implementing government policy initiatives* (1985), p. 28.

¹⁶² R. Cockett, *Thinking the unthinkable* (1995), p. 295.

The varied examples used in this section show us that the development and spread of the language of the market and market-oriented ideas in 1960s to 1980s Britain was not solely the result of media influence or the actions of politicians or other players in the marketplace in economic ideas but involved instead a complicated interaction between all three agents. Neither the media nor politicians nor other players in the economic marketplace appear to have been dominant in shaping market language as all three agents possessed differing levels of influence over different phrases and conceptions. What the varied examples almost entirely do share is a ‘pre-history’ as very few of the phrases studied were newly coined in our period of study and instead were resurrected or adapted from an earlier usage. Phrases such as ‘popular capitalism’, ‘property-owning democracy’ or ‘UK plc’ are strongly associated with Thatcherite politicians but had all been in use long before the 1980s. Therefore, it would appear that was easier for Thatcherite politicians to adapt pre-existing phrases to suit their beliefs rather than to introduce new phrases into the political lexicon, although Keith Joseph did try to introduce a host of new phrases, most notably ‘enterprise culture.’¹⁶³ Furthermore, Thatcherite rhetoric was not only important in adapting existing economic ideas but allowed new ideas (or new versions of old ideas), such as Bacon and Eltis’s, to be ‘captured’ by Thatcherites if the idea chimed with Thatcherite rhetoric, such as the development of the ‘wealth-creating sector’ phrase in the Bacon and Eltis case.

¹⁶³ For more on language and ‘enterprise culture’, see: R. Keat, and N. Abercrombie (eds.), *Enterprise culture* (1991).

Section 4.5: Buyers in the marketplace: Thatcherite politicians

The previous section dealt with all the different types of agents in the marketplace: buyers, sellers and intermediaries, whereas this section, the final main section of this chapter, concentrates on the buyers – Thatcherite politicians. However, determining the economic thinking behind policy decisions made by politicians and the influences that bore upon on this economic thinking is an extremely difficult task. Even policies which were undoubtedly ‘economic’ policies may have had a range of non-economic motivations and aims behind them and, as economist Alan Budd said, ‘politicians generally refer neither to economists nor to economic theories when announcing decisions’.¹⁶⁴ A prime example can be found across the two volumes of Margaret Thatcher’s memoirs where Milton Friedman, an undoubted influence on Thatcher, received a paltry six references – one of which was in a footnote – over a span of more than 1400 pages.¹⁶⁵ None of the six references gave any indication of an intellectual debt owed by Thatcher to Friedman or mentioned any contact between the two (they met on a number of occasions, with the first meeting in 1978 organised by Ralph Harris of the IEA).¹⁶⁶ The only reference in the memoirs which inform us of Margaret Thatcher’s intellectual development regarding monetarism contains the claim that Thatcher was a monetarist before she was even aware of Milton Friedman and his work.¹⁶⁷ Correspondingly, Milton Friedman’s memoirs similarly neglected to cover Friedman’s role in Thatcherism, with only four references to Margaret Thatcher in a 667 page volume.¹⁶⁸

Furthermore, very few Thatcherite politicians had formally studied economics and many Thatcherites possessed what could be called at best a skeptical view of the utility of professional economists and economic theory. Chapters 2 and 3 have already noted that Margaret Thatcher was distrustful of economists and economic theory. Geoffrey Howe, Chancellor of the Exchequer from 1979 to 1983 is a further case in point – Howe, who has been described as man with ‘no instinctive feel for

¹⁶⁴ A. Budd, *The politics of economic planning* (Glasgow, 1978), p. 18.

¹⁶⁵ M. Thatcher, *The Downing Street years* (1995), pp. 618, 710 footnote and 804; M. Thatcher, *The path to power* (1995), pp. 386, 567 and 596.

¹⁶⁶ Friedman and Thatcher meeting in: R. Cockett, *Thinking the unthinkable* (1995), p. 173.

¹⁶⁷ M. Thatcher, *The path to power* (1995), p. 567.

¹⁶⁸ M. Friedman and R.D. Friedman, *Two lucky people* (Chicago, 1998), pp. 244, 390, 464 and 566.

economics', practised as a barrister before becoming a politician and wrote of his 'lawyerly scepticism of economic theorists' in his autobiography.¹⁶⁹ Even Nigel Lawson, a former economics writer with the *Financial Times* and Howe's successor as Chancellor, had specialised in philosophy rather than economics during his PPE degree at Oxford and took care to emphasise to readers of his memoirs that he had only ever been interested in the 'practical' application of economics to policy rather than economic theory.¹⁷⁰

The lack of public references or even skeptical comments on economists and economic theories from Thatcherites does not necessarily mean that economists and economic theories were unimportant; politicians may overplay (whether deliberately or accidentally) their intellectual independence and economic theories may be indirectly transmitted and shaped by third parties in the marketplace for economic ideas. However, the skepticism or lack of attention given to economists and economic theories by Thatcherites does suggest that Thatcherites were not deferential and unquestioning consumers of ideas from economists. Instead, as will be argued in this section, Thatcherites were confident buyers in a marketplace seeking ideas that could be adapted to fit their own pre-existing economic thinking and did not privilege economists, who were merely one group of sellers amongst many in the marketplace. Pre-existing economic thinking, or Do-It-Yourself-Economics (DIYE), was a vital part of Thatcherite economics. As Mrs Thatcher said forcefully in a 1981 interview, '[i]f I could get back to some of the things on which I was brought up . . . I wouldn't need to have any economic theory.'¹⁷¹

The example given in the paragraph above, of Margaret Thatcher claiming to be a monetarist before she knew of Friedman, illustrates well the point that Thatcherites were seeking ideas which corresponded with their own pre-existing economic thinking. Monetarism for Thatcherites was simply a new word to describe the doctrine of 'sound money', a doctrine which has long been associated with the Conservative party and has even been described as 'the oldest Conservative principle of all' by

¹⁶⁹ 'Instinctive' quote in: H. Stephenson, *Mrs Thatcher's first year* (1980); G. Howe, *Conflict of loyalty* (1994), p. 157.

¹⁷⁰ N. Lawson, *The view from No. 11* (1992), p. 4.

¹⁷¹ J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 88.

current Shadow Chancellor George Osborne.¹⁷² Sound money is not a tightly-defined doctrine, meaning as it does, merely that ‘the monetary system should be prevented from acting as an independent source, or from magnifying non-monetary sources, of instability in the economy.’¹⁷³ The vagueness of the old Conservative sound money doctrine in terms of offering policy prescriptions made it relatively simple for Thatcherites to connect sound money with the more modern academic idea of monetarism, which did contain a clear policy prescription: that of targeting the rate of the growth of the money supply (as the definition of monetarism in Chapter 2 explained). As Margaret Thatcher explained in a 1980 television interview on the link between sound money and monetarism:

Just let’s try to analyse what monetarism is. It’s as if it’s something new. It’s not. It’s as old as the hills . . . You call it monetarism – no-one can escape monetarism any more than they can escape the laws of arithmetic. It’s sound money, it’s refusing to print money, and that’s what we’re doing.¹⁷⁴

Thatcher’s attempt to argue that she was merely following an established Tory tradition of sound money policies rather than a new idea that had recently crossed the Atlantic (she pointedly said to the interviewer that ‘*You* call it monetarism [emphasis added]’, implying that she did not use or recognise the term herself) could be viewed as a strategy to reassure reticent voters and suspicious Tory MPs or as a sincere belief that she was following age-old sound money traditions. The evidence would suggest that both explanations – sound money was used as a tool to help make monetarism more palatable to skeptics or that Thatcher sincerely thought she was returning the nation and the Tory party to its sound money past – have some validity to varying degrees.

Starting with the latter explanation, early public statements by Thatcher provide some evidence of her sound money beliefs predating monetarism. In a 1950 article for the *Gravesend and Dartford Reporter*, Miss Roberts, as Margaret Thatcher then was,

¹⁷² W. Keegan, 'Germ of inflation', *The Observer*, 8 October 2006.

¹⁷³ A.B. Cramp, 'Sound money', in Newman *et. al.* (eds.), *The new Palgrave: money & finance* (1992), p. 486.

¹⁷⁴ M. Thatcher, 'TV interview', *Thatcher Archive Online*, 14 April 1980, copy available from the author.

called for ‘sound finance and economical spending of public money’.¹⁷⁵ In 1968, still a year before Keith Joseph’s dismissal of monetarism as an ‘untested dogma’ as Chapter 2 noted, Mrs Thatcher gave a speech where she argued that ‘the essential role of government . . . is the control of money supply . . . [and for] a number of years some expenditure has been financed by what amounts to printing the money’.¹⁷⁶ However, on the former explanation that ‘sound money’ was merely a cover used by Thatcher for monetarism, searching Thatcher’s complete public statements show that she did not use the phrase ‘sound money’ until 1976, when monetarism had already become established in British public discourse (for example, searching the online source, *The Times Digital Archive, 1785-1985*, shows that *The Times* began to regularly use the word ‘monetarism’ in 1975).¹⁷⁷

On balance, while both explanations possess supporting evidence, the fact that sound money was associated with the Conservative right-wing long before monetarism had been articulated by Friedman suggests that it was likely that Thatcher genuinely was a sound money believer well before the dawn of monetarism. For instance, in 1958, Peter Thorneycroft, Enoch Powell and Nigel Birch had resigned from the Tory administration as a protest against Macmillan’s perceived dereliction of sound money practices and when Thatcher became leader of the Conservatives in 1975 she immediately offered the chairmanship of the party to Peter Thorneycroft, a move which surprised Thorneycroft but which can be viewed partly as Thatcher rewarding a man with principles she had long supported.¹⁷⁸

In addition to Mrs Thatcher, a number of Thatcherites who were most associated with monetarism are best described as ‘sound money men’. Historian John Ramsden has talked of a generation of Tory politicians who ‘only discovered monetarism late’ but had ‘dreamed of and argued for sound money right from the beginning of their political careers’ and Ramsden identified Geoffrey Howe as a particularly prominent

¹⁷⁵ M. Thatcher, ‘Article for *Gravesend and Dartford Reporter*’, *Thatcher Archive Online*, 28 January 1950, copy available from the author.

¹⁷⁶ M. Thatcher, ‘Conservative Political Centre (CPC) lecture’, *Thatcher Archive Online*, 11 October 1968, copy available from the author.

¹⁷⁷ M. Thatcher, ‘TV broadcast’, 6 April 1976, *Thatcher Archive Online*, copy available from the author.

¹⁷⁸ S. Heffer, ‘Thorneycroft, Peter’, *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author; E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), pp. 192-213.

example.¹⁷⁹ Nigel Lawson, however, was the exception as a Keynesian rather than a sound money man in his days as a journalist in the 1950s and 1960s and even wrote an article in 1962 mocking those who advocated balanced budgets, which was the fiscal counterpart to monetarism in the opinion of historian Peter Clarke.¹⁸⁰

The Thatcherite connection with monetarism should therefore be viewed not as a whole scale adoption of a new economic theory but instead as more of an association with monetarism partly on the grounds that monetarism had much in common with pre-existing sound money beliefs. Other reasons for the Thatcherite association with monetarism put forward by commentators have included Douglas Jay's contention that monetarism was 'a perfectly respectable academic theory [which allowed Thatcherites to justify] . . . making large cuts in government expenditure', as shown by British monetarists linking the Public Sector Borrowing Requirement (PSBR) with the price level, a link which Friedman himself disavowed.¹⁸¹ More recently, Conservative politician David Willetts has made the point that monetarism was especially appealing to Thatcherites as the pre-existing Conservative policy of price and income restrictions gave Labour an electoral advantage as Labour could convincingly claim to be better placed to negotiate with trade unions than the Conservatives.¹⁸² If prices and incomes policies failed and were dropped in favour of monetarism then the Labour link with trade unions ceased to be a disadvantage for the Conservatives.

Viewing monetarism as a theory connected with Thatcherism thanks to older sound money beliefs rather than a theory adopted by 'converted' Thatcherites in the 1970s can also help explain why the Thatcher administration was not particularly monetarist in practice. As early as 1980, after only one year in power, Milton Friedman had criticised the Thatcher government for not following his policy prescriptions and believing instead that the money supply could be controlled by fiscal policy and

¹⁷⁹ A. Seldon, 'Anthony Seldon interviews John Ramsden', *Contemporary British History*, vol. 10, 1 (1996), pp. 177-8.

¹⁸⁰ Lawson as Keynesian: N. Lawson, *The view from No. 11* (1992), pp. 8-9 and T. Congdon, 'Lawson's world example', *The Times*, 21 March 1988; 'Fiscal counterpart' in: P. Clarke, 'The rise and fall of Thatcherism', *Historical Research*, vol. 72, 179 (1999), p. 320.

¹⁸¹ D. Howell, 'Keynesianism', in Hill (ed.), *Keynes, money and monetarism* (Basingstoke, 1989), p. 96.

¹⁸² D. Willetts, 'The Conservatives in opposition', *Conservative History Journal*, vol. 1, 1 (2003), p. 23.

interest rates alone.¹⁸³ By 1985, only half-way through Mrs Thatcher's time in office, the Conservatives had dropped monetary targeting and thus abandoned monetarist policies – Michael Oliver has explained this major policy reversal as resulting from factors ranging from the recession and unemployment of the early 1980s to changes in thinking over interest rates as well as the effects of financial liberalisation and disagreements between politicians and policymakers.¹⁸⁴

Shirley Letwin thought that Thatcherites did not believe strongly in monetarism in any case, while in a more structured analysis, British monetarist Gordon Pepper divided Thatcherites into 'genuine', 'pragmatic' and 'political' camps, in descending order of adherence to monetarist beliefs.¹⁸⁵ Pepper argued that the only genuine monetarist in the Tory cabinet was Mrs Thatcher while Geoffrey Howe and Nigel Lawson belonged to the barely monetarist camp of 'political monetarists'.¹⁸⁶ Pepper's classification of Howe can be supported by notes of a meeting between Geoffrey Howe and Thatcherite adviser John Hoskyns in 1977 where Howe was noted as claiming that inflation could be explained by a combination of Keynes and Friedman, rather than by Friedman alone.¹⁸⁷ Ewen Green has developed further Pepper's classifications and persuasively argued that not even Thatcher was a genuine monetarist under a careful interpretation of Pepper's definition.¹⁸⁸ Hence, we are left with the problem that no Thatcherites were genuine monetarists. Yet, if Thatcherites are described as sound money advocates rather than monetarists, then the disappointment felt by monetarist economists over the monetary policies followed by Thatcherites in office can be better understood and the apparent conundrum of Thatcherite monetarists who never truly implemented monetarist policies is solved.

Sound money and monetarism were easily linked but other pre-existing strains of Conservative economic thought did not necessarily have such an obvious fit with newer ideas in the marketplace yet are still important in understanding Thatcherite

¹⁸³ Friedman's criticisms in: E.H.H. Green, *Thatcher* (2006), p. 78.

¹⁸⁴ M.J. Oliver, *Whatever happened to monetarism?* (Aldershot, 1997), p. xi.

¹⁸⁵ S.R. Letwin, *The anatomy of Thatcherism* (1992), pp.118-19; G.T. Pepper and M.J. Oliver, *Monetarism under Thatcher* (Cheltenham, 2001), p. xxvi.

¹⁸⁶ E.H.H. Green, *Thatcher* (2006), p. 78 and G.T. Pepper and M.J. Oliver, *Monetarism under Thatcher* (Cheltenham, 2001), p. xxvi.

¹⁸⁷ J. Hoskyns, 'Detailed notes by Hoskyns' *HOSK 1/33*, 31 August 1977.

