10 Towards a Keynesian policy?

The fiscal policy of the Attlee government has often been seen as having significance well beyond the immediate conduct of economic policy. On the one hand, there has been much dispute about how far 'Keynesianism' was evident in that policy, and whether the late 1940s can be seen as crucial in the (alleged) Keynesian revolution in economic policy in Britain. On the other hand, the character of fiscal policy in this period has been seen as a key to Labour's approach to policy-making. In particular, the extent to which fiscal policy displaced controls and 'planning' in Labour's policy repertoire has often been seen as indicative of the strength or weakness of its socialist commitment.

On the first issue, particular attention has focused on the second budget of 1947. Cairncross called this budget 'a turning point in postwar fiscal policy', whilst Booth saw it as 'a major milestone, when the Treasury finally turned in peacetime and out of choice to Keynesian analysis to help control inflation'.[1] In contrast to this view, Rollings has brought out the distinction between the views of Treasury officials and the actual conduct of policy, and suggested that from either perspective the extent of Keynesianism in the 1947 budget can easily be exaggerated.[2] Also critical of the view of 1947 as a key turning point is Howson who nevertheless acknowledges the extent of the Keynesian advice being pressed upon the Labour government from its earliest days.[3]

Alongside this debate has been a closely argued but passionate dispute about how far the Attlee government ran down controls in favour of the use of the budget to control the economy, and in doing so flagged its movement away from traditional socialist approaches to the economy. Howell, for example, takes such a change in policy as self-evident, and

[1] Cairncross, *Years of Recovery*, pp. 419–20; A. Booth, 'The "Keynesian Revolution" in Economic Policy-Making', *Economic History Review* 36 (1983), p. 123. But see also Booth, *Economic Policy*, chs. 9–11.

[2] N. Rollings, 'British Budgetary Policy 1945–54: A "Keynesian Revolution?" ' *Economic History Review* 41 (1988), pp. 283–98.

[3] Howson, *Monetary Policy*, pp. 332–4.

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suggests that this Keynesian approach from the November 1947 budget 'marked in practice an abandonment of any claim to be constructing a new economic order'.[4] By contrast, Cairncross, who also regards this change in policy as clear-cut, considers it as a move to be applauded.[5]

This dispute is plainly a very broad one between competing political philosophies. However, it is a dispute usually grounded on very little evidence about the extent to which, in fact, Labour moved from reliance on controls and planning to reliance on fiscal forms of management. On this empirical point recent work has questioned the idea of a straightforward rise of fiscal policy at the expense of controls.[6]

Given this background of controversy, this chapter surveys fiscal policy in the Attlee years. It attempts to assess the nature and development of that policy in this period and to throw light both on the impact of Keynesianism and the extent to which fiscal policy displaced planning and controls in Labour's policy agenda. In doing so it recognises two points which to some extent have bedevilled the literature so far: first, that Keynesianism cannot sensibly be reduced solely to fiscal policy, but involves other policy instruments as well; second, that the theoretical allegiance of some policy advisers is not necessarily a good guide to the actual determinants of the conduct of policy.

The legacy of war

Two important legacies for post-war fiscal policy were bequeathed by the wartime coalition. First, the *combined* use of controls and fiscal policy to contain inflation: the 1941 budget, 'the first Keynesian budget',[7] had famously embodied the idea of using budgetary policy together with national income forecasting to regulate aggregate demand, the primary purpose being to contain inflationary pressure. But fiscal policy had never been expected to take the full weight of such pressure, and price controls, subsidies and rationing had been widely used as accompaniments to budgetary policy, though with additional egalitarian aims of their own.

Alongside this dual regime of controls and fiscal policy was a strong prejudice against another policy instrument – monetary policy. Britain, of course, had had a low interest rate, 'cheap money' policy in the 1930s, and this had been continued in wartime largely to minimise the cost of

[4] D. Howell, *British Social Democracy* (1976), pp. 158–60.
[5] Cairncross, *Years of Recovery*, ch. 15.
[6] Rollings, 'Reichstag Method of Governing?'.
[7] Sayers, *British Financial Policy*, p. 69.

