

EALING
INDEPENDENT
COLLEGE



The Making of Modern Britain 1951-2007



The Conservatives and the economy 1951-1964.



Conservative record on the economy

A period of 'affluence'?

- Economy picked up after 1950 as world trade improved - but Britain falling behind competitors. STOP-GO economics had not been broken.
- 1951-1964 - Britain's economy grew 40% (but France 50%, West Germany 250%, Japan 400%)
- Share of world exports of manufactures goods: Britain's share fell from 20% (1954) to 15% (1960) while Germany's rose from 15% to 19%.
- All exports rose between 1952 and 1962: Britain +29%, France +86%, Germany +247%, Japan +378%!
- Britain falls behind in productivity per person.

We have slithered from one crisis to another. Sometimes it has been the **balance of payments** crisis and sometimes it has been an **exchange crisis**. It is a picture of a nation in full retreat from its responsibilities. It is the road to ruin. I do not believe that the question is whether we should use a bank rate or physical controls; to tell the truth, neither of them works very well. **The simple truth is that we have been spending beyond our means.**

Thorneycroft (Chancellor), 1958

MacMillan and early economics

- Summer 1957 - Financial Crisis > inflation was rising due to wages running ahead of productivity, run on £ (danger of devaluation)
- Two opinions over how to resolve problem: Thorneycroft wanted to introduce form of monetarism (limit wage increases, cut money supply) whereas MacLeod et al opposed to this as it would lead to increased unemployment and cutbacks in housing.
- Row symbolized the problems of 'STOP-GO' economics (go phase: expanding economy with low interest rates and rising consumer spending > economy overheats with wages and imports exceeding productivity and exports > stop phase: need for slowing down or deflation through higher interest rates and spending cuts)
- Macmillan sided with expansionist economic policies and continuation of post-war consensus economic policies > led to resignation Thorneycroft, Powell and Birch which Macmillan shrugged off as a 'little local difficulty'

MacMillan and later economics

- 1961 - concerns about over-heated economy led to 'pay pause' to hold down wage inflation and to ask for loan from IMF
- 1962 saw BALANCE OF PAYMENTS PROBLEM, economics of stop-go > Macmillan sets up NEDC (National Economic Development Council) in attempt to get economic cooperation between government, employers and unions.
- 1962 also saw the Night of the Long Knives reshuffle of 1962 > Lloyd replaced with Maudling as Chancellor. Maudling attempts to avoid rising unemployment through tax concessions and a policy of 'expansion without inflation' = BALANCE OF PAYMENTS continued to deteriorate with imports running ahead of exports and rising inflation.

Problems of economic modernisation:

Age of Affluence did not come to an end in the early 1960's but government faced difficulty and frustration in its economic policies

Hopes of modernisation not fulfilled

Intended transformation of Britain's infrastructure made stuttering progress

1950's - comparisons with West Germany showed Britain was being left behind and that trade with Empire/Commonwealth was not sufficient to keep it up

1959 - Britain took the lead in forming the European Free Trade Area (EFTA) > No match for the EEC!

1961 - Macmillan does a British volte-face and submitted Britain's application.

Why?

Hope of boosting industrial production for a large-scale export market

Hope that industrial efficiency would be increased by competition

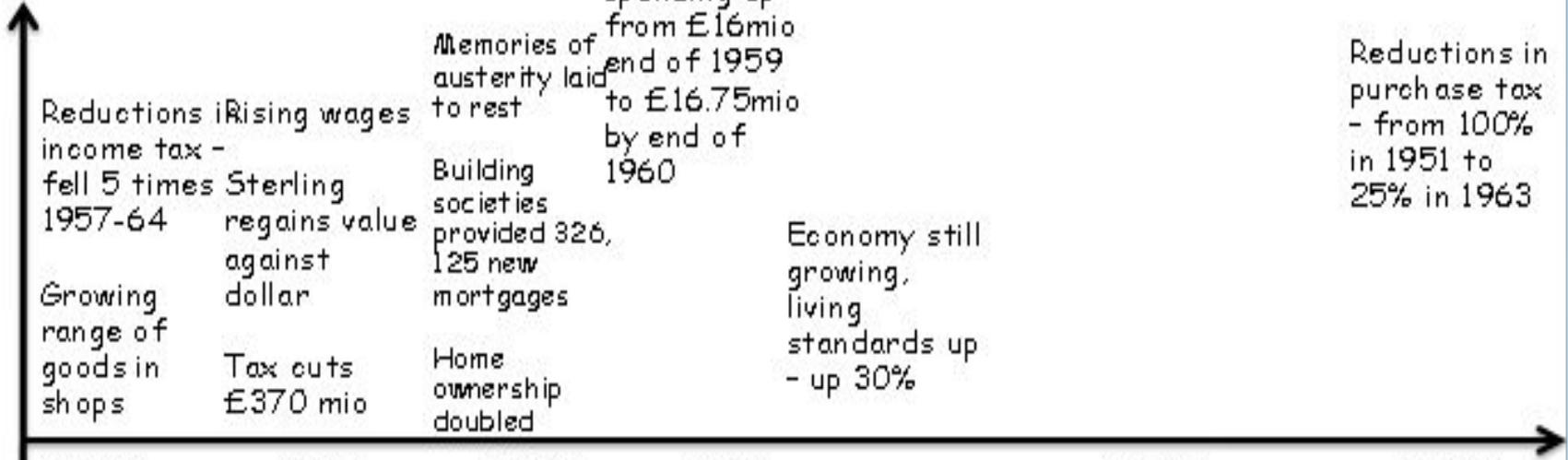
Hope that economic growth would be stimulated by the rapid economic expansion already racing ahead in the EEC