¹⁸⁸ E.H.H. Green, *Thatcher* (2006), p. 78.

thinking. One pre-existing idea, expressed as a metaphor, was a particularly significant part of Margaret Thatcher's economic thinking: 'the economy as a household budget' or more simply, 'housewife economics.' Metaphors like housewife economics are worthy of serious consideration in a study of Thatcherite economics, for as Jeffrey Mio has noted, academics have argued that 'at the core of political communication is the ability of the politician to use metaphor and symbols that awaken latent tendencies among the masses' and metaphors seem 'uniquely designed to address the information-processing capacity problems discussed by the political cognition theory advocates.'¹⁸⁹

Housewife economics appears to be a classic example of Do-It-Yourself-Economics, although Adam Smith was not averse to the metaphor as his comment that what 'is prudence in the conduct of every private family can scarce be folly in that of a great kingdom' shows.¹⁹⁰ Housewife economics shares in common with sound money the question of whether it was merely a rhetorical tool used to engender popular support for Thatcherite policies such as reducing the PSBR or whether instead it was a cornerstone of Thatcherite (in the case of sound money) or Mrs Thatcher's thinking (in the case of housewife economics) which marketplace ideas had to correspond with to be 'bought' by Thatcherites. Again, evidence exists to support both views to varying degrees but on balance the latter explanation of housewife economics as a cornerstone of Mrs Thatcher's thinking seems to be the more convincing of the two views.

On the former viewpoint that housewife economics was but a rhetorical tool, Thatcher herself seemed to admit as much in a 1949 speech to a local Conservative Ladies' Luncheon Club. She told her audience not to be 'scared of the high-flown language of economists and cabinet ministers . . . but think of politics at our own household level', which gives the impression of accepting that housewife economics was merely a simple metaphor for the complicated business of economic management rather than a free-standing economic creed.¹⁹¹ Moreover, housewife economics did seem to achieve its rhetorical aims. In a newspaper interview with Fran Richman, chosen by the BBC

¹⁸⁹ J.F. Mio, 'Metaphor and politics', *Metaphor and Symbol*, vol. 12, 2 (1997), pp. 113 and 117.

¹⁹⁰ A. Smith, *The wealth of nations* (Oxford, 1993), Book Four, Chapter II, p. 293; F. Wheen, *How mumbo-jumbo conquered the world* (2004), p. 263.

¹⁹¹ J. Campbell, *Margaret Thatcher*, vol. 1, 'The grocer's daughter' (2000), p. 78.

programme *Newsnight* as a key marginal voter for the 1997, 2001 and 2005 elections and dubbed 'Worcester woman', Mrs Richman said that Margaret Thatcher was the last politician who had inspired her. In Mrs Richman's words:

It was such a simple idea. You know, you've got your shopping bag and this is how you run the country. You don't spend more than you've got coming in.¹⁹²

While housewife economics might have enthused marginal voters, the metaphor was ridiculed by critics – including former Conservative Prime Minister Ted Heath – who believed that likening national and household economics was misleading and went against the findings of Keynes.¹⁹³ Mrs Thatcher's reaction to the critics of the housewife analogy suggests, however, that she did believe strongly in the validity of the comparison as she repeatedly defended and continued to promote the idea throughout her time in office.¹⁹⁴ Even when Mrs Thatcher had left office she continued her defence of housewife economics, which further suggests the importance of the metaphor to her. In a 1992 speech on the principles of Thatcherism, she reminded her audience to 'never forget that truth which housewives have always known but economists are inclined to forget: the total saved equals the total available to be invested.'¹⁹⁵

Furthermore, housewife economics was an idea that a range of Thatcherites supported, although Mrs Thatcher was the main proponent of the metaphor. A private note written by John Hoskyns for Keith Joseph in 1977 referred to good house-keeping policies that an incoming Tory government should adhere to.¹⁹⁶ Chapter 2 has already quoted Nicholas Ridley arguing that monetarism was a special national form of good house-keeping. Therefore, Margaret Thatcher's repeated use of the housewife economics idea, both in and out of office and across a time span from 1949 to 1992 – as well as the use of the idea by other Thatcherites, including in private documents when no rhetorical appeal to voters was required – indicates that housewife

¹⁹² T. Moore, 'True blue Labour', *Financial Times (Magazine section)*, 30 April 2005.

¹⁹³ Heath quoted in: M. Thatcher, 'TV interview', *Thatcher Archive Online*, 1 February 1985, copy available from the author; widespread criticism in: P. Cosgrave, *Thatcher: the first term* (1985), p. 6.

¹⁹⁴ For examples, see: P. Cosgrave, *Thatcher* (1985), p. 6; J. Campbell, *Margaret Thatcher*, vol. 1, 'The grocer's daughter' (2000), pp. 73 and 430; M. Thatcher, 'TV interview', *Thatcher Archive Online*, 1 February 1985, copy available from the author.

¹⁹⁵ M. Thatcher, 'The principles of Thatcherism', *Thatcher Archive Online*, 3 September 1992, copy available from the author.

¹⁹⁶ J. Hoskyns, 'Draft note', *HOSK 1/19*, 14 July 1977.

economics was a key economic idea for Mrs Thatcher and of some importance for other Thatcherites too. The Thatcherite use of new ideas such as monetarism and policies such as aiming to reduce the PSBR can be better understood by their congruence with the doctrine of housewife economics.

The importance of the non-formal economic education of Thatcherites can be appreciated through analysing the ideas of sound money and housewife economics and in Mrs Thatcher's case her over-arching economic mindset can be well explained by her early life experiences – in her own words, there 'is no better course for understanding free-market economics than life in a corner shop.'¹⁹⁷ Yet, the ideas of economists were not entirely absent in the formation of the economic thinking of Mrs Thatcher and other important Thatcherites and in the special case of Friedrich von Hayek, can be said to have been vital in shaping Thatcherite thinking.

Hayek had a complicated relationship with Thatcherites and the Conservative party, partly because Hayek's influence waxed and waned over time and partly because Hayek had gone to great lengths to make it clear that he was a liberal and not a conservative.¹⁹⁸ Yet, Ewen Green thought that Hayek was 'the thinker she [Thatcher] felt closest to . . . [and the] more formal statements of her political beliefs . . . were redolent with Hayekian language and precepts'.¹⁹⁹ Margaret Thatcher has said in the House of Commons that she was 'a great admirer of Professor Hayek. Some of his books are absolutely supreme'.²⁰⁰ In a now famous Thatcher anecdote, one of Hayek's 'supreme' books, *The constitution of liberty*, was even deployed by Thatcher as a means of intimidation as she slammed it down on the desk of a 'wet' Conservative Research Department staff member in 1975, along with the simple command to the staff member that 'this is what we believe'.²⁰¹

Friedrich von Hayek's connection to Thatcherites and the Conservative party began in the closing years of the Second World War with the 1944 publication of Hayek's

¹⁹⁷ M. Thatcher, *The path to power* (1995), p. 566.

¹⁹⁸ J. Shearmur, 'F.A. von Hayek', (London Univ. P.hD. thesis, 1987), pp. 32-3; F.A. Hayek, 'Why I am not a conservative', *The constitution of liberty* (1960), pp. 395-411.

¹⁹⁹ E.H.H. Green, *Thatcher* (2006), pp. 30-1.

²⁰⁰ M. Thatcher, 'House of Commons PQs', *Thatcher Archive Online*, 10 March 1981, copy available from the author.

²⁰¹ J. Ranelagh, *Thatcher's people* (1992), p. ix.

book, *The road to serfdom*. *The road to serfdom* was a popular distillation of earlier work by Hayek and other like-minded intellectuals and argued that there could be no middle way between totalitarianism and a free market economy.²⁰² *The road to serfdom* was an immediate success and was read at the time by, amongst others, future Thatcherite economist Alan Walters (then a soldier), Margaret Thatcher (then an undergraduate) and by Conservative party chairman Ralph Assheton.²⁰³ Assheton was so taken by *The road to serfdom* that he reallocated one-and-a-half tons of the Tory party's paper ration for the upcoming general election to be used towards an abridged version of the book.²⁰⁴ The abridgement was completed by a Conservative MP, Wing Commander Sir Archibald James and the project was coordinated by Geoffrey Ripon, a future Conservative MP, who then worked at the party headquarters.²⁰⁵ Winston Churchill used Hayekian themes in his first party election broadcast in 1945 and Labour leader Clement Attlee responded in a broadcast the following night by criticising Churchill's themes and named Hayek as the progenitor of Churchill's ideas.²⁰⁶

With the loss of the 1945 election to Labour, interest in Hayek's work waned amongst Conservatives but did not vanish entirely, as Hayekian views were used to criticise the large scale nationalisations carried out under the Attlee government.²⁰⁷ Crucially, Hayek also inspired Antony Fisher, who went on to found the IEA and the IEA proved to be a torchbearer for Hayek's work in Britain, particularly during the 1970s and 1980s as Hayekian ideas rose again in Conservative ranks.²⁰⁸ Yet, while the IEA was undoubtedly highly important in encouraging Margaret Thatcher, Keith Joseph and other Thatcherites to engage more fully with the work of Hayek, the initial impact made by Hayek upon Thatcherites from Hayek's 1944 *The road to serfdom* could still be seen in the 1960s.²⁰⁹ John Campbell has observed that, in 1967, when Thatcher was the Shadow Minister of Power, her speeches on public ownership showed 'all the

²⁰² R. Cockett, *Thinking the unthinkable* (1995), p. 79.

²⁰³ Walters and Thatcher in: J. Ranelagh, *Thatcher's people* (1992), p. 189; Assheton in: E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 220.

²⁰⁴ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 220.

²⁰⁵ J. Shearmur, 'Hayek', *Journal of the History of Economic Thought*, vol. 28, 3 (2006), pp. 311-2.

²⁰⁶ J. Shearmur, 'Hayek', *Journal of the History of Economic Thought*, vol. 28, 3 (2006), p. 309.

²⁰⁷ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 220.

²⁰⁸ Hayek and founding of IEA in: R. Cockett, *Thinking the unthinkable* (1995), pp. 122-3.

²⁰⁹ IEA recommending Hayek to Thatcherites in: B. Harrison, 'Mrs Thatcher', *Twentieth Century British History*, vol. 5, 2 (1994), p. 212, R. Cockett, *Thinking the unthinkable* (1995), p. 174 and J. Ranelagh, *Thatcher's people* (1992), p. 194.

signs are that she had been reading – or rereading – Hayek, whose two-volume elaboration of *The Road to Serfdom, The Constitution of Liberty*, was published in 1960’ although Hayek was not cited by Thatcher.²¹⁰ In 1968, a major speech by Margaret Thatcher, entitled ‘What’s wrong with politics’ carried, according to Ewen Green, ‘distinctly Hayekian inflections’ in its ‘concern about the creeping authoritarianism that necessarily accompanied extensions of State action’.²¹¹

Hayek, then, was an intellectual influence upon Thatcherites over the whole of the post-war period and this was why he was arguably the most important economist to shape Thatcherite thinking. However, we should be careful not to exaggerate the influence of Hayek, as economists Dieter Helm, Colin Mayer and Ken Mayhew have done in their claim that the ‘intellectual framework [of Thatcherism] was provided by Milton Friedman on the macroeconomic side and Friedrich von Hayek on the microeconomic side.’²¹² We have already seen in this section that Milton Friedman’s influence on the macroeconomic side was less important than older sound money doctrines and with regard to Hayek, his influence over Thatcherites was more on the moral than the practical economic side, as Nigel Lawson has noted.²¹³ Furthermore, on the economic side, Jim Tomlinson has made the point that the work of Hayek which received prominence in the 1970s and 1980s was the same as ‘the traditional Conservative, anti-union, anti-inflation, anti-welfare state position’ and thus we should be skeptical of Hayek’s influence over Thatcherites.²¹⁴ Tomlinson’s point also dovetailed with an Alfred Sherman interview in John Ranelagh’s *Thatcher’s people* book, where Sherman admitted that ‘Keith [Joseph] and Margaret [Thatcher] turned to Hayek and Friedman to justify what they already thought.’²¹⁵

Yet, Jim Tomlinson and Alfred Sherman are themselves open to the charge of exaggeration, in their case for overly downplaying the impact of Hayek. For, while Hayek did indeed chime with existing Thatcherite beliefs, he was not used merely as a

²¹⁰ J. Campbell, *Margaret Thatcher*, vol. 1, ‘The grocer’s daughter’ (2000), p. 179.

²¹¹ E.H.H. Green, *Ideologies of conservatism* (Oxford, 2002), p. 250.

²¹² D. Helm, C. Mayer and K. Mayhew, ‘Microeconomic policy in the 1980s,’ *Oxford Review of Economic Policy*, vol. 7, 3 (1991), p. 2.

²¹³ N. Lawson, *The view from No. 11* (1993), pp. 13-14.

²¹⁴ A. Seldon, ‘Anthony Seldon interviews Jim Tomlinson,’ *Contemporary British History*, vol. 10, 2 (1996), p. 208.

²¹⁵ J. Ranelagh, *Thatcher’s people* (1992), p. 182.

shield of intellectual respectability to cover a return to older Conservative beliefs but was genuinely important to Thatcherites as a novel thinker with an impact on policy. Firstly, Hayek's long influence on Conservative thought from the 1945 election meant that he too was part of the pre-existing beliefs of Thatcherites in the 1970s and 1980s. Secondly, Margaret Thatcher has privately acknowledged the real importance of Hayek to her – in a telegram sent by Thatcher to Hayek after her 1979 election victory she wrote that 'some of those [Hayekian] ideas will be put into practice by my Government in the next few months. As one of your keenest supporters, I am determined that we shall succeed.'²¹⁶ Thirdly, Hayekian ideas were indeed put into practice in the 1980s. Research by Graeme Lockwood on Thatcherite industrial relations legislation has shown that 'much of it to be consistent with Hayekian philosophy. For example, legal provision that narrowed what constitutes lawful industrial action met one of Hayek's major criticisms about British labour laws.'²¹⁷

Therefore, while Thatcherites were generally skeptical of economists, in the case of Hayek at least there existed an undoubted intellectual influence. Hayek's influence stemmed back to the Second World War but the IEA thinktank also helped to 'sell' Hayekian ideas to Thatcherites in the 1970s and 1980s. The long Conservative link with Hayek meant that Thatcherites were not 'converted' to Hayekian thinking but instead had those ideas renewed and given added emphasis by the IEA and events of the time. Similarly, we cannot understand the Thatcherite use of monetarism without linking to an older Conservative idea, that of sound money. As this section has argued, sound money beliefs were more important to Thatcherites than monetarist theory and there was no real 'conversion' to monetarism but instead an inclusion and adaptation of monetarism to pre-existing sound money thought. The inclusion of monetarism was further aided by the Thatcherite advocacy of the housewife economics metaphor, which formed a major part of Mrs Thatcher's economic thinking in particular.

²¹⁶ Quoted in: K.R. Hoover, *Economics as ideology* (Oxford, 2003), p. 211.

²¹⁷ G. Lockwood, 'Trade union governance', *Journal of Political Ideologies*, vol. 10, 3 (2005), p. 356.

Section 4.6: Conclusion

This chapter aims to build an understanding of the marketplace in economic ideas in 1970s and 1980s Britain and to show how Thatcherite ‘buyers’ in this marketplace selected and were influenced by ideas and the ‘sellers’ of these ideas. The marketplace in economic ideas had a number of important distinguishing characteristics. On the buyers’ side, the Thatcherite buyers were: small in number, relied somewhat on one especially enthusiastic buyer (Keith Joseph); were knowledgeable and eager to seek out new advice; yet were mainly interested in ideas that would complement existing beliefs – particularly important in the case of Mrs Thatcher; and, were happy to combine different ideas with each other and with existing beliefs in a pragmatic fashion.

On the sellers’ side, the sellers were: larger in number than their Thatcherite buyers and from a diverse range of occupations; often British-based middlemen peddling American ideas; often not as successful in selling ideas as they wished to be, particularly in terms of influence over policy; most influential when they held long-standing links with Thatcherites (such as Hayek); and, while far from unified and not averse to infighting could still be viewed as a coalition under the banner of the ‘New Right.’