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servicing the debt which was an unavoidable consequence of the war. Near the end of the war the issue of post-war monetary policy had been addressed by the National Debt enquiry. Dominated by Keynes, this enquiry had come out strongly in favour of maintaining low interest rates as a way of containing the costs of the national debt. It was also expected that physical controls over the economy would continue into the post-war period, so that the traditional role of monetary policy in respect of the level of investment would be irrelevant.[8]

The dismissive attitude to monetary policy fitted in with most Labour thinking. Many in the Labour ranks were suspicious of both bankers themselves and their use of monetary policy, a view especially reflecting the hostility evoked by the Bank of England's role in defending the pound in the late 1920s and in the debacle of 1931. In addition, Dalton, a key figure in Labour's economic policy debates from the 1930s onwards, and the Chancellor of the Exchequer in 1945–7, had long expressed worries about the distributive consequences of public borrowing, and low interest rates were one obvious way of trying to reduce that burden.[9] As Howson points out, given the other instruments of economic policy available to him, Dalton tended to regard monetary policy and low interest rates as primarily instruments of income redistribution, rather than tools in the pursuit of macroeconomic objectives.[10]

This is an interesting example of how a particular policy approach can have quite variable intellectual and political underlying assumptions. Dalton's 'socialist' monetary policy of cheap money (though not his attempt at *cheaper* money) had the support of Keynes and other Keynesians, not so much for distributional reasons as from a belief that in this way the potential disincentive effects of high taxes to pay interest on the national debt would be minimised, and also that, in current circumstances especially, interest rates were not an effective way of managing the economy. In this slightly curious sense Dalton was perhaps more of a 'Keynesian' in monetary policy than he was in fiscal policy.[11]

Overall, the legacy of the war on the place of budgetary policy was its already established use as an anti-inflationary weapon, though in combination with a variety of other policy instruments. On the other hand, and for a range of reasons, low interest rates and an inactive mon-

[8] Howson, *Monetary Policy*, pp. 60–1; Dow, *Management*, p. 21.
[9] H. Dalton, *Principles of Public Finance* (1923), ch. 22. This theme was enlarged upon, and used to justify the policies of 1945–7, in the 1954 edition of this book, chs. 27 and 28.
[10] Howson, *Monetary Policy*, pp. 327–8.
[11] Ibid., pp. 149, 326–7.

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etary policy were widely regarded as desirable. One implication, though not one drawn by Keynes, was that fiscal policy would therefore have to be tight to contain inflation.[12]

Politically, Labour seemed to have embraced the Keynesian creed in the key wartime policy statement *Full Employment and Financial Policy*. This asserted that 'the central point in our financial policy for the maintenance of full employment is the maintenance of the total purchasing power of the community'. If deflation threatens after the initial post-war boom, 'we need not aim at balancing the Budget year by year . . . The time for a Budget surplus is a year of really good trade; if trade is bad or even showing signs of turning bad, then is the time for a Budget deficit, for the State to spend beyond its income and borrow the difference.'[13]

However, it should be noted that this was a document produced by Labour's economists, and is notably more Keynesian in tone than the more widely debated election manifesto, *Let Us Face the Future*, of 1945. This document went little beyond generalities about the need for 'keeping up the national purchasing power and controlling changes in the national expenditure through government action'. It was notably silent on the role of the budget.[14]

The policy mix 1945–7

The immediate budgetary inheritance of the Labour government was a budget deficit running at over £2 billion. This would 'naturally' change as government spending on the war effort was reduced. A central question for Labour's first budget of October 1945 was to weigh the tax cuts made possible by this fall in expenditure against the overall pressure of demand which would be exacerbated by such cuts. Tax cuts, mainly in income tax, were probably inescapable, both as an incentive to production and as a recognition that some relief from the burdens of war must be given. The result was tax cuts of around £400m. and the reduction of the deficit as traditionally defined to around £700m.[15]

The dominant immediate concern of the 1945 budget was the minimisation of inflation. This was emphasised by the Chancellor in his budget speech and by his advisers. Meade, head of the Economic Section, especially claimed that too rapid a reduction in taxation would throw

[12] Booth, *Economic Policy*, p. 155.
[13] Labour Party, *Full Employment*, pp. 3, 4.
[14] On *Full Employment and Financial Policy* see Brooke, *Labour's War*, pp. 258–67.
[15] Cairncross, *Years of Recovery*, p. 421.