1961 application seen as failure in bringing about economic modernisation - Government no longer surfing on a wave of prosperity and economic success

Economic decline?

Golden age?

Decline?



Reductions in income tax - fell 5 times 1957-64

Growing range of goods in shops

Rising wages Sterling regains value against dollar

Tax cuts £370 mio

5 million employed in service industries
 Memories of austerity laid to rest
 Consumer spending up from £16mio end of 1959 to £16.75mio by end of 1960

Building societies provided 326, 125 new mortgages

Home ownership doubled

Economy still growing, living standards up - up 30%

Reductions in purchase tax - from 100% in 1951 to 25% in 1963

1958 1959 1960 1961 1962 1963

Thorneycroft and Powell resign

Formed EFTA

 Slipping behind US, Japan and West Germany

Application to join EEC

 Stop-go economics

 Economic growth led to overheating - expensive imports and rising wage demands

'pay pause' introduced to hold down wage inflation

 Asked for loan from the IMF

Balance of payments problem

 Economics of stop-go causing problems

 Feb - set up NEDC

'Night of the Long Knives'

 tax concessions policy of 'expansion without inflation'

 = rising inflation

 Rejection from EEC

 Beeching Report - British Rail cuts

**Now answer the
question...**

**The economy under the
Conservatives from
1951-1964 can be
described best as ‘13
Wasted Years’? Assess
the validity of this view.**

Arguments supporting a 'Golden Age'

- Economy was growing.
- Increase in wages and real wages - people can buy more for their money.
- More people were buying TVs, washing machines, refrigerators etc. which people could not afford in the past.
- Unemployment was low compared to present day.
- Credit was given more freely - more people began to borrow money from banks etc.
- More people were going on holiday abroad.
- Inflation never rose above 5%.
- Living standards were rising.
- Industry was still growing (even though it was slow).
- Britain recovered quickly to financial problems after the Suez crisis.

Arguments supporting '13 Years Wasted'

- Budget politics - political parties do not take cuts before the General Election, they get elected, consumer spending rises resulting in the increase of inflation.
- Economic growth was poor compared to other countries (relative decline).
- Conservative party did not have a economic strategy - "stop-go" economics was failing.
- Unemployment was rising.
- World trade was declining.
- Shipbuilding and car companies had collapsed.
- Companies were reluctant to invest.
- Productivity in British industry was declining.
- Devaluation of the pound.
- Inflation growth.
- In industry: poor management (poorly trained workers and managers), managers paid themselves a lot, frequent strikes among the workers slowed down productivity, machinery was inferior compared to other countries therefore produced less.
- Britain tended to spend more money abroad and in defence - meant that cutbacks in domestic investment was necessary.
- NHS cost more than expected.
- Lack of technical and scientific education - British culture taught children to be gentlemanly instead of entrepreneurs.
- People's attitude towards work was complacent and generally negative.

Historical Argument

Barnett - Economic Decline!

- * 1970's inevitable culmination of long term economic decline
- * Failed to control spending or face down wage demands from unions
- * British industry failed to modernise
- * Britain's world trade - $\frac{1}{4}$ 1951 to $\frac{1}{10}$ th 1975
- * Technical education neglected
- * Low productivity vs. US, Japan and W. Germany
- * Nationalisation a mistake
- * Too much emphasis on full employment which had led to problems with inflation

Hennessey - Golden Age!

- * Golden age did exist and progress was made
- * Living standards rose steadily
- * Rate of economic growth was consistently higher than it had been between 1900-1939
- * Unemployment 2%
- * Year by year, more prosperous and equal
- * Comparisons with other countries misleading - Germany and Japan had no choice in completing restructuring their economy and infrastructure and had not been allowed to spend on defence (Britain spent 7% of GDP on this)