Section 4.2 argued that politicians should be brought into the study of the history of economic ideas as one important measure of the success of an economic idea is the extent to which it gained traction with politicians and became implemented as policy as a result. The economic ideas outlined in the section – supply side, monetarism/rational expectations, Austrian and public choice theories – have been placed under the banner of the ‘New Right’ but the section explained that this should not be taken to mean that New Right economic ideas could sit smoothly alongside one another. Instead, the New Right coalition of ideas was at times a fractious coalition and contained some incommensurable ideas such as Austrian and monetarist ideas on macroeconomics. However, Thatcherite politicians were able to pick and choose their own basket of goods from the New Right label suited to their pre-existing beliefs and aims and while all four schools of thought were used by Thatcherites, none were

imported wholesale into Thatcherite policymaking. For example, Thatcherites used British rather than American monetarist ideas, partly as the British ideas justified placing a major emphasis on reducing the PSBR which tied in with the Thatcherite goal of shrinking the state.

Section 4.3 moved on to study the major sellers in the marketplace in economic ideas, from the City to financial journalists, businessmen and thinktanks. These sellers possessed significant influence over Thatcherites, if not necessarily in a direct way upon policy. For example, Thatcherites were never ‘captured’ by the City and Mrs Thatcher for one was never at ease with the financial sector but the City and its growing band of economists did help in the 1970s to legitimise the future monetarist stance of the early-to-mid 1980s. Financial journalists, another growing breed in the 1970s, also helped to legitimise monetarism and were a much used source of advice to Thatcherite politicians. An even greater source of advice to Thatcherites (but again, with a lower impact on policy) were a select number of businessmen but Thatcherite relations with the broader business sector as embodied by the business lobby groups were mixed, with smaller businesses more positive than larger businesses. Thinktanks, notably the IEA, provided another important stream of information and advice, including Austrian and public choice ideas, to Thatcherites, although once again we should be careful not to equate a high level of advice given with a high level of policy implemented.

Section 4.4 analysed an under-studied area, that of the language of the market and market-oriented ideas in 1960s to 1980s Britain. Ben O’Loughlin charted a shift towards a more neoliberal conception of the market in market metaphors deployed in the editorials of British and American newspapers and this section built on O’Loughlin’s work to show how a metaphor, ‘UK plc’, could have widely varying meanings over time but eventually settled to take a more free market and Thatcherite-influenced meaning by the 1980s. The section also studied the spread of the Thatcherite phrases ‘popular capitalism’ and ‘enterprise culture’ in the British quality press in the 1980s and found that both phrases had longer standing usages than had previously been known. In the case of popular capitalism, the phrase had been used by a Conservative MP as early as 1949 while the enterprise culture phrase was likely coined by Keith Joseph in the late 1970s or early 1980s. The section finished with an

examination of the adoption and adaptation of the Bacon and Eltis thesis by Thatcherite politicians. Crucially, Thatcherites had a pre-existing phrase and idea, that of the 'wealth-creating sector', which closely matched the Bacon and Eltis thesis and Thatcherites were thus able to hitch their phrase onto the Bacon and Eltis thesis and claim it as their own.

Section 4.5 concluded the chapter by concentrating on the Thatcherite buyers and demonstrated that many New Right ideas which proved popular with Thatcherites had often been long associated with the Conservative party (in the case of Hayekian ideas) or could be connected with older Conservative ideas (in the case of monetarism and sound money or monetarism and housewife economics for Mrs Thatcher in particular). Thatcherites were not 'converted' to New Right ideas in some gestalt switch moment; instead, New Right ideas served to bolster, not replace, the pre-existing world views and political prejudices of Thatcherites. Indeed, the chapter as a whole adds strong support to Ewen Green's hypothesis that Thatcherite ideology had significant roots which stretched back to the early post-war Conservative party.

Chapter 5: Privatisation and regulatory policy in 1980s Britain

Section 5.1: Introduction

Chapter 4 investigated the ideas and agents involved in shaping the economic thinking of Thatcherite politicians over the postwar period and up to the end of the 1980s. This chapter adds a greater level of depth to Chapter 4's analysis through a case study of Thatcherite thinking on privatisation and the subsequent regulatory regime used for the newly privatised utilities industries in the 1980s. Privatisation policy makes an ideal topic for a case study of Thatcherite economic thinking for, as Monica Prasad has said, 'twenty years later Thatcherism is identified most closely with privatization'.¹ In a similar vein, Richard Stevens has argued that privatisation 'was the most enduring legacy of the political economy of Thatcherism'.²

Furthermore, a case study of privatisation and the regulatory policy associated with privatisation can help address deficiencies in the existing academic literature in the general area of the influence of economists and economic ideas upon policy and the specific area of policy change across the years of the Thatcher governments. On the influence of economists and economic ideas upon policy, economist Bruno Frey has noted with disappointment that 'there are only a few case studies empirically analysing the effectiveness of economic ideas'.³ On policy change across the years of the Thatcher governments, Colin Hay has bemoaned the fact that, in studies of Thatcherism, 'very little work to date has considered the detailed phasing over time of policy change'.⁴

It is worth reiterating at this juncture that the chapter is a case study of economic *thinking* on privatisation and regulatory policy and is therefore not a case study of the economic *impact* of privatisation and regulatory policy, which has already

¹ M. Prasad, *The politics of free markets* (2006), p. 121.

² R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 47 abstract.

³ B.S. Frey, 'How influential is economics?' *De Economist*, vol. 154, 2 (2006), p. 303.

⁴ C. Hay, 'Whatever happened to Thatcherism?' *Political Studies Review*, vol. 5, 2 (2007), p. 198.

accumulated a large and detailed body of literature.⁵ Similarly, as the chapter takes an approach to the topic centred on Thatcherite economic thinking (in common with the rest of the thesis), for studies of privatisation and competition policy employing alternative approaches, such as emphasising the importance of technological change or a comparative perspective with Europe and North America included, readers are advised to consult existing work in the literature.⁶

Both the history of the usage of the word 'privatisation' and the varied policies to which the description 'privatisation' can be applied are contested topics amongst scholars of Thatcherism. One recent historian of Thatcherism, Ewen Green, has said that the term privatisation 'was coined in 1969 by the American management specialist Peter Drucker' and Green claims to have been unable to find any Conservative politician using the term before the 1980s.⁷ Monica Prasad went one better than Ewen Green, unearthing a 1978 letter from Norman Lamont which used the word privatisation, as well as a tantalising internal document from Nicholas Ridley in 1969, which did not use the word privatisation but did quote Ridley as saying that the: 'politics of the matter appear to suggest that we should denationalise some industries but avoid using that word.'⁸ However, earlier Thatcherite usages of privatisation do exist. The personal papers of Margaret Thatcher contain a note written by Geoffrey Howe in 1975, which included the phrase 'increasing privatisation of the housing market' and Margaret Thatcher added speech marks in ink around the word privatisation, suggesting that this was indeed an early use of the phrase.⁹ Yet, journalists Simon Jenkins and Daniel Yergin and Joseph Stanislaw have identified a Thatcherite use of the word privatisation a full five years earlier than

⁵ For more on the economic impact of privatisation and regulatory policy, see: D.E. Card *et. al.* (eds.), *Seeking a premier economy* (2004); D. Parker, 'The UK's privatisation experiment', *CESifo Working Paper*, no. 1126 (2004); M. Florio, *The great divestiture* (2004); W.L. Megginson and J.M. Netter, 'From state to market', *Journal of Economic Literature*, vol. 39, 2 (2001), pp. 321-89; M. Bishop *et. al.* (eds.), *Privatization and economic performance* (Oxford, 1994) and M. Bishop *et. al.* (eds.), *The regulatory challenge* (Oxford, 1995).

⁶ Technological change-centred approach in: R. Millward, *Private and public enterprise in Europe* (Cambridge, 2005). Comparative approaches in: D. Swann, *The retreat of the state* (Hemel Hempstead, 1988) and V. Wright (ed.), *Privatisation in Western Europe* (1994).

⁷ E.H.H. Green, *Thatcher* (2006), p. 208 footnote.

⁸ M. Prasad, *The politics of free markets* (2006), pp. 124 and 126.

⁹ G. Howe, 'Notes by Sir Geoffrey Howe', *THCR* 2/6/1/92, 29 May 1975.

1975, as they have all recorded David Howell using the word in a 1970 Conservative pamphlet, *A new style of government*.¹⁰

The word privatisation long predates David Howell and management guru Peter Drucker though and was first used to refer to certain Nazi economic policies in the 1930s and 1940s, in both English language and German language publications of the time.¹¹ In the context of Thatcherite economic policies, privatisation has been used as an over-arching term to describe a wide range of activities, the consistency of which has varied between different scholars of privatisation and has often gone beyond the admittedly broad definition used by the *Oxford English Dictionary (OED)*, of the 'transfer of a business, industry, service, etc., from public to private ownership and control'.¹² Stephen Young, for instance, has included the contracting out of public services to private companies as well as the extension of the remit of the Monopolies and Mergers Commission (MMC) to include nationalised industries, embodied in the 1980 Competition Act, in his definition of privatisation and yet both policies lie outside the scope of the *OED* definition.¹³ Furthermore, the selling of council houses to tenants, which began with the 1980 Housing Act and proved successful enough to be an important precipitator of further privatisations in the second and third Thatcher terms of office, is included by some authors on the topic of privatisation policy but excluded by others.¹⁴ Therefore, in order to achieve consistency with existing writers on privatisation policy, this chapter will focus on what could be termed the 'core' area of privatisation, that being the sale of major state-owned enterprises to the private sector – a topic that all writers on privatisation cover. Determining the privatisations that could be classed as 'major' is a matter of judgement but consulting Table 5.1

¹⁰ S. Jenkins, *Accountable to none* (1995), p. 24; D. Yergin and J. Stanislaw, *The commanding heights* (1998), p. 114.

¹¹ G. Bel, 'The coining of "privatization" and Germany's National Socialist party', *Journal of Economic Perspectives*, vol. 20, 3 (2006), pp. 189-91.

¹² Oxford English Dictionary, 'Privatisation', www.oed.com, copy available from the author.

¹³ S. Young, 'The nature of privatisation', *West European Politics*, vol. 9, 2 (1986), pp. 235 abstract and 239.

¹⁴ 1980 Housing Act in: J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 168; Housing precipitating other privatisations in: P. Minford, 'Mrs Thatcher', in Skidelsky (ed.), *Thatcherism* (1988), p. 99; sample of authors including council house sales: J. Vickers and G.K. Yarrow, *Privatization* (1988), p. 156 and T. Clarke, 'The political economy of the UK privatization programme', in Clarke and Pitelis (eds.), *The political economy of privatization* (1993), p. 209; sample of authors excluding council house sales: M. Bishop et al. (eds.), *Privatization and economic performance* (Oxford, 1994) and M.E. Beesley (ed.), *Privatization, regulation and deregulation* (1992).

below, which lists the privatisations of the Thatcher years, provides one measure of classifying a major privatisation.

Table 5.1: Proceeds from UK privatisations, 1979-90

Company	Proceeds (£m)
<i>Offers for sale</i>	
British Petroleum (1979)	290
British Aerospace (1981)	149
Cable and Wireless (1981)	224
Amersham International (1982)	71
Assoc. British Ports (1983)	22
Jaguar (1984)	294
British Telecom (1984)	3916
British Gas (1986)	5434
Rolls Royce (1987)	1363
British Airports Authority (1987)	1225
British Airways (1987)	900
British Steel (1988)	2500
10 Water Companies (1989)	5240
12 Regional Electricity Companies (1990)	5100
<i>Tender Offers</i>	
Britoil (1982)	549
Enterprise Oil (1984)	392
British Airports Authority (1987)	363

Note: Only the initial public offerings are included in the table (some privatisations had secondary issues a few years after the IPO).

Source: Adapted from: T. Jenkinson and C. Mayer, 'The costs of privatization', in Bishop *et. al.* (eds.), *Privatization and economic performance* (Oxford, 1994), p. 294.

Table 5.1 shows that the largest privatisations of the Thatcher years were those of the public utilities, in chronological order of privatisation: telecommunications, gas, water and electricity. Concentrating on the public utilities in this chapter not only gives us the largest of the privatisations but also gives us the most politically and economically significant of the privatisations – politically as the public utilities had not been considered candidates for privatisation prior to the Thatcher years (see Section 5.2) and economically as the public utilities were monopolies which required a new regulatory regime designed and policed in conjunction with economists when the utilities transferred to the private sector (see Section 5.4).

As well as explaining the political significance of the privatisation of the public utilities, Section 5.2 sketches the prior history of nationalisation and denationalisation in Britain and moves on to assess and contribute to the debate over the origins of, and rationale for, Thatcherite privatisation policy. Section 5.3 studies the evolution of privatisation policy in 1980s Britain, as well as assessing the significance of the changing rhetoric of economic arguments used by Thatcherite politicians to justify privatisations. Section 5.4 concludes the chapter with an analysis of the evolution of competition policy applied to the newly privatised utilities, considering in particular the influence or otherwise of economic theories of regulation.

Section 5.2: The origins of privatisation policy

Historians, economists, political scientists, journalists and politicians have all made substantial contributions to the study of the origins of privatisation policy but a number of interrelated but distinct questions on the topic still await a consensus over their answer. For instance, while some pre-1979 British governments disposed of assets, none developed what could be called a 'privatisation policy' and the question thus arises of what made the Thatcherite disposal of assets distinctive enough to merit the previously unused nomenclature of 'privatisation policy'? While privatisation became a major Thatcherite policy, its perceived lack of coherence and prior planning has given stimulus to the question of what the motivations driving Thatcherite politicians to implement privatisation were? For some authors, privatisation was a haphazard process and developed only thanks to its unexpected electoral popularity and the need to reduce the Public Sector Borrowing Requirement (PSBR). For other authors, privatisation was a long-standing idea nurtured by Thatcherite politicians and sympathisers and was only slow to be implemented in the 1979-83 term because Mrs Thatcher was cautious of its reception by the electorate. Finally, authors have disagreed over the question of what the respective roles of the Conservative party (and individual politicians within the Conservative party), economists and thinktanks were in laying the seeds of privatisation policy pre-1979. In building on the existing literature tackling these questions, this section will argue that the Thatcherite disposal of assets was distinctively different from previous disposals of state assets in its financial size, breadth across industries and, most importantly, in its philosophy and intent. Thatcherite privatisations can thus be viewed as a novel policy programme which possessed a degree of consistency and coherency; and, privatisation was indeed a long cherished ideological goal of many Thatcherite politicians and sympathisers, even though privatisation was greatly influenced by non-ideological factors in its implementation and not planned in detail before 1979.

Before moving on to address directly the origins of privatisation policy, it is worth briefly noting the prior history of the development of nationalisation, for the development of nationalisation can aid our understanding of the development of privatisation. The movement towards public ownership of industrial concerns began

in the mid-Victorian period with municipalities assuming control of gas and water networks and increasingly regulating telegraph and railway networks.¹⁵ The concept of ownership at a national rather than a municipal level became popular from the 1930s thanks to its linkage with the new idea of government economic planning by economists such as Evan Durbin and its advocacy by the increasingly popular Labour party, most visible in Hebert Morrison's 1933 work, *Socialisation of transport*.¹⁶ The experience of planning and state control in the Second World War supported the beliefs of those who advocated greater state intervention and believed that larger industrial units were more efficient than smaller units.¹⁷ Subsequently, the Labour government elected in 1945 managed to take 20 percent of the economy into state ownership by 1951, including gas, iron, steel, coal, civil aviation, cable and wireless, electricity, road and rail transport and the Bank of England.¹⁸ While the Conservative party remained suspicious at best of state ownership, the Conservative government of 1951-5 only denationalised iron, steel and road haulage as it was felt to be 'electorally unwise' to denationalise more industries.¹⁹

In the 1960s, under both Tory and Labour governments, concerns over how to manage best the nationalised industries in the public interest became the most pressing area of nationalised industry debate and economists played an important role in the 1967 White Paper, *Nationalised industries: a review of the economic and financial objectives*, which advocated the use of marginal cost pricing, discounted cashflow techniques of investment appraisal and cost benefit analysis.²⁰ Yet, neither the Labour or succeeding Conservative government followed the economic rules of the White Paper and, more generally, the burgeoning literature by economists on managing nationalised industries did not have 'any influence on what nationalised

¹⁵ J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), pp. 129-30.