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an unsustainable burden for preventing inflation on to physical controls. But for Dalton, presenting his budget to the Cabinet, the argument was rather different – for him the inflation pressure urged the need to restrain excess demand but to maintain price controls, alongside subsidies to the cost of living and encouragement of savings.[16] This last element played a strikingly large part in budgetary rhetoric in 1945 and right through the Attlee government. In his Commons statement Dalton argued that 'by far the best defence against inflation in present conditions is large and continuous saving by all sections of our people . . . it remains an imperative duty on each of us, whatever the size of our income, whatever our occupation, to save all that we can and lend it to the Government'.[17] However, such exhortation was largely ineffective, as people sought to restock after the wartime depletion of their consumption goods, so in the Attlee period budgetary policy had to be framed on the assumption that private, especially household, saving would be very low indeed.

Dalton's commitment to Keynesian policies has been much disputed. The specific reasons for his support of Keynesian cheap money have already been noted. His own writings also reflect something of the difficulties of making a judgement about his approach to budgetary policy. The 1954 edition of his textbook on public finance had an additional chapter devoted to 'new ideas' in budgetary policy. Following Keynes, he argued: 'we may now free ourselves from the old and narrow conception of balancing the budget, no matter over what period, and more towards the new and wider conception of the budget balancing the whole economy'.[18]

Yet in 1945 the extent to which Dalton had freed himself from these 'old and narrow' conceptions was far from clear. The vision of fiscal policy he proposed in that year was akin to that in the 1944 White Paper on Employment Policy, one of balancing the budget over the trade cycle. It meant moving to surpluses once the immediate transition was over, and building them up against the expected future decline in demand, when deficits would be needed. This line was reiterated in 1946.[19] It was, of course, not the same as 'functional finance', in which the budgetary position would simply reflect the perceived need to restrain or stimulate aggregate demand.[20]

[16] PRO T171/371, Meade to Brittan, 24 Sept. 1945; Cabinet Summary of Budget 22 Oct. 1945.
[17] *Hansard* (Commons), vol. 414, 23 Oct. 1945.
[18] *Principles*, 4th edn, p. 221.
[19] *Hansard* (Commons), vol. 414, col. 1886, 23 Oct. 1945; cols. 1817–19, 9 Apr. 1946.
[20] The term 'functional finance' comes from A. Lerner, *The Economics of Control* (1945).

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The ambiguity of Dalton's position is reflected in the parliamentary response. Whilst John Anderson for the Tories endorsed the 'balance over the cycle' approach, some of his fellow Conservatives saw Dalton as still preoccupied 'with the more old-fashioned view of examining the matter entirely from the narrow outlook of Treasury receipts and expenditure'.[21]

Such a confused picture partly resulted from two features of the budget presentation. First, the budget figures themselves were presented wholly in the traditional form, with the surplus or deficit being calculated 'above the line'. This definition reflected parliamentary procedure, 'above the line' basically meaning expenditure and revenue not requiring specific legislation to finance Exchequer borrowing. Hence it bore little relation to national income notions of the budget, and could not readily be integrated with any overall judgement on the pressure of demand in the economy. This latter point relates to the second feature of the presentation of the second 1945 budget – the absence with this budget and its successor of a published *Economic Survey* which would place the budget in the broad context of the economy's development. Perhaps in this period of rapid transition and demobilisation it was not surprising that calculations of the 'inflationary gap' were regarded as highly problematic, but the absence of published attempts at such calculations raised question marks about how exactly budgetary policy was being integrated into management of the economy as a whole.[22]

Under Dalton budgetary policy was not clearly integrated with other parts of the economic policy-making apparatus. As discussed in chapter 8, the government in 1945 was strongly committed to the idea of 'manpower planning', and this approach is reflected in the early *Economic Surveys*, where Keynesian analysis of the inflationary gap was accompanied by tables outlining the economic problem in terms of manpower and its allocation.[23]

Whatever Dalton's precise views, this enthusiasm for 'manpower planning' certainly reflected a lack of general acceptance and enthusiasm for Keynesianism and the role of budgetary policy in the Cabinet and wider Labour movement. This lukewarm attitude was reflected, down to 1947, in the role of Herbert Morrison as the co-ordinator of economic policy, leaving the Chancellor of the Exchequer, nominally and to a significant degree in practice as simply one amongst several economic ministers, rather than having the dominant role usual before 1939 and revived from 1947.

[21] *Hansard* (Commons), vol. 414, cols. 2017, 2045, 24 Oct. 1945.
[22] Cairncross, *Years of Recovery*, pp. 80–6, 386–92, 410–18.
[23] Booth, *Economic Policy*, p. 160.