¹⁶ Economic planning in: K.O. Morgan, 'Nationalisation and privatisation', *Contemporary Record*, vol. 2, 4 (1988), p. 32; Morrison in: G. Grimstone, 'Privatisation', *Contemporary Record*, vol. 1, 1 (1987), p. 25.

¹⁷ J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), p. 138.

¹⁸ K.O. Morgan, 'Nationalisation and privatisation', *Contemporary Record*, vol. 2, 4 (1988), pp. 32-3. For more on the Labour nationalisations, see: R. Millward and J. Singleton, *The political economy of nationalisation* (Cambridge, 1995) and D.N. Chester, *Nationalisation* (1975).

¹⁹ G.K. Fry, 'The path to privatization', *Public Policy and Administration*, vol. 9, 3 (1994), p. 24.

²⁰ G.K. Fry, 'The path to privatization', *Public Policy and Administration*, vol. 9, 3 (1994), pp. 26-8.

industries actually did' in the 1960s and 1970s.²¹ Nationalisation even increased under a Tory government in 1970-4 that had initially professed to be predisposed towards denationalisation.²² Nevertheless, Conservative politician Peter Walker has claimed that he began the privatisation process during his time in the Heath government with his sale of travel firm Thomas Cook but historian Richard Stevens has comprehensively dismissed Walker's claim to be the father of privatisation, as the Thomas Cook sale was a one-off and not a multiplicity of sales that could be grouped under the banner of 'privatisation.'²³

In assessing the role of other Conservatives aside from Peter Walker in creating privatisation policy we should recognise firstly that, in the words of Ewen Green, the 'privatization campaign of the 1980s had its roots deep in the Conservative Party's subculture.'²⁴ As previously mentioned, the Tory party was opposed to the Attlee nationalisations of 1945-51 and over the post-war period Conservative rank-and-file members could at times express views that more accurately anticipated future 1980s privatisation policy than the more cautious prescriptions of Thatcherite politicians at the time – for example, a 1975 letter to the *Daily Telegraph* called for the immediate privatisation of telecoms, whereas Nicholas Ridley's 1978 policy group on nationalised industries made no mention of privatising any public utilities.²⁵ Yet, a wide range of Thatcherite politicians, including Nicholas Ridley, did develop their thinking on what became privatisation policy over the post-war period. Simon Jenkins has identified Nigel Lawson, Keith Joseph and David Howell as contributors to the pre-1979 development of privatisation thinking but Jenkins believed that for Mrs Thatcher, privatisation was only 'an afterthought.'²⁶ Jenkins may have taken his cue from Nigel Lawson's memoirs, where Lawson claimed that Thatcher was not an enthusiast for privatisation.²⁷ Lawson – who perhaps downplayed Thatcher's role for his own self-aggrandisement – and Jenkins are, however, wrong to discount Margaret

²¹ White Paper in: G.K. Fry, 'The path to privatization', *Public Policy and Administration*, vol. 9, 3 (1994), p. 29; quote from: J. Kay and D. Thompson, 'Privatisation', *Economic Journal*, vol. 96, 1 (1986), p. 20.

²² E.H.H. Green, *Thatcher* (2006), p. 90; J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), p. 129.

²³ R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 50.

²⁴ E.H.H. Green, *Thatcher* (2006), p. 100.

²⁵ M. Prasad, *The politics of free markets* (2006), pp. 123 and 126 footnote.

²⁶ S. Jenkins, *Accountable to none* (1995), p. 24.

²⁷ N. Lawson, *The view from No. 11* (1993), p. 199.

Thatcher from the development of thinking on privatisation. In a 1968 speech to the House of Commons, responding to a Labour-introduced bill that would transfer London Transport to a body under the control of the Greater London Council (GLC) with a 90 percent write-off in value, Mrs Thatcher said that:

It may surprise the [Labour] Minister to know that he is one of the first practical exponents of denationalisation by the [Enoch] Powell principle . . . I warn him that this will be a very useful precedent when hon. Members change sides in the House and we consider denationalisation proposals. We shall remember the action taken by the Minister and consider it possible to denationalise undertakings at less than their book value.²⁸

Given her 1968 speech, Mrs Thatcher's public reticence over denationalisation in the 1970s – she said in 1974, 'I do not think we have any wholesale plans for denationalisation' and in 1978, 'I'm not going to go rushing into mass denationalisation' – can be understood as rhetoric intended to reassure voters rather than a genuine lack of interest in denationalisation.²⁹ Downplaying the likelihood of denationalisation under a Tory government would have been a rational strategy for Mrs Thatcher in the 1970s as only 22 percent of voters expressed a preference for denationalisation in 1974 and while numbers in support had risen to 40 percent of voters by 1979, this still left 60 percent of voters against denationalisation.³⁰ Furthermore, Mrs Thatcher appointed Nicholas Ridley to head a policy group on the nationalised industries in the year she was made party leader and Ridley was well known as an advocate of denationalisation; Ridley having previously chaired a similar group under Ted Heath in the late 1960s which concluded that there was 'a very strong case for embarking on a course of gradually dismantling the public sector.'³¹

Mrs Thatcher, then, did play a part in the pre-1979 development of privatisation thinking along with the previously mentioned Nigel Lawson, Keith Joseph, David Howell and Nicholas Ridley. Other Conservatives who should be added to the list of early proponents of what was later termed privatisation include Geoffrey Howe, John

²⁸ *Hansard (Commons)*, 5th series, 17 December 1968, vol. 775, cols. 1257-8. Quoted in: J. Campbell, *Margaret Thatcher*, vol. 1, 'The grocer's daughter', (2000), pp. 89-90 and R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 57.

²⁹ First quote in: M. Thatcher, 'Interview', *Thatcher CD-ROM*, 8 October 1974; second quote in: M. Thatcher, 'Interview', *Thatcher CD-ROM*, 18 July 1978; both quotes in: E.H.H. Green, *Thatcher* (2006), p. 83.

³⁰ R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 51.

³¹ E.H.H. Green, *Thatcher* (2006), pp. 88-90.

Nott, Michael Heseltine, Rhodes Boyson and John Redwood.³² Yet, while we have seen that elements within the Tory party had been consistently in favour of denationalisation and that a number of Thatcherite politicians nurtured ideas prior to 1979 that would develop into the privatisation policy of the 1980s, we should remember, as Peter Clarke has argued, that privatisation was mainly ‘improvised in government rather than implemented as part of a prior blueprint.’³³ The 1979 Tory election manifesto only called for the sale of the aerospace and shipbuilding industries as well as the sale of shares in the National Freight Corporation and while this relatively meagre list can be mainly attributed to electoral sensitivities than to a lack of pro-privatisation feeling amongst Thatcherites, there was (as previously mentioned) no plan to sell public utilities in Nicholas Ridley’s 1978 policy group and even in the first term of office, plans for the disposal of many nationalised industries were only at the ‘explanatory discussion’ stage, as John Hoskyns has admitted.³⁴ Therefore, a more nuanced but more accurate answer is that the pre-1979 origins of privatisation policy lay not in the development of *detailed* ‘blueprints’ but in the *general* Thatcherite ideological disposition against public ownership, which had existed from the first Labour nationalisations in 1945 and remained over the postwar years.

The Thatcherite inclinations towards what would become known as privatisation was given some support by developments across the Atlantic and by economically liberal economists and thinktanks. The American government, partly influenced by economists such as Alfred Kahn and his important 1970 work, *The economics of regulation*, began to deregulate many previously highly regulated markets in the 1970s, with airlines being the first major industry to be deregulated.³⁵ Following Ronald Reagan’s 1981 presidential victory, the pace of deregulation increased as ‘Chicago-style lawyers and economists were appointed to the antitrust agencies’ and these Chicago-influenced economists and lawyers were strongly in favour of deregulation as they believed that ‘US regulation *originated* in self-interested

³² Howe and Nott in: B. Evans, *Thatcherism* (Stroud, 1999), p. 86; Heseltine in: E.H.H. Green, *Thatcher* (2006), pp. 91-2; Boyson in: J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), p. 140; Redwood in: B. Harrison, 'Mrs Thatcher and the intellectuals', *Twentieth Century British History*, vol. 5, 2 (1994), pp. 217-8.

³³ P. Clarke, 'The rise and fall of Thatcherism', *Historical Research*, vol. 72, 179 (1999), p. 321.

³⁴ J. Hoskyns, *Just in time* (2000), p. 287.

³⁵ D. Yergin and J. Stanislaw, *The commanding heights* (1998), p. 349; R.H. Nelson, 'The economics profession', *Journal of Economic Literature*, vol. 25, 1 (1987), pp. 60-91.

demands by business groups for government action to stabilize market shares, prices and profits rather than in public-spirited campaigns to curb those interests'.³⁶ Identifying specific influences from the American deregulation movement upon Thatcherites is difficult given the lack of references in Thatcherite speeches and memoirs to this American development but James Foreman-Peck has claimed that Keith Joseph was 'impressed' by telecommunications liberalisation in the USA and Shirley Letwin has also said that Thatcherites were 'impressed' by the introduction of competitive tendering in local services in the USA, as well as in Canada and Japan – both of which give us an implicit claim of American influence.³⁷

More generally, economically liberal economists from the 1960s onwards began to move away from the view that industries should be encouraged to achieve competitive pricing first and foremost (even if this meant the government taking over non-competitive industries) towards greater attention on the purported benefits of private ownership over and above competitive pricing.³⁸ New economic theories such as principal-agent theory and public choice theory provided a 'powerful theoretical rationale for privatisation' and while there is no evidence that Thatcherites were aware of principal-agent theory, Chapter 4 found that some senior Thatcherites, including Mrs Thatcher, had read public choice works and Thatcher met public choice theorist James Buchanan at an IEA seminar.³⁹ The IEA also brought Chicago economist Milton Friedman to London in 1976 to give a lecture entitled 'Curing the British disease' and Friedman gave a number of suggestions which bore a surprising amount of similarity to subsequent privatisation policy.⁴⁰ Friedman called for one civil servant in six to be taken off the public payroll (the actual figure achieved in Britain by 1990 was one in five), for government-owned industries to be auctioned off and for the steel industry to be given away through 'giving every citizen in the country a share in it' (which bore some parallels to the wider share ownership

³⁶ First quote in: M. Skousen, *Vienna & Chicago* (Washington, DC, 2005), p. 213; second quote in: C. Hood, *Explaining economic policy reversals* (Buckingham, 1994), pp. 22-3.

³⁷ J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), p. 142; S.R. Letwin, *The anatomy of Thatcherism* (1992), p. 99.

³⁸ A. Schleifer, 'State versus private ownership', *Journal of Economic Perspectives*, vol. 12, 4 (1998), pp. 133-5.

³⁹ D. Parker, 'The UK's privatisation experiment', *CESifo Working Paper*, no. 1126 (2004), p. 11.

⁴⁰ C.D. Foster, *Privatization* (Oxford, 1992), pp. 107-8.

Thatcherite rhetoric discussed in the following section).⁴¹ Furthermore, one year earlier, Philip Vander Elst of the economically liberal Selsdon Group had written an article for the *Political Quarterly* which called for denationalisation and the creation of millions of small shareholders, although Vander Elst's argument was itself built upon a 1968 *Daily Telegraph* piece by Conservative Russell Lewis, called 'How to denationalise'.⁴² The idea of creating small shareholders through privatisation was not, therefore, unknown to Thatcherites prior to the 1980s and thinktanks like the IEA and Selsdon Group played small parts in the further promotion of this pre-existing Conservative idea. The IEA also published the first article in Britain to call for private ownership of the telephone system, Michael Canes's *Telephones – public or private?* in 1966 and British Telecom became Mrs Thatcher's first major privatisation in 1984.⁴³

Yet, the influence of thinktanks and economists in stimulating privatisation thinking was on the whole somewhat weak and should be viewed more as a reinforcement to existing Thatcherite and wider Conservative thinking and not as a conduit of original ideas which Thatcherites implemented when in power. Apart from Friedman's and Vander Elst's prescient advocacy of denationalisation and wider share ownership, many thinktank publications on the 1960s and 1970s did not envisage the subsequent radical degree of change in the 1980s. For example, a 'seminal' 1978 IEA publication, Stephen Littlechild's *The fallacy of the mixed economy* only called for more market-like structures for nationalised industries rather than denationalisation and in a second edition of the work, printed in 1986, Littlechild admitted in a footnote that privatisation was 'a stroke of political entrepreneurship for which I, like other commentators, was quite unprepared.'⁴⁴ When thinktanks or economists did call for privatisation, their suggestions for the form that privatisation should take were often ignored by Thatcherites – Friedman's free shares for all did not transpire and, more importantly, privatisations often involved a considerably greater degree of private

⁴¹ Actual reduction in civil servants extrapolated from: D. Butler and G. Butler, *British political facts since 1979* (Basingstoke, 2006), pp. 140-1; Friedman speech in: C.D. Foster, *Privatization* (Oxford, 1992), pp. 107-8 and C. Hood, *Explaining economic policy reversals* (Buckingham, 1994), p. 1.

⁴² R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), pp. 50-2.

⁴³ R. Cockett, *Thinking the unthinkable* (1995), p. 146.

⁴⁴ 'Seminal' in: A. Denham, *Think-tanks of the new right* (Aldershot, 1996), p. 6; S.C. Littlechild, *The fallacy of the mixed economy*, 2nd ed. (1986), p. 102; point also made in: R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 53.

monopoly and regulation than economic liberals desired.⁴⁵ Indeed, one of the few economists to be cited by Nigel Lawson on the topic of privatisation was not even an economic liberal. Richard Pryke had previously been a strong supporter of nationalised industries, notably in his 1971 book, *Public enterprise in practice* but by the late 1970s had dramatically switched to support private ownership and wrote a critique of nationalised industries in *The nationalised industries: policies and performance* (1981), much to Lawson's delight.⁴⁶

The discussion in this section so far has shown that there was no internally or externally supplied privatisation 'blueprint' which Thatcherites followed and this has led 'most authors . . . [on the topic to conclude that] privatization was not a consistent, coherent policy developed in opposition and carried out in power.'⁴⁷ Yet, when the 1980s privatisations are considered in context of the previous denationalisations carried out by the Conservatives over the postwar period, as political scientist Stephen Young has done, it is apparent that the 1980s privatisations were 'different from what went before in the sense that it was applied as a philosophy on a sustained and continuing basis.'⁴⁸ The seemingly contrasting arguments of Stephen Young and those of most other authors on the topic can be reconciled however, for in Young's case it is the Thatcherite *philosophy* that was sustained and consistent, not the prior planning or implementation of privatisation which other authors have found to be lacking. The 1980s government asset and industry disposals which led to the use of the distinctive nomenclature of 'privatisation policy' can be explained therefore partly by the novelty in the coherency and consistency of the philosophy underpinning privatisation, even though the planning and implementation of privatisation could not be regarded as coherent and consistent. Privatisation also possessed other attributes beyond the philosophical which distinguished the policy from previous denationalisations. For Richard Stevens, the word 'privatisation' was not only used instead of 'denationalisation' as it sounded more positive but also because privatisation included the aim of wider share ownership, which had never been a part

⁴⁵ A. Denham and M. Garnett, 'Think tanks', in Kandiah and Seldon (eds.), *Ideas and think tanks* (1996), pp. 53-4; R. Desai, 'Second-hand dealers in ideas,' *New Left Review*, 203 (1994), p. 60.