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The problems of integration of fiscal with other facets of policy was illustrated by the failure to get the early *Economic Surveys* on a financial year as opposed to a calendar year basis. Thus the budget was presented separately from the economic 'Plan' analysed in the *Surveys*, and the budget statements of late 1945 and early 1946 made no attempt to bring the two together.[24]

Until at least early 1947 it is clear that budgetary policy cannot be seen as unambiguously Keynesian. Dalton was concerned to contain inflation, even though he regarded unemployment as the more important threat in the medium term. He regarded financial controls as playing only a minor role in containing that inflation, with most of the weight falling upon physical controls.[25] In this he was probably at one with most Labour opinion and most official opinion – with the exception of the Economic Section, whose position is returned to below.

Dalton's non-Keynesianism can nevertheless be exaggerated.[26] Certainly his first three budgets were not presented in terms of the overall pressures of demand in the economy. Rather, he focused on a rapid return to budgetary balance, explicitly trying to restore that balance faster than had been achieved after the First World War.[27] Tax cuts were fitted in both as a way of cutting the burden on the low-paid and of encouraging an increase in output, which for Dalton and many on the Labour side was the prime way of dealing with 'excess demand'. But insofar as Dalton and Labour had taken on board Keynesian fiscal policy arguments it was in the context of preventing unemployment, and this was plainly not the problem in 1945–7. Development Area policy appeared the relevant instrument for unemployment in this period, not an increase in demand. In short, prior to the crises of 1947 Keynesianism appeared somewhat irrelevant to the issues at hand.[28]

This was not, however, how it was seen in the Economic Section, the main source of professional economic advice to the government. In a very strong sense the Economic Section owed its existence to wartime Keynesianism, and was the main conduit for that ideology into Whitehall.[29] James Meade, who was head of the section from 1945 to 1947, was probably the most important Keynesian economist after Keynes, and very consciously saw his mission in these years to proselytise his

[24] Cairncross, *Years of Recovery*, p. 322; Meade, *Cabinet Office Diary*, pp. 240–1.
[25] Howson, *Monetary Policy*, p. 150.
[26] e.g. Pimlott, *Dalton*, pp. 486–94.
[27] PRO T171/371, Budget Papers Autumn 1945, vol. 1; *Hansard* (Commons), vol. 421, cols. 1917–1819, 9 April 1946.
[28] Rollings, 'Budgetary Policy', p. 285. On Development Area policy see chapter 8.
[29] Cairncross and Watts, *Economic Section*; I. M. D. Little, 'The Economist in Whitehall', *Lloyds Bank Review* 44 (1957), p. 35.

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version of 'liberal-socialism' against the alleged Gosplanners active in the Labour Party.[30] Both the content and tone of Meade's position is well summarised by his diary entry for 23 February 1946, in which he refers to 'the great campaign which we must open sooner or later to persuade Whitehall that monetary policy (rate of interest), fiscal policy (rates of taxation and subsidy) and wages policy (rates of rewards to factors) must be the liberal socialist instruments for economic planning'.[31] In the summer of 1946 he saw the opportunity to clarify these views in writing a major paper on the 'Control of Inflation'.[32]

This paper, after demonstrating the build-up of inflationary pressure from the build-up of liquidity in the war, coupled to the major supply constraints, focused its argument on why 'in present conditions there is much to be said for a shift in emphasis in our anti-inflationary policy away from too great a reliance on such direct controls as price control, rationing etc., and rather more on to a policy designed to restore the essential balance between available supplies and spendable funds'.

Direct controls were attacked as generating black markets, harming incentives to produce, rigidifying *relative* prices, and leading to not only administrative but political costs arising from the 'petty annoyance of innumerable and extensive particular controls over every form of economic activity'. This position logically led to an emphasis on achieving a quick movement to a fiscal surplus, coupled to preparation for fiscal deficits if and when excess demand was succeeded by excess supply.

One particularly contentious part of Meade's proposals was the call to reduce demand by big cuts in food subsidies. These subsidies had originally been brought in during the war to control the cost of living and so contain wage inflation. Meade argued that inflation largely reflected the impact of excess demand on the labour market rather than changes in the cost of living. He saw subsidies not only as inflationary, but also as distorting, by exaggerating excess demand for the subsidised products and not allowing relative prices to perform their allocatory role. He coupled proposals for a big cut in these subsidies with the idea of using a proportion of the revenue saved to finance an increase in social security benefits, including family allowances.