⁴⁶ N. Lawson, *The view from No. 11* (1992), p. 202. For more on Pryke, see: S. Brittan, 'The politics and economics of privatisation', *Political Quarterly*, vol. 55, 2 (1984), pp. 115-6 and J. Kay and D. Thompson, 'Privatisation', *Economic Journal*, vol. 96, 1 (1986), p. 22.

⁴⁷ D. Marsh, 'Privatization under Mrs. Thatcher', *Public Administration*, vol. 69, 4 (1991), p. 460.

⁴⁸ S. Young, 'The nature of privatisation', *West European Politics*, vol. 9, 2 (1986), p. 245.

of previous denationalisations.⁴⁹ Furthermore, the 1980s privatisations were massively larger in their size and scope than previous state disposals. Madsen Pirie's claim that privatisation was 'the largest transfer of power and property since the dissolution of the monasteries' was perhaps overly dramatic but even by 1983, before the significant privatisations of many of the public utilities, detached academic observers could safely state that the government had 'effected the most radical shift in the boundary between the public and private sectors of industry since 1951.'⁵⁰ Finally, the privatisation of the public utilities, which had never been considered as possible candidates for disposal by any government prior to 1979, provides yet another strong reason to consider the 1980s privatisations as distinctively different to previous denationalisations.

Nevertheless, given the lack of consistency and coherency in the planning and implementation of privatisation, it is not surprising that a diverse and at times contradictory range of motivations for privatising beyond the ideological hostility of Thatcherites to state ownership have been posited by various authors (the assessment of Thatcherite economic motivations relating to competition, efficiency and wider share ownership are discussed in the following section). Even Labour politicians of the time held divergent explanations for the motivations behind privatisation – Vauxhall MP Stuart Holland said in the House of Commons in 1980 that the government had been 'hijacked by the godfather of the new Chicago gang – Milton Friedman – and the kind of philosophy that he has been arguing in pamphlets of the Institute of Economic Affairs' whereas Grimsby MP Austin Mitchell, speaking only five days later, instead thought that 'doctrinaire reasons disguise the real reason for the sale [of British Aerospace], which is that the Government are desperate for cash.'⁵¹

Austin Mitchell's suspicions of a revenue-raising motivation for privatisation has been echoed by many commentators on privatisation, including, significantly, the first Thatcherite politician to use the term 'privatisation': David Howell. Howell said in

⁴⁹ R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 47.

⁵⁰ First quote in: M. Pirie, *Privatization* (Aldershot, 1988), p. 4; second quote in: D. Steel and D. Heald, 'The privatization of public enterprises', in Jackson (ed.), *Implementing government policy initiatives* (1985), p. 69.

⁵¹ S. Holland in: *Hansard (Commons)*, 5th series, 6 February 1980, vol. 978, cols. 566-7; A. Mitchell in: *Hansard (Commons)*, 5th series, 11 February 1980, vol. 978, cols. 1149-50.

a 2006 article that ‘privatisation only began very hesitantly, mainly as a wheeze to help the Treasury doctor the PSBR.’⁵² Similarly, Gerry Grimstone, a former Treasury official who was heavily involved in privatisation policy, thought that the *early* privatisations were merely a ‘series of *ad hoc* sales’ with the sole aim of ‘maximising proceeds’ but with the Britoil sale in 1982, a privatisation ‘programme’ began to emerge with a goal of wider share ownership supported by speeches from government ministers which gave justifications for the programme (these speeches are discussed in the next section).⁵³ Economist David Foster also saw privatisation as mainly a PSBR-reduction device but economist David Parker and economic historian Roger Middleton have more carefully identified the *timing* of privatisation with the aim of reducing the PSBR and have both also recognised a range of other motivations behind privatisation.⁵⁴

While the timing of various privatisations was most likely connected to the management of the public finances – a former Treasury economist of the time interviewed for the thesis has acknowledged that privatisations were staggered in order to achieve a smooth flow of income from the sales – the balance of evidence suggests that raising revenue in order to lower the PSBR was only, at best, a minor goal of the privatisation process.⁵⁵ Instead, a much more plausible financial goal of the privatisation process was the saving of projected future expenditure. On the point that lowering the PSBR was not an important aim of the privatisation process, one former senior civil servant who was closely involved with privatisation has noted that that early privatisations did not count towards lowering the PSBR and that it took much internal debate before it was agreed that the national accounts should incorporate privatisations in a manner that lowered the PSBR.⁵⁶ If early privatisations did not actually lower the PSBR then the previously mentioned claims of David Howell and Gerry Grimstone that PSBR-lowering was the main purpose of early privatisations appear to be incorrect. Furthermore, Samuel Brittan has pointed out that

⁵² D. Howell, 'Keynesianism', in Hill (ed.), *Keynes, money and monetarism* (Basingstoke, 1989), pp. 92-3.

⁵³ G. Grimstone, 'Privatisation', *Contemporary Record*, vol. 1, 1 (1987), pp. 23-5.

⁵⁴ C.D. Foster, 'Rival explanations', *Public Administration*, vol. 72, 4 (1994), p. 493; D. Parker, 'The UK's privatisation experiment', *CESifo Working Paper*, no. 1126 (2004), p. 11; R. Middleton, *Government versus the market* (Cheltenham, 1996), pp. 638-9.

⁵⁵ Interview No. 6, *Former senior Treasury economist*, 23 October 2007.

⁵⁶ Interview No. 7, *Former senior civil servant*, 25 October 2007.

while the Treasury was the government department with the greatest incentive to use privatisation as a means to lower the PSBR, the Treasury was the government department most keen on injecting competition into the privatised industries, which would have had the effect of lowering the proceeds from privatisation as the industries would be less profitable and thus would be worth less in the marketplace when privatised.⁵⁷ Finally, Richard Heffernan has made the important point that the frequent government underpricing of shares in many privatised firms shows that maximising proceeds could not have been a goal of the privatisation process.⁵⁸

Moving back to the point that saving future expenditure was a more likely goal of privatisation than maximising proceeds to lower the PSBR, Richard Heffernan has quoted a Treasury official as stating that '[p]rivatisation revenue was of little importance, the main thing was for an underperforming public enterprise to be sold.'⁵⁹ The important role of expenditure-saving in privatisation from the point of view of the Conservative party can be seen in an internal 1980 Conservative Research Department (CRD) document, which argued that '[s]cope for really substantial savings . . . may lie in the direction of privatisation.'⁶⁰ A further line of argument supporting the part played by expenditure-saving in motivating privatisation has been raised by James Foreman-Peck, who has explained that tight budgetary controls, brought in partly thanks to the IMF in the mid-1970s and continued under Thatcher, meant that the subsidising of nationalised industries became increasingly difficult to sustain and the only way to remove the prospect of paying subsidies in future was to privatise.⁶¹

Therefore, we can accept that the financial objective of PSBR-lowering was not likely a motivation of any serious consequence behind privatisation while accepting the plausibility of the financial objective of expenditure-saving. This still leaves us with a number of other non-ideological motives which authors have given for privatisation, including: electoral reasons; as a means to weaken trade unions (partly ideological but of a different ideological bent than opposition to state ownership); or, mere accident.

⁵⁷ S. Brittan, 'Privatisation', *Economic Journal*, vol. 96, 1 (1986), p. 35.

⁵⁸ R. Heffernan, 'UK privatisation revisited', *Political Quarterly*, vol. 76, 2 (2005), p. 269.

⁵⁹ R. Heffernan, 'UK privatisation revisited', *Political Quarterly*, vol. 76, 2 (2005), p. 269.

⁶⁰ CRD, 'Notes on strategy, 15 July 1980', in *CRD papers on economic strategy*, CRD 4/4/32.

⁶¹ J. Foreman-Peck, 'The privatization of industry', *Journal of Law and Society*, vol. 16, 1 (1989), p. 130.

In the case of electoral reasons, there are two distinct arguments that have been put forward by proponents. The first argument, advocated by David Marsh, was that enough members of the public desired privatisation in 1979 for the policy to be a 'minor vote-winner' in the cautious phrasing of Marsh.⁶² Marsh was correct to be cautious in his argument for the evidence previously given of a majority of voters against denationalisation in 1979 and Thatcher's attempts to play down the policy in interviews and in the 1979 manifesto suggests that electoral reasons for advocating privatisation in 1979 were so minor as to be insignificant. The second argument in favour of electoral reasons, associated with political scientist Mariusz Dobek, was that privatisation was a tool to expand the electoral base of the Conservative party by locking in small shareholders to vote Conservative in case a future Labour government re-nationalised without compensation (as Labour debated doing at two party conferences before eventually rejecting the policy).⁶³ As with the first argument in favour of electoral reasons, the evidence for the expanding of the electoral base reason is not particularly supportive. Firstly, the pre-1983 privatisations were not intended to create a wider class of shareowners, which removes this reason from any pre-1983 motivation for privatisation.⁶⁴ Secondly, in the post-1983 period, a wider class of shareowners was indeed created but they were mainly drawn from the ranks of existing Tory voters and no evidence exists that Thatcherite politicians intended for any outcome of share distribution other than the one which pertained (that is, they intended to reward 'their people').⁶⁵

Mariusz Dobek may have possessed a weak evidential basis in his electoral reasons for privatisation argument but Dobek was on much stronger ground when he highlighted the desire to weaken trade unions as another motivation for Thatcherites to privatise.⁶⁶ Dobek cited Nicholas Ridley's 1978 report on nationalised industries as evidence of a trade union factor behind privatisation and Ridley's report did use the emotive phrase that trade unions in nationalised industries had the 'nation by the jugular vein' although it should be borne in mind that the report did not recommend

⁶² D. Marsh, 'Privatization under Mrs. Thatcher', *Public Administration*, vol. 69, 4 (1991), pp. 475-6.

⁶³ M.M. Dobek, 'Privatization as a political priority', *Political Studies*, vol. 41, 1 (1993), p. 31.

⁶⁴ C.D. Foster, 'Rival explanations', *Public Administration*, vol. 72, 4 (1994), p. 501.

⁶⁵ R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), pp. 64-6.

⁶⁶ M.M. Dobek, 'Privatization as a political priority', *Political Studies*, vol. 41, 1 (1993), pp. 36-7.

an immediate attack on the unions in the nationalised industries.⁶⁷ Strong hints from Thatcherites that privatisation could be used to weaken trade unions also came from comments made by Margaret Thatcher and John Moore. In a 1980 interview, Thatcher made the link that ‘the two great problems of the British economy are the monopoly nationalised industries and the monopoly trade unions’ and in a 1983 speech John Moore bemoaned the fact that ‘[p]ublic sector trade unions have been extraordinarily successful in gaining advantages for themselves in the pay hierarchy by exploiting their monopoly collective bargaining position’ but thought that privatisation could solve this problem by linking ‘pay to success’.⁶⁸

Privatisation, then, had an openly acknowledged ‘fit’ with the wider Thatcherite policy of weakening trade unions and hence we can accept that weakening the nationalised industry trade unions was one likely motivating factor behind privatisation. Now that a number of different motivations behind privatisation, from the long-standing Tory ideological opposition to state ownership, to expenditure-saving and to weakening trade unions, have been identified, we can logically discard one proffered motivation behind privatisation – that privatisation was an accident and hence possessed no deep-seated Thatcherite motivation. The ‘privatisation as accident’ school of thought was popular amongst early writers on privatisation and has been voiced by authors as diverse as ex-civil servant Gerry Grimstone, journalist Peter Riddell and economists John Kay and David Thompson, although some more recent work – by political scientist Michael Moran and economists Richard Green and Jonathan Haskel – have continued in this vein.⁶⁹ While the ‘privatisation as accident’ school of thought is understandable given the lack of detailed pre-1979 planning and the tentative manner in which privatisation was introduced we have already seen that

⁶⁷ M.M. Dobek, ‘Privatization as a political priority’, *Political Studies*, vol. 41, 1 (1993), pp. 36-7; Ridley quote in: ‘Appomattox or civil war?’ *The Economist*, 27 May 1978.

⁶⁸ Thatcher quote in: H. Young, *One of us* (1991), p. 247; Moore quotes in: J. Moore ‘Why privatise?’ in Kay *et. al.* (eds.), *Privatisation and regulation* (Oxford, 1986), pp. 82 and 89 and R. Green and J. Haskel, ‘Seeking a premier-league economy’, in Card *et. al.* (eds.), *Seeking a premier economy* (2004), p. 72.

⁶⁹ Early writers comment in: M. Prasad, *The politics of free markets* (2006), p. 123. See: G. Grimstone, ‘Privatisation’, *Contemporary Record*, vol. 1, 1 (1987), pp. 23-25; Riddell in: N. Lawson, *The view from No. 11* (1993), p. 199; J. Kay and D. Thompson, ‘Privatisation’, *Economic Journal*, vol. 96, 1 (1986), pp. 18-32; M. Moran, *The British regulatory state* (Oxford, 2003), p. 104 and R. Green and J. Haskel, ‘Seeking a premier-league economy’, in Card *et. al.* (eds.), *Seeking a premier economy* (2004), p. 64.

privatisation was a long-standing aim of Thatcherites and not an accidental policy development.

The discussion in this section has uncovered Thatcherite motivations behind privatisation but other motivations for privatisation that were not explicitly 'Thatcherite' also existed, such as the widespread feeling that attempts to run nationalised industries had failed. For instance, the sharp change in view of the economist Richard Pryke, the attempts by the Labour party to overhaul the nationalised industries, notably in the 1967 White Paper and growing public skepticism towards nationalised industries (a poll conducted for the CRD in 1980 found that 62 percent of the public thought that private companies provided greater value for money than nationalised industries) all show that it was not only Thatcherites who were of the opinion that the nationalised industries were not working sufficiently well.⁷⁰ While the negative feeling towards nationalised industries may have been widely shared, the policy response of privatisation elicited by this feeling was a specifically Conservative and even more specifically, a Thatcherite, response. The Labour party remained hostile to privatisation for much of the 1980s and 60 percent of the public were still opposed to denationalisation in 1979 (as previously mentioned).⁷¹ Within the Conservative party, privatisation was championed by Thatcherites such as Nicholas Ridley, John Moore and Nigel Lawson, hence we can see that it was the Thatcherite ideology of hostility to state ownership that supplied the 'answer' of privatisation to the 'problem' of the under-performance of nationalised industries.

This section has shown that while privatisation may not have been planned in detail prior to 1979 or implemented consistently in the 1980s, it was undoubtedly a philosophically consistent policy programme which had its roots in the long-standing Conservative suspicion and hostility towards nationalised industries but was primarily developed by Thatcherites, including Mrs Thatcher, across the postwar period. Privatisation also possessed 'political spillovers' for Thatcherites as it helped tackle other Thatcherite objectives such as weakening the power of trade unions and

⁷⁰ CRD poll in: CRD, 'Public attitudes, 19 June 1980', in *CRD papers on economic strategy*, CRD 4/4/31.

⁷¹ For the Labour party's hostility to privatisation, see: R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000), pp. 164-5.

lowering public expenditure in addition to the main objective of rolling back the state, making privatisation a very attractive policy for Thatcherites. Economists may have been important in advocating nationalisation in the first half of the twentieth century (if not in influencing the running of nationalised industries in the 1960s and 1970s) but their role, and the role of economically liberal thinktanks in the development of privatisation, was a supporting role and not a leading one. Similarly, the deregulation movement in the USA gave support to Thatcherite privatisation thinking but was most likely not a significant influence. While reducing state ownership, reducing state expenditure and attacking trade unions, as well as the widely accepted poor performance of nationalised industries, all made privatisation appealing for Thatcherites, as the next section will show, Thatcherites tended to couch their public rationales for privatisation in the economic language of competition, efficiency and wider share ownership instead.

Section 5.3: Evolution and rhetoric in privatisation policy

Section 5.2 showed that the 1980s privatisations possessed long-standing Thatcherite ideological roots but that these ideological roots had not developed into a concrete plan of action by 1979. Hence, in the 1980s, as Peter Kerr has explained:

In order to satisfy their highly abstract strategic objective of rolling back the state, the Thatcherites would have to engage in a protracted process of policy experimentation and adaptation over a substantial number of years before the precise contours of their strategy became clear; even to the Conservatives themselves.⁷²

As Thatcherites evolved their privatisation strategy according to the particular circumstances of the time period and industry concerned, we can gain an insight into the different priorities accorded to Thatcherite objectives for privatisation – objectives such as introducing competition, widening share ownership and creating a ‘popular capitalism’ – by examining the timing of changes in rhetoric used by Thatcherite politicians. Competition, wider share ownership and popular capitalism can all be shown to be secondary rather than core Thatcherite beliefs with competition proving to be most persistent of the secondary beliefs in influencing the structure of privatisations.

The privatisation policy of the first term of the Thatcher administration, from 1979 to 1983, has been widely regarded by authors as a period quite unlike the following two terms.⁷³ Privatisation in the first term was much more hesitant in scope than in later years (although a degree of momentum had been built up by the end of the first term) and the Thatcherite justification for privatisation revolved around lambasting the inefficiency of nationalised industries and the need to tackle state monopolies through introducing competition, rather than the popular capitalism and wider share ownership rhetoric of the mid-to-late 1980s. As John Kay and David Thompson have put it, privatisation began in 1979-83 with an ‘initial concern for liberalisation’, which was embodied in the 1980 Competition Act (which ‘extended the Monopolies and Mergers Commission’s terms of reference to include the operations of nationalised

⁷² P. Kerr, *Postwar British politics* (2001), p. 166.

⁷³ See, for example: J. Campbell, *Margaret Thatcher*, vol. 2, ‘The iron lady’, (2000), p. 96; B. Evans, *Thatcherism* (Stroud, 1999), pp. 85-6; J. Foreman-Peck, ‘The privatization of industry’, *Journal of Law and Society*, vol. 16, 1 (1989), p. 141; E.H.H. Green, *Thatcher* (2006), pp. 98-9.

industries'), the 1980 Transport Act (which introduced competition on bus routes) and the 1981 Telecommunications Act (which licensed a competitor to BT, Mercury).⁷⁴ Two of Margaret Thatcher's early 1980s speeches in Parliament explained that privatisation had the aim of 'de-monopolising the powers of nationalised industries and introducing competition' and that 'monopolies tend to be bad for the public . . . [as] there is no competition, and therefore they lack the spur to efficiency.'⁷⁵ The early 1980s Thatcherite emphasis on tackling monopolies and introducing competition can also be found in the work of the CRD in the late 1970s. One CRD paper from 1978 argued that, as 'Adam Smith pointed out, the preservation of competitive conditions is not in the interests of the individual firm. Someone has to fight to sustain them, and it has to be the Government.'⁷⁶ Another 1978 CRD paper made clear that the Conservative party 'have both a theoretic and practical commitment to competition'.⁷⁷

The Thatcherite anti-monopoly and pro-competition theme continued across the first term and into the 1983 manifesto, which stated that, 'to replace state monopolies by private ones would be to waste an historic opportunity' and explained that selling BT and British Gas was to be done to 'increase competition and attract private capital'.⁷⁸ Yet, when BT and British Gas were subsequently privatised, in 1984 and 1986 respectively, they were not broken up into competitive units but were transferred across to the private sector as monopolies (a total monopoly in the case of British Gas and a near total monopoly in the case of BT as it had a small competitor, Mercury), in complete contradiction to the earlier Thatcherite rhetoric. In the case of BT, economists Andrew Glyn, Dieter Helm, Colin Mayer and Ken Mayhew have stated that the immediate Thatcherite motivation for privatisation was financial – BT needed investment that the public sector could not supply and the government wanted the

⁷⁴ J. Kay and D. Thompson, 'Privatisation', *Economic Journal*, vol. 96, 1 (1986), p. 29; Competition Act and quote in: S. Young, 'The nature of privatisation', *West European Politics*, vol. 9, 2 (1986), p. 239; Transport Act in: R. Backhouse, *Economists and the economy* (Oxford, 1988), p. 84; Telecoms Act in: B. Evans, *Thatcherism* (Stroud, 1999), p. 87.

⁷⁵ First quote in: *Hansard (Commons)*, 6th series, 30 July 1981, vol. 9, cols. 1159-60; second quote in: *Hansard (Commons)*, 6th series, 4 February 1982, vol. 17, cols. 538-9; both quotes in: E.H.H. Green, *Thatcher* (2006), p. 98.

⁷⁶ CRD, 'Covering paper, 8 December 1978' in *Competition policy/consumer affairs*, CRD 4/4/17.

⁷⁷ CRD, 'Competition policies, 1 November 1978' in *Competition policy/consumer affairs*, CRD 4/4/17.

⁷⁸ First quote in: R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 61; second quote in: B. Calvert, 'The popular press' (Coventry Univ. Ph.D. thesis, 2000), pp. 159-60.

proceeds such a massive sale would bring.⁷⁹ Historian Kenneth Morgan took a different tack and thought that, in addition to financial reasons, BT was sold ‘for political grounds to increase the body of private shareholders’.⁸⁰ Kenneth Morgan’s widening share ownership explanation for the BT privatisation is most likely incorrect however, as Monica Prasad has carefully charted Margaret Thatcher’s speeches on privatisation before and after the BT sale and has shown that Thatcher only switched to using a widening share ownership rhetoric after the BT privatisation had taken place and had been unexpectedly successful with small investors.⁸¹ Financial motivations for the BT privatisation are instead much more plausible although financial reasons were not universally advocated by Thatcherites. John Campbell has noted that while Thatcherite minister Patrick Jenkin did use financial reasons for the BT sale (having been persuaded of them by then BT chairman George Jefferson), Mrs Thatcher did not want BT sold as a monopoly on competition grounds and was only persuaded by Jenkin through the argument that breaking up BT would take time the government did not have.⁸² Thatcher later tried to justify her decision by claiming in her memoirs that the ‘accounting and management systems were, by modern standards, almost nonexistent’ and that this precluded the break up of BT.⁸³

Curiously, when it came to the privatisation of British Gas two years later, Mrs Thatcher quickly dropped her previously strong belief in competition and instead successfully argued for British Gas to be privatised as a monopoly (the excuse given this time in her memoirs for not introducing competition was a lack of parliamentary time) – incurring the wrath of fellow Thatcherites John Moore and Nigel Lawson, who had stayed true to the competition cause.⁸⁴ The importance attached to competition therefore varied considerably, both over time and between different Thatcherite politicians in the same time-frame. This contradictory behaviour towards introducing competition in privatised industries suggests that while a core Thatcherite belief – which all Thatcherite politicians shared in all time periods – was that of the

⁷⁹ A. Glyn, *Capitalism unleashed* (New York; Oxford, 2006), p. 38; D. Helm *et. al.* 'The assessment', *Oxford Review of Economic Policy*, vol. 7, 3 (1991), p. 4.

⁸⁰ K.O. Morgan, 'Nationalisation and privatisation', *Contemporary Record*, vol. 2, 4 (1988), p. 34.

⁸¹ M. Prasad, *The politics of free markets* (2006), pp. 133-5.

⁸² J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 166.

⁸³ M. Thatcher, *The Downing Street years* (1995), p. 680.

⁸⁴ M. Thatcher, *The Downing Street years* (1995), p. 681; J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), pp. 237-8; S. Jenkins, *Accountable to none* (1995), pp. 11 and 32.

superiority of private ownership over state ownership, competition can only be classed as a secondary economic belief for Thatcherites, as competition could be dropped in favour of other objectives given particular circumstances (in the cases of BT and British Gas, the hostility of managers to competition and the desire for a successful and speedy sale all contributed to the lack of priority given to competition).⁸⁵

Yet, when the circumstances became more favourable, greater degrees of competition were introduced to the public utilities, further demonstrating that competition was a genuine, albeit secondary, Thatcherite belief and not entirely rhetoric. The 1990 privatisation of the electricity industry is a case in point, as a number of unique factors enabled more competition to be introduced than with earlier privatisations. Firstly, the minister responsible for the electricity industry, Cecil Parkinson, was especially keen to introduce competition and his pledge at the 1987 Tory party conference to break up the electricity industry was positively received, giving Parkinson a mandate from the party.⁸⁶ Secondly, while Parkinson was keen on introducing competition, his proposals were more modest than those of Nigel Lawson and thus appeared more acceptable as a compromise to the (anti-privatisation and anti-competition) senior management of the industry, as the threat of the harsher Lawson plan hung over the senior management.⁸⁷ Thirdly, and for reasons that have yet to become clear, the planning for electricity privatisation was led by economists to an extent not witnessed in other privatisations and the leadership role of economists allowed competition to be given greater emphasis.⁸⁸ The economists involved in electricity privatisation were drawn from the Department of Energy, Rothschild's investment bank and consultants from London Economics – with the London Economics team publishing an influential report in 1987 which made the case for competition to be placed at the heart of electricity privatisation.⁸⁹ Finally, the earlier, less competitive privatisations of BT and British Gas had led to a powerful combination of criticism from both the general

⁸⁵ Hostility to competition by management in: J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 237 and J. Kay and D. Thompson, 'Privatisation', *Economic Journal*, vol. 96, 1 (1986), p. 29.

⁸⁶ C. Parkinson, *Right at the centre* (1992), pp. 260 and 266; B. Evans, *Thatcherism* (Stroud, 1999), pp. 110-1.

⁸⁷ J. Campbell, *Margaret Thatcher*, vol. 2, 'The iron lady', (2000), p. 565.

⁸⁸ Interview No. 11, *Former senior government economist*, 9 November 2007.

⁸⁹ Interview No. 11, *Former senior government economist*, 9 November 2007; London Economics, 'History of London Economics', www.londecon.co.uk/le/about/history.shtml, copy available from the author.

public and economic experts – the general public raised disquiet over high pricing levels in privatised industries and professional economists criticised the emphasis on ownership over competition, for example, Matthew Bishop and John Kay's *Does privatization work?* (1988) – with the effect of increasing the pressure on the government to ensure both that later privatisations such as electricity and water were more competitive and to regulate more tightly already privatised industries (regulation is discussed in the following section).⁹⁰

The variance of support for competition by Thatcherites can be linked with wider contradictions in Thatcherite economic beliefs, which contained elements of 'businessmen's economics', Austrian economics and neoclassical economics (contradictions between Austrian and neoclassical beliefs in competition are discussed in the following section). For example, Chapter 4 showed that Margaret Thatcher had much sympathy with 'businessmen's economics' and 'businessmen's economics' was not a creed which placed competition above profitability. The lack of support for competition in 'businessmen's economics' was recognised by a 1978 CRD report which compared the competition policies of the Conservatives and the Confederation of British Industry (CBI).⁹¹ The CRD document noted that a report on competition published by CBI, a likely proponent of 'businessmen's economics', spent one paragraph lauding the 'free play of competitive market forces . . . but then spends three pages on why competition is not always desirable.'⁹² Margaret Thatcher's relatively weak support for competition policy compared with Nigel Lawson – who fought for the break up of both BT and British Gas – might then be explained partly by Thatcher's belief in 'businessmen's economics' in addition to her desire for a quick and successful sale and the complications raised in her memoirs over the practicalities of breaking up the utilities.⁹³

With competition waxing and waning in importance for Thatcherites over the 1980s, the Thatcherite rhetoric in favour of 'wider share ownership' and 'popular capitalism', which tended to supplant references to competition after the BT privatisation, appears

⁹⁰ L. Hannah, 'Economic ideas and government policy', in Furner and Supple (eds.), *The state and economic knowledge* (Cambridge, 1990), pp. 369-71.

⁹¹ CRD, 'Competition policies, 1 November 1978' in *Competition policy/consumer affairs*, CRD 4/4/17.

⁹² CRD, 'Competition policies, 1 November 1978' in *Competition policy/consumer affairs*, CRD 4/4/17.

⁹³ Lawson's concern for competition in: S. Jenkins, *Accountable to none* (1995), p. 32.

at first sight to be merely, in the opinion of Richard Heffernan, ‘post hoc devices to help successfully transfer assets to the private sector with public support.’⁹⁴ While the increasing talk of wider share ownership and popular capitalism evidently had much to do with the *need* to sell shares in BT and British Gas to people who had previously never owned shares before, such was the massive scale of the mid-1980s privatisations, wider share ownership and popular capitalism were, as with the belief in competition, long-standing secondary Thatcherite beliefs and not entirely post hoc rhetoric. Chapter 4 has already traced the enduring post-war Conservative attachment to the idea of popular capitalism and Section 5.2 noted that wider share ownership possessed a Tory history stretching back to at least 1968. Furthermore, work by Nicholas Ridley in the late 1960s on denationalisation delved into the topic of wider share ownership and, previously unnoticed by scholars, the CRD ran a ‘wider share ownership policy group’ from 1968 to 1978 and published a 1977 pamphlet with a foreword by Geoffrey Howe which outlined plans for encouraging the ‘wider adoption of employee share ownership schemes’.⁹⁵ Margaret Thatcher gave an indication of her commitment to popular capitalism prior to the mid-1980s by stating in a 1978 speech to the Ulster Unionist Council that the Conservatives ‘will create a capital-owning democracy’.⁹⁶ Again, prior to the mid-1980s, Nicholas Ridley suggested that he had not forgotten his work in the last 1960s by suggesting in 1982 that privatisation, unlike nationalisation, would lead to ‘real public ownership – that is ownership by the people’.⁹⁷

The Thatcherite commitment to wider share ownership and popular capitalism was therefore long-standing although, to an even greater extent than competition, wider share ownership and popular capitalism were secondary Thatcherite objectives, only capable of achieving prominence under the propitious circumstances of the mid-1980s and not deemed to be particularly important prior to the mid-1980s by most Thatcherites. David Howell recalled ‘getting virtually no encouragement from my

⁹⁴ R. Heffernan, 'UK privatisation revisited', *Political Quarterly*, vol. 76, 2 (2005), p. 270.

⁹⁵ Ridley in: R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), p. 49; policy group in: CRD, 'Wider share ownership policy group', *CRD 4/4/176-80*; pamphlet and quote in: CRD, 'Personal capital building, March 1977' in *Economic strategy, 1975-9*, *CRD 4/4/30*.

⁹⁶ M. Thatcher, 'Speech to Ulster Unionist Council', *Thatcher CD-ROM*, 19 June 1978; quoted in: E.H.H. Green, *Thatcher* (2006), p. 83.

⁹⁷ Quoted in: D. Steel and D. Heald, 'The privatization of public enterprises', in Jackson (ed.), *Implementing government policy initiatives* (1985), p. 72.

colleagues in 1979 for popular capitalism and wider personal ownership' and even John Moore, a man who supposedly possessed a 'missionary zeal' for wider share ownership and popular capitalism partly thanks to time spent in the USA, placed barely any emphasis on the two objectives prior to the 1984 BT privatisation.⁹⁸ Moore's 'Why privatise?', a major 1983 speech, 'made little reference to wider shareownership' but by 1985, Moore's rhetoric – seen in his 'The success of privatisation' speech – had changed dramatically to include wider share ownership as an oft-mentioned theme.⁹⁹

In summary, while we should not disregard the importance of the Thatcherite ideas of wider share ownership and popular capitalism, the particular circumstances of the mid-to-late 1980s privatisations, where large numbers of small investors were needed to purchase shares in massive utility companies and took up their opportunity to a degree unpredicted by Thatcherites prior to the BT privatisation (although with hindsight the initial underpricing of shares in these companies makes the demand from small investors seem much less surprising), gave an inflated prominence to wider share ownership and popular capitalism in Thatcherite rhetoric. The Thatcherite belief in competition was more important than the belief in wider share ownership and popular capitalism, for the belief in introducing competition was consistently held and argued for across the 1980s by senior Thatcherites, notably Nigel Lawson and John Moore. Crucially, however, Margaret Thatcher was much less committed to competition, partly thanks to her 'businessmen's economics' orientation and competition too was never more than a secondary Thatcherite belief which was easily suppressed if it was deemed that the core objective of rolling back the state would be made unduly difficult by introducing competition, as in the cases of BT and British Gas. Changing circumstances helped competition to achieve something of a return to prominence in the late 1980s electricity and water privatisations but as Section 5.4 goes on to explore, the evolving regulatory regime applied to the privatised industries in the 1980s shows that the Thatcherite conception of competition was itself composed of different and at times contradictory strands.