This emphasis on cutting subsidies became symbolic of the Keynesian approach to policy in this period. Keynes himself, in his last two written submissions to the Budget Committee, urged cuts in subsidies even if

[30] The existence of these Gosplanners has been discussed in chapter 6.
[31] Meade, *Cabinet Office Diary*, p. 222.
[32] Ibid., entry for 7 June 1946, p. 272. This paper is in PRO T171/389, Budget Papers April 1947, vol. 1.

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this meant a rise in the cost of living. Subsidies, he argued shortly before his death in April 1946, were 'in danger of becoming the biggest item in the whole Budget and seriously overwhelming efforts towards equilibrium'.[33] In consequence, 'During 1947 the cost of living should be allowed to rise gradually to 150, first of all by withdrawing as many individual subsidies as possible and concentrating on a few articles and then by reducing it on the remaining articles'.[34]

Meade expressed his alliance with Keynes on the subsidies issue, and its symbolic significance as a Keynesian policy proposal can be readily understood.[35] It combined using the budget as the primary economic regulator with a marked hostility to *micro*economic policy measures, which could be seen to distort the market and undermine incentives.

On the other hand, such a proposal was bound to raise hostility within Labour. Subsidies, primarily on food, were seen as a direct means of aiding the lower paid and poor. They were also seen as integral to the attempt to contain wage inflation.[36]

The battle over subsidies was to continue throughout the life of the Labour government. But at least until the crises of the summer of 1947, Dalton and the government gave little ground to the Keynesian pressure. Despite support from the Treasury, the most that could be extracted from Dalton was not the large cuts in subsidies proposed by Meade and Keynes, but a ceiling of £392m. agreed early in 1947.[37]

If the Keynesians could see relatively little progress in cuts in subsidies before the crises of 1947, what of the role of controls which they so strongly wished to see reduced in scope? At the end of the war both Labour and the other parties had seen a continuing role for controls in the immediate post-war period of demobilisation. This view seems to have been all but universally accepted; there seems to have been no one who advocated the kind of speedy abolition of controls practised after the First World War.[38] But beyond that immediate period there was much less agreement. Very soon the Conservatives made the controls central to their attack on the 'socialist meddling and bureaucracy' of the government. Whilst the rhetoric was different, advisers like Meade

[33] PRO T171/386, J. M. Keynes to Chancellor of the Exchequer, 1 April 1946.
[34] PRO T171/389 vol. 1, Lord Keynes, 'Post Budget Reflections' (n.d., but April 1946). Policy at the time was to hold the official Cost of Living Index at 31 per cent above its pre-war level.
[35] Meade, *Cabinet Office Diary*, p. 259.
[36] e.g. PRO T171/391, D. Jay to Dalton, 10 Oct. 1947.
[37] Rollings, 'Budgetary Policy', pp. 287–8.
[38] The speed of that previous abolition was eloquently denounced by Tawney in 'The Abolition of Economic Controls'.

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urged a reduction of controls, to be replaced as far as possible by fiscal policy.[39]

Labour's position on controls underwent no sharp change in their period in office. The message of *Let Us Face the Future* was that controls would be used as necessary, particularly in ensuring full employment. But post-war employment was not, of course, the problem; the issue was how far controls could be used for 'planning', in the sense of being used to allocate resources. In the labour market, as discussed in chapter 8, controls were almost immediately removed, with a few minor exceptions. The problem then was that most of the controls were designed to deal with shortages – with situations where demand exceeded supply, including the case of foreign exchange. This gave many of the controls an inherently short-term character – their logic was undermined as and when supply expanded. (Meade, of course, wanted to speed this process of undermining by checking the strength of demand by fiscal means.)

Controls also required the active co-operation of companies if they were to be effective. Many of the controls had been administered by people closely connected with the industries concerned. This was therefore an area of policy where consent was both vital and politically problematic, given the high level of politicisation of many employers and their organisations.[40]

From this context emerged a process of decontrol almost from the government's accession to office. As early as December 1945 the Lord President's Committee set up an official committee 'to carry out urgently a review of the possibilities of reducing the number, diminishing the irksomeness and streamlining the operation of existing economic controls'.[41] The result of this initiative, which reflects Labour's early political sensitiveness on the issue, led to some unqualified but probably small reductions in controls. But it also highlighted the uncertainty of policy in this area. Whilst some specific controls could readily be abolished as shortages receded, the whole issue could not be resolved until ministers made up their mind as to the long-term role of controls in allocating resources. Apart, again, from labour controls, it is difficult to find evidence of ministers or senior policy advisers (outside the Economic Section) mapping out these long-term views of controls. Some controls, for example machinery licensing, were given up very quickly but this seems to have been an entirely negative decision, made on administrative grounds, rather than based on a clear assessment of the

[39] e.g. *Cabinet Office Diary*, p. 294, 29 April 1946.
[40] Mercer, 'The Labour Governments of 1945–51 and Private Industry' in Tiratsoo, *The Attlee Years*, esp. pp. 77–8.
[41] PRO CAB132/58, Official Committee on Controls, 10 Dec. 1945.

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long-run place of controls. Certainly in the investment field, a continuing commitment to controls was not accompanied by a clear policy line on how it was to be achieved.[42]

Indeed, in the crucial case of investment it would be right to say that the control system was extremely weak. The machinery for control via finance was never established, but in any event most companies were constrained far more by physical shortages, including labour, than finance in this period.[43] Down to 1947 far more investment was licensed than there were materials to complete, so that too many projects were allowed to start than was justifiable by the resource position. Control over resource allocation was therefore very poor in this period – the antithesis of planning.[44]

This particular point about investment leads on to a general point about the relation between controls and fiscal policy, which will be returned to in the next section. Excess demand in the late 1940s gave a rationale for controls, as it had done in wartime. But it also provided a strong incentive for firms and others to avoid the controls – there was a ready market for the controlled commodity. In that sense regulating the economy by fiscal control of aggregate demand and by physical controls are not necessarily alternatives, but may be complements. Effective regulation of aggregate demand may be a precondition for effective controls of resource allocation.

1947

The year 1947, as is well known, was one of crises for the Attlee government, dominated by the coal crisis at the beginning of the year, and the convertibility crisis in the summer. Partly as a consequence of these crises, both the terms of debate and the machinery of economic policy were subject to major pressures during this year. There were two budgets (the second presented by Dalton) and it is that one which is commonly seen as marking a decisive shift in the overall thrust of economic policy on to a Keynesian basis. This section will offer an assessment of such a view of policy development in that year.

The first budget of 1947 aimed at a substantial budget surplus in the context of particular emphasis on the dangers of inflation. In the early preparation of this budget, the Budget Committee had asked Meade for the paper on the 'Control of Inflation' previously discussed. This was followed up by a further Budget Committee paper on 'The Economic

[42] PRO CAB134/63, 'Report of Committee on Control of Investment', 23 July 1949.
[43] As discussed at length in chapter 7.
[44] Cairncross, *Years of Recovery*, pp. 448–52.

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Survey for 1947 and the Budget for 1947/8' which reiterated many of the same points about the desirability of controlling inflation primarily by fiscal means.[45] These papers, in so far as they focused on fighting inflation and cutting subsidies seem to have found considerable support in the Treasury, though opposition was strong to Meade's proposals to present the budget accounts in a national income framework most appropriate to his Keynesian approach.[46] Dalton, on the other hand, seems to have been increasingly won over by the anti-inflationary stance of his advisers, whilst remaining resistant to their views on focusing expenditure cuts on subsidies.[47]

This April budget was followed by another in November 1947. The possibility of a supplementary budget was first suggested by Dalton in August 1947, though the prospect of the government coming back to the Commons with 'stronger and more drastic measures' had been suggested in the April budget speech.[48]

This proposal came right in the middle of the convertibility crisis, only six days before convertibility was suspended. According to Dalton, the budget's 'sole purpose, if it were decided to have one, would be to lessen inflationary pressure by "mopping up" some purchasing power, and at the same time to illustrate the Government's intention that there shall be "equality of sacrifice" as between different sectors of the community'.[49]

Bridges put a slightly different gloss on the proposal: 'The purpose is, not the old-fashioned one of extra taxation to balance the Budget, but a reduction of the inflationary pressure which threatens to prevent the emergency measures from achieving their objective . . . a Budget so presented would maintain confidence in the value of the pound, not only in this country but also abroad, and particularly in America.'[50]

Both the timing and content of the proposal for another budget support Cairncross' argument that the intention was 'a public acknowledgement of danger', in a way parallel to the previous use of the Bank Rate, now ruled out by the commitment to cheap money.[51] Danger was very apparent at that time, not only in the run on the pound, but also in the concurrent discussions in the American Congress on Marshall Aid,