⁹⁸ Howell in: D. Howell, 'Keynesianism', in Hill (ed.), *Keynes, money and monetarism* (Basingstoke, 1989), pp. 92-3; Moore zeal in: N. Lawson, *The view from No. 11* (1992), p. 226; Moore USA in: G. Grimstone, 'Privatisation', *Contemporary Record*, vol. 1, 1 (1987), p. 24.

⁹⁹ Quote from: B. Calvert, 'The popular press' (Coventry Univ. Ph.D. thesis, 2000), pp. 116. See also: R. Stevens, 'The evolution of privatisation', *Contemporary British History*, vol. 18, 2 (2004), pp. 60-1. Both Moore speeches are reprinted in: Kay *et. al.* (eds.), *Privatisation and regulation* (Oxford, 1986).

Section 5.4: Economic ideology and economists in the regulation of privatised utilities

Earlier sections of this chapter have explored the origins, motivations and evolution of the 1980s privatisations. Given that the primary motivation underlying privatisation policy was to achieve a large-scale shift in ownership from the state to the private sector, it might be expected that the privatisation process would end, at least from a Thatcherite point of view, once the private sector had taken over the industries concerned. However, for the newly privatised industries, especially the public utilities which are the focus of this chapter, the privatisation ‘story’ contained a second act, of government regulatory control, the study of which is vital for an accurate understanding of Thatcherite privatisation policy.

The post-privatisation period of government regulation has occasionally confused commentators on privatisation policy thanks a host of apparent contradictions, particularly the Thatcherite importance attached to, and conception of, competition within markets. For example, political scientist Rachel Turner felt that the privatisation of monopolies such as BT and British Gas without dismantling the companies into multiple entities ‘contradicted neo-liberal free-market principles.’¹⁰⁰ Another seeming Thatcherite contradiction has been recorded by journalist David Walker, who thought that the regulatory bodies set up to monitor the privatised utilities were ‘profoundly unHayekian’ and should be described in Thatcherite terminology as ‘socialism’.¹⁰¹ However, as this section will explain, Rachel Turner’s apparent contradiction can be solved if we recognise that Austrian thinking, which was not necessarily hostile to monopolies, played an important part in Thatcherite privatisation policy and David Walker’s apparent contradiction can also be solved if we recognise that neoclassical economics, which called for ‘vigorous regulatory action’ for monopolies, played a role too in Thatcherite privatisation policy.¹⁰² While these relatively small contradictions can be explained, a larger contradiction remains: Thatcherite thinking on regulation contained incommensurable elements of neoclassical and Austrian thinking. This section seeks to study this larger

¹⁰⁰ R.S. Turner, *Neo-liberal ideology* (Edinburgh, 2008), p. 132.

¹⁰¹ D. Walker, ‘Enter the regulators’, *Parliamentary Affairs*, vol. 43, 2 (1990), pp. 150 and 156.

¹⁰² Quote in: G.K. Yarrow, ‘Privatization’, *Economic Policy*, vol. 1, 2 (1986), p. 323.

contradiction in the context of other factors which have influenced the evolution of Thatcherite regulatory policy on privatised utilities.

Section 5.2 found that that Thatcherite privatisation policy prior to 1979 did not exist in a detailed, 'blueprint', form and the same lack of planning applied to the subsequent regulatory policy enacted after privatisation. Stephen Wilks has criticised the Thatcher governments for stepping 'almost absent-mindedly through the door from an interventionist mixed economy to a regulated private sector economy' and in particular, for allowing the regulation of utilities to grow 'in an almost unbelievable haphazard manner'.¹⁰³ The haphazard nature of utilities regulation can be attributed partly to the government's principal concern to achieve private ownership and quickly but there were also ideological reasons and if Thatcherites genuinely did believe in Austrian regulatory ideas then the absence of planning for regulation may have been partly conscious rather than wholly accidental.

When explaining Austrian ideas on regulation it is worth briefly sketching the similar but subtly different Chicagoan ideas, for we are already aware that Chicago school ideas played a role in the American deregulation movement and it would not be unreasonable to expect some impact on British regulatory policy too. The Chicago school had believed until around the 1950s that monopolies should be broken up by the government but latterly moved towards the Austrian school and came to believe that private monopolies, while not ideal, were a lesser evil than public monopolies or public regulation and could even be a sign of 'superior efficiency'.¹⁰⁴ The Austrian school, on the other hand, has 'consistently opposed all forms of antitrust intervention in the economy, based on economic and libertarian grounds' and takes a somewhat positive view of monopolies, thinking that excess profits generated by monopolies could be a just reward for entrepreneurial effort.¹⁰⁵ Austrians also believe that privatisation by itself will promote economic efficiency and there is no need to further impose a government idea of 'competition' on the privatised industry as, if a private

¹⁰³ S. Wilks, *In the public interest* (Manchester, 1999), p. 252.

¹⁰⁴ M. Skousen, *Vienna & Chicago* (Washington, DC, 2005), pp. 5-7, 195 and 210; 'superior efficiency' quote in M.E. Williams, 'The effectiveness of competition policy', *Oxford Review of Economic Policy*, vol. 9, 2 (1993), p. 95.

¹⁰⁵ Quote in: M. Skousen, *Vienna & Chicago* (Washington, DC, 2005), p. 199; monopolies in: J. Tomlinson, *Government and the enterprise since 1900* (Oxford, 1994), pp. 336-7.

monopoly is inefficient, the removal of government barriers to entry caused by privatisation will allow new competitors to enter the industry.¹⁰⁶

While there is little evidence that Thatcherite politicians took much notice of Chicago thinking on monopolies and regulation, Austrian thoughts on the topic can be identified prior to and during the 1980s privatisations. Keith Joseph used Austrian language of ‘spontaneous order’ when he spoke about competition and nationalised industries in the late 1970s and early 1980s, saying in 1977 that if the government could create ‘a framework that combines constraint at the national economic level and competition . . . all sorts of developments will happen spontaneously’ and in 1980 that ‘[n]ationalised industries are immunised from the process of spontaneous change which competition and the fear of bankruptcy impose upon the private sector.’¹⁰⁷

More importantly, Keith Joseph demonstrated his belief in Austrian thinking by appointing Austrian-leaning economist Michael Beesley of the London Business School to write a 1981 report which called for the liberalisation of telecommunications network.¹⁰⁸ Beesley’s recommendations were only partly implemented but Beesley went on in 1983 to write a key article on privatisation with arch-Austrian Stephen Littlechild, Professor at the University of Birmingham.¹⁰⁹ Beesley and Littlechild developed a relatively light-touch and supposedly short-lasting method of regulation that would ‘hold the fort’ as Littlechild and Beesley put it (which the two economists contrasted favourably with the more interventionist rate-of-return American model of regulation), built around the idea of price-capping at the rate of RPI-X, that is, the Retail Price Index minus a negotiated figure designated as X.¹¹⁰ Beesley’s and Littlechild’s RPI-X idea was immediately given a second and more influential airing, this time in a government report, as Littlechild had been

¹⁰⁶Efficiency in: C.D. Foster, *Privatization* (Oxford, 1992), p. 123; barriers to entry in: B.J. Loasby, ‘A subjective appraisal’, in Loasby (ed.), *The mind and method of the economist* (Aldershot, 1989), p. 157 and D. Helm, ‘The assessment’, *Oxford Review of Economic Policy*, vol. 2, 2 (1986), p. viii.

¹⁰⁷ *Hansard (Commons)*, 5th series, 31 March 1977, vol. 929, col. 607; *Hansard (Commons)*, 5th series, 28 January 1980, vol. 977, col. 921.

¹⁰⁸ C.D. Foster, ‘Beesley, Michael Edwin’, *Oxford Dictionary of National Biography*, www.oxforddnb.com, copy available from the author; 1981 report: M.E. Beesley, *Liberalisation of the use of British Telecommunications network* (1981).

¹⁰⁹ Partial success of 1981 report in: J. Wolfe, ‘State power and ideology in Britain’, *Political Studies*, vol. 39, 2 (1991), p. 249; 1983 article reprinted as: M.E. Beesley and S.C. Littlechild, ‘Privatization’, in Beesley (ed.), *Privatization, regulation and deregulation* (1992), pp. 23-39.

¹¹⁰ M.E. Beesley and S.C. Littlechild, ‘Privatization’, in Beesley (ed.), *Privatization, regulation and deregulation* (1992), p. 28.

commissioned by the Department of Industry to write the 1983 document, *Regulation of British Telecommunications' profitability*.¹¹¹

Thatcherite minister Patrick Jenkin expressed his support for the ideals underlying Beesley and Littlechild's work during the House of Commons debate on the telecommunications bill by stating that 'the licensing and regulatory system shall, as it were, constitute a light rein'.¹¹² In keeping with the light rein approach, the Department of Industry had initially intended for telecoms regulation to be carried out by the already established Office of Fair Trading (OFT) but the OFT was less than keen to take on the added responsibility and a new organisation, the Office of Telecommunications or Oftel, was formed instead in 1984.¹¹³ Oftel, and its RPI-X formula, contrary to the intentions of its founders, proved to be long-lived (Oftel survives today in the form of Ofcom) and was successful enough to be the regulatory model adopted after the subsequent privatisations of gas, electricity and water and the formation of Ofgas, Offer and Ofwat respectively – with Oftel's younger cousins often copying the exact wording used to explain Oftel's regulatory provisions in the 1984 Telecommunications Act.¹¹⁴ Littlechild was rewarded for his work with the post of Director General of Offer and of the three other regulatory heads, one was an economist (Ian Byatt at Ofwat) and two were accountants (James McKinnon at Ofgas and Bryan Carsberg at Oftel).¹¹⁵

The evidence presented up to this point of the section shows that Austrian ideas on regulation were undoubtedly influential as they were espoused by Thatcherites and were implemented in a recognisable, albeit modified, form by Austrian-inspired economists appointed by the government. The Thatcherite use of Austrian regulatory ideas can be explained by the long history of Austrian ideas in Thatcherite thinking (outlined in Chapter 4), the match between the Austrian and pre-existing Thatcherite belief of the inherent superiority of private ownership as well as the ability of

¹¹¹ S.C. Littlechild, *Regulation of British Telecommunications' profitability* (1983).

¹¹² *Hansard (Commons)*, 6th series, 29 November 1982, vol. 33, cols. 39.

¹¹³ S. Wilks, *In the public interest* (Manchester, 1999), p. 253.

¹¹⁴ M. Thatcher, 'Institutions', *West European Politics*, vol. 21, 1 (1998), pp. 124-5.

¹¹⁵ D. Walker, 'Enter the regulators', *Parliamentary Affairs*, vol. 43, 2 (1990), pp. 149-53; professional backgrounds in: Who's Who, 'Byatt, Sir Ian', www.ukwhoswho.com, copy available from the author; Who's Who, 'Carsberg, Sir Bryan', www.ukwhoswho.com, copy available from the author; Who's Who, 'McKinnon, Sir James', www.ukwhoswho.com, copy available from the author.

Austrian ideas to provide an intellectual justification for the privatisations of BT and British Gas as single firms, which helped the Thatcherite desire for quick and profitable privatisation sales to occur. However, as Section 5.3 noted, by the time of the water and electricity privatisations in the late 1980s, privatisation policy had changed to concentrate on forcibly introducing competition through breaking up monopolies, a strategy totally at odds with Austrian ideas and more reminiscent of the neoclassical model of regulation.

In explaining briefly the neoclassical model of regulation, it is worth mentioning that neoclassical economics, unlike Austrian economics, believes that the 'free market may be incompatible with the maintenance of competition' and holds that if an industry deviates enough from an ideal of 'perfect competition', there exists a degree of 'market failure' which could be rectified by government intervention (although it is recognised that governments may also fail).¹¹⁶ In the case of monopolies such as the utilities industries, where perfect competition was evidently a long way from being met, the late 1980s solution enacted of breaking up the industries and more tightly regulating the utilities chimed with neoclassical beliefs.

Section 5.3 has shown already that the regulatory changes of the late 1980s were driven by criticism of the light rein approach both by the general public and (neoclassical) economists and by circumstances which favoured Thatcherites who had always placed a strong emphasis on enforcing competition. Yet, the regulatory changes should not be viewed as a victory for a neoclassical strand of Thatcherism versus an Austrian strand of Thatcherism as Thatcherism did not possess a coherent neoclassical or Austrian 'wing' but instead contained a jumbled mix of the two contradictory theories which were deployed to varying degrees depending on the circumstances of the time. For instance, Keith Joseph has been identified as a supporter of Austrian beliefs but in a 1975 speech Joseph said that government should 'ensure that there is genuine competition: there will be need to be an effective policy to watch for and break up monopolies' – completely contradictory to Austrian beliefs and evidence that Joseph was happy to pick and choose between Austrian and

¹¹⁶ Free market quote in: M.E. Williams, 'The effectiveness of competition policy', *Oxford Review of Economic Policy*, vol. 9, 2 (1993), p. 95; perfect competition and market failure in: D. Helm, 'The assessment', *Oxford Review of Economic Policy*, vol. 2, 2 (1986), p. v.

neoclassical beliefs.¹¹⁷ Nigel Lawson too, could believe happily in contradictory neoclassical and Austrian regulatory ideas. Chapter 4 quoted a 1980 Lawson speech specifically attacking the neoclassical theory of perfect competition and calling for an Austrian approach instead and Lawson went on in his memoirs to reject the neoclassical concern of economists like John Kay for competition over ownership; yet Lawson consistently pushed for the break up of the utility monopolies (as shown in Section 5.3) in a manner akin more to a neoclassical than an Austrian economist.¹¹⁸ More evidence that Thatcherites had long been able to view competition policy through a neoclassical lens can be found in a briefing paper prepared for the Shadow Cabinet in early 1979 and in CRD reports from the early 1980s. The Shadow Cabinet briefing paper stated that:

Vigorous and effective competition is fundamental to the health of the market economy . . . [yet, as] Adam Smith pointed out, competitive conditions do not persist in an economy unless the Government takes steps to enforce them.¹¹⁹

Section 5.3 cited a CRD paper which also approvingly quoted Adam Smith on the anti-competitive incentives faced by businessmen and another CRD paper from the early 1980s claimed that the Conservative approach was to ‘help markets to work’ – again suggesting that Thatcherites did not necessarily believe that private ownership would engender competition by itself, a neoclassical rather than Austrian view.¹²⁰

This jumbled confusion of economic beliefs can help explain the apparent paradox of how a government which claimed to be committed to deregulation instead developed by the late 1980s what political scientists have called the ‘regulatory state’, a shift towards the micro-regulation of public and private sector activity, including the privatised utilities, with regulation justified by a need to correct market failures.¹²¹ The new regulatory state seemed to appeal to Thatcherites – in an Easter 1989 speech, Thatcherite Michael Howard justified the privatisation of water in terms of the better quality of regulation it would face as part of the private sector and Nicholas Ridley,

¹¹⁷ Quoted in: R. Cockett, *Thinking the unthinkable* (1995), p. 252.

¹¹⁸ N. Lawson, *The view from No. 11* (1993), p. 239.

¹¹⁹ Mrs Oppenheim, '(Oppenheim "competition policy")', *Thatcher Archive Online*, 2 January 1979, copy available from the author.

¹²⁰ CRD, 'Consumer policy 1982-1984', in *Competition policy/consumer affairs*, CRD 4/4/18.