[45] PRO T171/389, J. Meade, 'The Economic Survey for 1947 and the Budget for 1947/8' (n.d., but Nov. 1947).
[46] Ibid., note by B. Trend, 27 July 1946; B. Gilbert to E. Bridges, 14 March 1947.
[47] Howson, *Monetary Policy*, pp. 163–5.
[48] PRO T171/392, Dalton to Bridges, 11 Aug. 1947; *Hansard* (Commons), vol. 436, col. 90, 15 April 1947.
[49] PRO T171/392, Dalton to Bridges.
[50] PRO T171/391, E. Bridges, 'Autumn Budget', 23 Sept. 1947.
[51] Cairncross, *Years of Recovery*, p. 424.

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which at that time were by no means clearly going to favour the granting of aid to Britain.

This was an opportunity not to be lost by the advocates of a tough budgetary stance. In September Robert Hall, James Meade's less articulate but equally Keynesian successor as head of the Economic Section, was circulating to the Budget Committee a paper on 'The Inflationary Pressure' which reiterated many of Meade's previous points on the dangers of inflation.[52]

Whilst Dalton played a key role in initiating the autumn budget, he remained distinctly lukewarm about the idea urged by his advisers, and summarised by Bridges, that cutting the cost-of-living subsidies was 'the pivot of the whole Autumn Budget, and indeed its one absolutely essential feature'.[53] On his copy of this memorandum Dalton scrawled: 'I don't accept a lot of this.' This comment has been interpreted as a sign of Dalton's resistance to Keynesianism,[54] but the comment seems to have been aimed not at the general framework of the approach suggested by Bridges but at its focus on subsidies as the key component. Dalton questioned this idea, offering the alternative option of cuts in defence spending, both for equity reasons, and because the movement of manpower from the armed forces to a civilian role would increase supply in the economy, unlike cuts in transfer payments such as the cost-of-living subsidies. He also pointed out the political difficulties of combining cuts in subsidies with a wages step.[55]

Dalton came under sustained pressure on this issue. His official advisers seem to have been unanimous in wanting subsidy cuts to be the centrepiece of the budget. Bridges, for example, argued that unless the budget dealt 'openly and resolutely' with the subsidies it would have a 'serious effect on national credit, both internal and external'.[56]

However, Dalton refused to be bounced into taking this line. As Rollings notes: 'Given Dalton's physical and mental exhaustion by this time and the degree of pressure put on him by Treasury Officials, he showed considerable resolve.'[57] He was strengthened in this resolve by the support of Douglas Jay, Economic Secretary to the Treasury. Jay argued that 'Quite apart from its social and political unwisdom such a policy would be economic folly for two reasons' – it would have most impact

[52] PRO T171/392, 1 Sept. 1947. Hall's Keynesianism was arguably more simplistic than that of Meade, for example in not trying to integrate wages policy with the budgetary stance (Booth, *Economic Policy*, pp. 167–8). See also *Robert Hall Diaries* (1989).
[53] PRO T171/391, E. Bridges, 'Autumn Budget', 23 Sept. 1947.
[54] A. Booth, 'The "Keynesian Revolution" ', p. 122.
[55] PRO T171/391, ' Chancellor of the Exchequer Discussion with Advisers', 30 Sept. 1947.
[56] PROT171/391, E. Bridges, 'Autumn Budget', 22 Oct. 1947.
[57] Rollings, 'Budgetary Policy', p. 289.

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on the non-working poor, whose benefit levels would have to be raised, and it would stimulate wage claims. Given that one of the emergency measures of the summer of 1947 had been an agreement on wage restraint with the trade unions, this latter point was especially important, politically and economically.[58] In the event subsidies were maintained at the £392m. level agreed in the April budget, rather than being cut to the £300m. Bridges had regarded as the highest acceptable level.