¹²¹ Need to correct market failures in: M. Moran, 'The rise of the regulatory state', *Parliamentary Affairs*, 54 (2001), p. 20. See also: G. Majone, 'The rise of the regulatory state', *West European Politics*, vol. 17, 3 (1994), pp. 77-101 and M. Moran, *The British regulatory state* (Oxford, 2003).

known to be a Thatcherite champion of deregulation, was reported as boasting that ministers held more control over utilities under privatisation than when they were in public ownership.¹²² While Michael Howard's appeals to the effectiveness of regulation as a justification for privatisation were most likely a politically popular cover for the goal of achieving private ownership, the fact remains that Thatcherites created and were comfortable with the regulatory state.

The subsequent regulation of privatised utilities can therefore give us a much greater understanding of privatisation policy and wider Thatcherite economic thinking. Utilities regulation initially followed an Austrian approach modified and implemented by academic economists Michael Beesley and Stephen Littlechild. Yet, the unintended permanence of Beesley and Littlechild's plans and switch to an activist neoclassical approach targeting market failure should not be taken to mean that Austrian Thatcherites changed their minds as time went on or that a neoclassical 'camp' triumphed over an Austrian 'camp' within the Thatcherite ranks or even that Thatcherites dropped Austrian ideas when they were criticised by the public and economists and switched instead to second-choice neoclassical ideas. Rather, Thatcherite thinking on regulation contained contradictory Austrian and neoclassical elements throughout the 1970s and 1980s and there was no 'battle of ideas' between them as the different elements were used at different times as circumstances dictated.

¹²² Howard and Ridley deregulation in: D. Walker, 'Enter the regulators', *Parliamentary Affairs*, vol. 43, 2 (1990), pp. 150 and 156; Ridley greater control in: S. Jenkins, *Accountable to none* (1995), p. 39.

Section 5.5: Conclusion

Privatisation is now viewed as a major and enduring part of Thatcherite economic policy and thus is an apt topic for a case study which uses privatisation, specifically the privatisations of the public utilities, to illuminate wider Thatcherite economic thinking.

The chapter introduction explained that the word ‘privatisation’ was first used by a Thatcherite politician, David Howell, in 1970 and began to appear in internal Thatcherite documents from the mid-1970s onwards. ‘Privatisation’ partly began to be used as the word ‘denationalisation’ was deemed to be viewed negatively by the general public but as Section 5.2 argued, 1980s privatisations differed from prior denationalisations during the postwar years because of the: massive size of the privatisations; inclusion of public utilities; and, structure which allowed for a much wider degree of share ownership than previous denationalisations.

Yet, for such an important Thatcherite policy, privatisation was barely planned in advance during the opposition years and changed greatly over the 1980s in its implementation, leading some commentators to posit short-termist motivations behind the policy, such as a desire to maximise proceeds to help cut the PSBR, or to claim that privatisation was merely fortuitously stumbled upon by Thatcherites. However, Section 5.2 showed that privatisation was a long-standing Thatcherite belief which was aided in its timing by the widespread and growing disappointment with the performance of nationalised industries and given some support from economically liberal thinktanks and economists, as well as by the move towards deregulation in the USA.

Sections 5.2 and 5.3 contained a detailed analysis of Thatcherite motivations for privatisation, concluding that the core objective was ideological hostility to state ownership but that other secondary objectives existed and included: the weakening of unions; reducing state expenditure; introducing competition; widening share ownership; and, helping create a popular capitalism. Section 5.3 showed that introducing competition was a more strongly held secondary objective for

Thatcherites than wider share ownership or popular capitalism, as evidenced by the longer history and greater number of Thatcherites proclaiming the importance of competition. Mrs Thatcher, however, was not particularly committed to competition, partly as this went against the grain of her ‘businessmen’s economics’ and partly as she thought that competition could have hindered the privatisations of BT and British Gas and she was not prepared to jeopardise her core objective for a secondary one.

Section 5.4 moved on to study the regulatory regime implemented for the newly privatised public utilities, demonstrating that we should not regard the shift from an Austrian style of regulation to a neoclassical style of regulation as an adaptation that was ideologically challenging or inconsistent for Thatcherites, as Thatcherite thinking on regulation had long contained the contradictory prescriptions of neoclassical and Austrian ideas. Therefore, the evolution of privatisation policy across the 1980s may have been ideologically consistent for Thatcherites but Thatcherite ideology was itself composed of a contradictory bundle of neoliberal ideas to be pragmatically deployed as the occasion demanded.

Conclusion

The rise to power and subsequent decade spent as Prime Minister by Mrs Thatcher is a fascinating period to study as an economic historian. Economic ideas and policies were regularly the subject of heated national debate at the time, even the *Daily Mirror* covered what it termed the ‘money war’ between Keynesians and monetarists and it is presumably not a common occurrence for a British tabloid newspaper to report on debates in monetary economics. Economic ideas were prominent and so were economists. Mrs Thatcher claimed that economists Adam Smith and Friedrich Hayek were the two most influential figures underpinning her thinking and the letter written by 364 economists in opposition to the 1981 budget attracted, and continues to attract, a stream of comment in newspapers, journal articles and books. In 1989, the re-hiring of Alan Walters as personal economic adviser to the Prime Minister was felt to be significant enough to precipitate the resignation of the Chancellor of the Exchequer.

Yet, for all the attention paid to economic ideas and economists – and senior Thatcherites such as Keith Joseph, Nigel Lawson, Geoffrey Howe and Margaret Thatcher herself undoubtedly paid a great deal of attention to economic ideas and economists in the 1970s and 1980s – we should not assume that attention gained by economic ideas and economists automatically led to influence exerted. Indeed, Thatcherites were hostile to the bulk of Britain’s economists residing in universities and in the Government Economic Service. One major stated objective of Thatcherites was to reverse Britain’s relative economic decline and Thatcherites were inclined to view most economists as part of the problem, not as part of the solution. Academic economists, particularly the Oxbridge elite, were blamed for spreading Keynesian ideas while resisting monetarist ideas and government economists were similarly assumed to be supporters of a ‘Keynesian consensus’ operating since the Second World War, which had allegedly retarded Britain’s growth from a quasi-mythical free-enterprise Victorian high-point.

Thatcherites were also skeptical of the usefulness of economic theory in policymaking and economically liberal economists enjoyed no privileged status over other competing sources of economic advice such as businessmen or financial journalists.

Mrs Thatcher, for instance, could be thought of in some ways as regarding herself as a self-taught economist who did not need to learn from trained economists. Mrs Thatcher's upbringing as a grocer's daughter gave her, she thought, knowledge of the virtues of free markets and her (presumably limited) experience as a housewife gave her, she thought, knowledge of the benefits of 'sound' budgetary policies.

Given that Thatcherites proclaimed themselves to be the 'true' traditional Conservatives in the Conservative party and that purveyors of new neoliberal ideas such as thinktanks were often disappointed by the large disjunction between attention paid to them by Thatcherites and ideas actually implemented in policy, it is unsurprising that some commentators have argued that Thatcherism was merely a new term applied to older right-wing stances in favour of tax-cutting and reducing the role of the state. An argument could be made that Thatcherite attention paid to new economic ideas and economists was merely a cover for a traditional conservative agenda, akin to putting old wine in a new bottle.

The evidence presented in this thesis does suggest that Thatcherite economic policies are best understood as partly stemming from long-standing ideological beliefs held by Thatcherites and not as the result of a new marketplace in economic ideas 'converting' Thatcherites into local advocates of a global neoliberal movement. However, economists and economic ideas were not used purely for the purpose of supplying greater intellectual legitimacy for a long-standing policy programme. Thatcherites eagerly sought out and adapted new ideas which could fit with pre-existing conservative ideas. Monetarism, for example, fitted well with the old 'sound money' conservative belief and Thatcherite monetary beliefs are better described as sound money rather than monetarist but British monetarist academics, notably Terry Burns, did achieve some real policymaking influence. Furthermore, one economist whose ideas were circulating in the marketplace in economic ideas, Friedrich Hayek, had a long history of influence over Thatcherites and was already incorporated into Thatcherite ideology by the 1970s. The combination and adaptation of old and new economic ideas can help explain why Thatcherism was not simply a new manifestation of old Toryism (and the repeated Thatcherite protestations that Thatcherites were 'true' Conservatives should also give us a warning sign that they

were most likely not) and nor was Thatcherism simply the British wing of neoliberalism.

Furthermore, Thatcherite politicians were not unyielding ideologues but were pragmatic seekers of power who could profess different beliefs as the occasion demanded. Thatcherite ideology contained a jumbled amalgam of ideas such as ‘businessmen’s economics’, Austrian economics and neoclassical economics and individual Thatcherites could vary in their levels of attachment to different ideas over time and in comparison to each other. Privatisation policy illustrates this point well, for Thatcherites varied in their support for introducing competition along neoclassical or Austrian lines both over time and between Thatcherites at a given point in time.

As well as the general contribution made by this thesis in bringing together a wide range of often disparate literatures related to Thatcherite economic thinking and the role played by economic ideas and economists in Thatcherism, a number of novel findings, approaches and arguments are worth emphasising. Chapter 2, for instance, is the first piece of work undertaken which defines and tests what is termed the ‘Thatcherite critique’ of British academic economists, using surveys, the 364 economists episode and a range of sources, including examination questions, on the economics departments of the London School of Economics, the University of Oxford and the University of Cambridge as evidence. The evidence uncovered allows a limited but positive degree of support for the Thatcherite critique that British academic economists were relatively unprofessionalised and favoured Keynesian ideas over monetarist ideas, particularly in Cambridge and to a lesser extent, Oxford.

Chapter 3 contains the first, albeit partial, historical account of the formation and development of the Government Economic Service, using hitherto unquoted documents in the Public Record Office to do so. The chapter found that economists and economics increased in influence in government over the 1960s and 1970s and that government economists could be described as being predominantly Keynesian in 1979 but were generally not strongly committed to Keynesian beliefs. Chapter 3 also found that while Thatcherites were initially hostile to the Government Economic Service, the number of government economists grew in both absolute terms and in relative terms compared to administrators and other specialist civil servants over the

1980s. Yet, while economists proved themselves to be useful in a climate of financial stringency, Thatcherites tended to look outside the Government Economic Service for economic advice if any was required.

Chapter 4 explores how Thatcherites ‘bought’ and adapted ideas from the burgeoning marketplace in economic ideas, including supply side, monetarism/rational expectations, Austrian and public choice ideas. The chapter also investigates the language of the market and market-oriented ideas in 1960s to 1980s Britain and uncovers some novel findings. A range of Thatcherite ideas and expressions, including ‘popular capitalism’ and ‘enterprise culture’ are found to have longer histories than previously assumed and the ‘UK plc’ metaphor is shown to have changed into a more Thatcherite-friendly idea by the 1980s. The pre-existing Thatcherite idea of the ‘wealth-creating sector’ was hitched on to a new thesis put forward by economists Roger Bacon and Walter Eltis in the late 1970s to give the Thatcherite wealth-creating sector idea much greater traction than it had previously received.

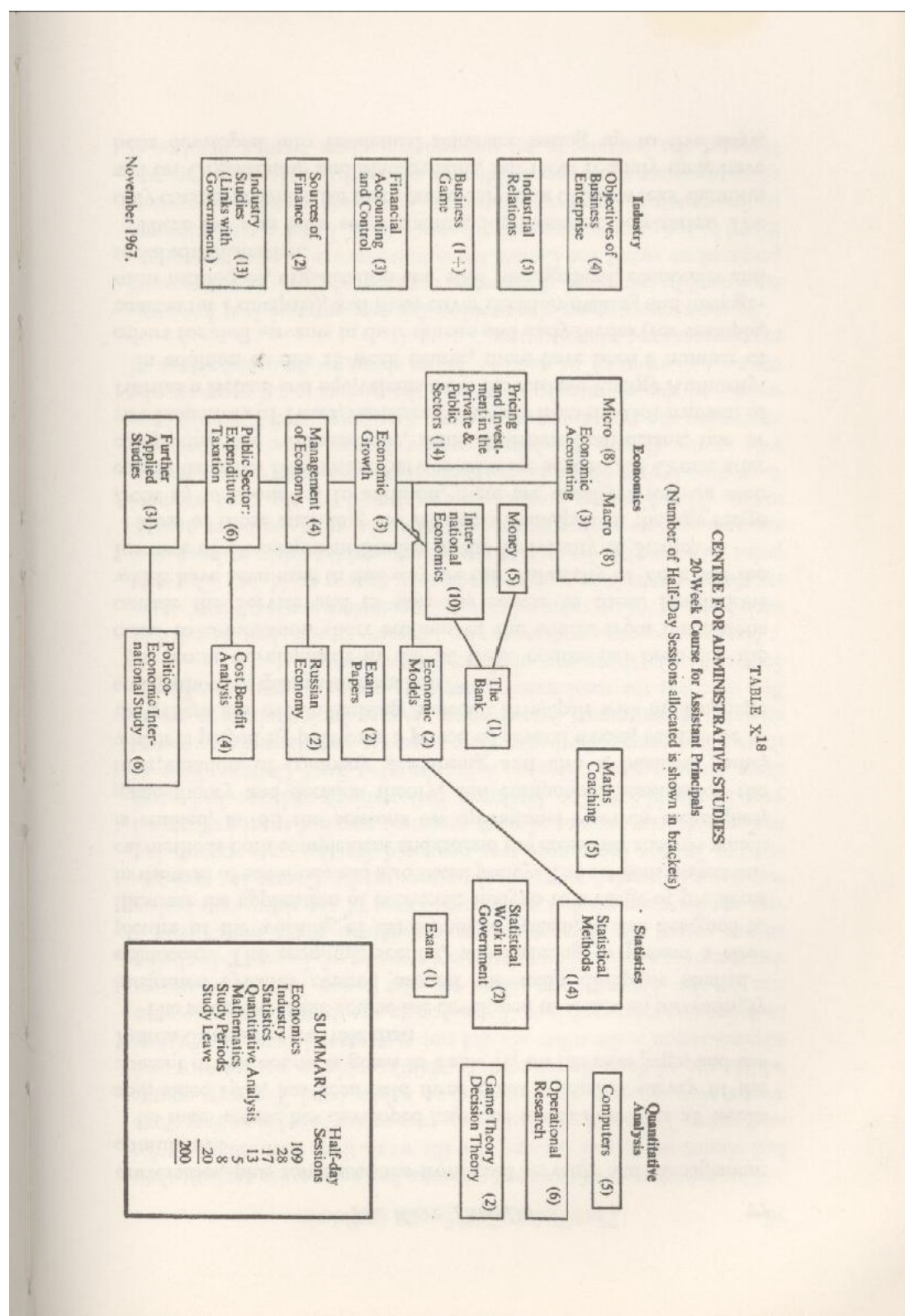
Chapter 5 explains how the privatisation programme developed from a long-standing opposition to nationalisation in the Conservative party but went far beyond previous Tory denationalisations in scale, scope and intended objectives. Privatisation included, at an opportune point in the mid-1980s, the objective of wider share ownership, an objective which previous denationalisations had never held. Wider share ownership also had a longer Conservative history than had been previously supposed, having been the subject of study of a Conservative Research Department group from 1968 to 1978. However, wider share ownership, along with popular capitalism and competition are found to be secondary Thatcherite objectives, sitting a level below the primary objective of rolling back the state. Interestingly, Mrs Thatcher was not as committed to promoting competition as John Moore or Nigel Lawson were, and this may have had some ideological roots in her relatively strong attachment to ‘businessmen’s economics’ which was hostile to the neoclassical idea that competition may have to be injected into markets.

Therefore, for all of the undoubted hostility or skepticism which Thatcherites held for economists and economic ideas, we cannot understand the formation of Thatcherite

economic thinking and policymaking without studying the complicated and significant interaction between Thatcherites and economic ideas and economists.

Appendix: Civil service training in the 1960s

Training given to graduate entry level administrators in 1967



Source: R.A. Chapman, *The higher civil service in Britain* (1970), p. 78.

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