What does all this say about the Keynesian content of the November 1947 budget? It is important here to distinguish official from ministerial views. On the official side Hall's replacement of Meade at the Economic Section made no difference to the Keynesian stance. This stance, it should be noted, involved cuts in subsidies not only for their anti-inflationary effects on demand, but perhaps as much because of their distortionary microeconomic effects. On the Treasury side, enthusiasm for subsidy cuts grew through the crises of 1947 – previously the Treasury too had seen the dangers of the impact of such cuts on wages. But in that summer they seem to have realised the possibility that the crisis situation offered them to reassert their control over public expenditure; subsidies, as a large and growing part of that expenditure, offered an ideal target.[59]

With regard to the more general issue of the budget surplus, the Treasury seem to have perceived well prior to 1947 that this kind of arithmetic provided an instrument to pursue their long-standing objectives. In March 1945, Gilbert, a most unenthusiastic Keynesian, had noted of such arithmetic: 'For some years, it is likely that the policy will involve keeping the brake on with varying degrees of pressure, on both capital and consumer expenditure. I see no difficulty about that, it is in harmony with all our past training and experience, and the contribution of the machinery of government is well-fitted for the exercise of negative controls.'[60]

Keeping the brakes on both public expenditure and inflation could be helped by Keynesian arguments. In the summer of 1947 it was inflation which dominated Treasury thinking, and the Economic Section was a firm ally in that battle, however sceptical Treasury officials remained of other aspects of the Keynesian package.

As Alan Booth has rightly pointed out, there is no evidence of a major inflationary problem in 1947.[61] Rather, the crisis of the balance of pay-

[58] PRO T171/39, Jay to Dalton, 10 Oct. 1947.
[59] Rollings, 'Budgetary Policy', pp. 287–8.
[60] PRO T161/1297/S531555/3, Gilbert to Bridges, 20 March 1945.
[61] Booth, *Economic Policy*, p. 166; the chart in Cairncross (*Years of Recovery*, p. 40) suggests rising import prices were having surprisingly little impact on domestic prices or wages.

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ments and the need to secure the American loan, focused attention on the need to maintain 'confidence', and anxieties about inflation acted as a kind of summary of that perceived need. The Treasury also, it should be noted, strongly supported the idea of cheap money (if not the excesses of Dalton's *cheaper* money) in order to minimise the cost of the debt service, and inflation threatened that policy. If the bank rate, logically, could not be used to maintain 'confidence', then fiscal policy became much more important.

At the ministerial level Dalton was clearly subject to a number of strong pressures. As already noted, he was being very strongly urged by both the Economic Section and the Treasury to take a tough budget stance. To an extent he accepted their arguments, most importantly in raising taxation against the clear policy of previous budgets. On the other hand, he not only resisted cuts in subsidies, but also did not find other expenditure cuts to bridge the inflationary gap.[62]

In so far as Dalton accepted the anti-inflationary rhetoric of his advisers, this reflected the problems of the external balance, which became so manifestly the problem in the summer of 1947. More generally it is clear that the government, and the Chancellor in particular, was suffering from a lack of confidence by the financial markets and financial press. Dalton, in fact, had always had a hostile press in his period as Chancellor, most notably in the *Financial Times*. This was exacerbated by his cheaper money policy, which was clearly failing by the summer of 1947.[63] Not surprisingly, therefore, some ground had to be given to the pressure for more anti-inflationary policies, though, as noted above, the attempt to turn cuts in subsidies into the symbol of financial responsibility (rather like unemployment benefit in 1931) was resisted. Politically, subsidies combined an egalitarian and a pro-wage restraint attraction which made any substantial cuts highly problematic.

In summary, the view of 1947 as pivotal in moving Britain towards a Keynesian policy regime appears exaggerated. A budgetary surplus was pursued by, for example, unwelcome tax increases, to try and restrain inflation and maintain confidence. But this strategy, after all, had been followed after the First World War in similar 'crisis' circumstances (though with more serious inflation) without anyone having seen it as a pro-Keynesian policy. The language of inflationary gaps and the arithmetic of national income were new in the 1940s, but in other respects the policy owed more to the outcome of a battle between traditional

[62] Rollings, 'Budgetary Policy', pp. 289–90.
[63] D. Kynaston, *The Financial Times: A Centenary History* (1988), pp. 272–80; Howson, *Monetary Policy*, pp. 166–74.

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Treasury priorities and politicians' views of political realities than a major change in analytical allegiance amongst either group.

Parallel to the changes in budgetary policy in 1947 were major changes in the whole organisation of policy-making. In the early post-war years the Treasury did not immediately regain its pre-war status as by far the most important body in economic policy-making, a role ceded in wartime when finance lost its crucial role in determining economic activity. From 1945 to 1947 the machinery of economic policy-making broadly reflected the uncertainty about how policy was to be conducted. In this period the *de facto* centre of policy-making was the Ministerial Committee on Economic Planning, chaired by Morrison and consisting of Cripps, the President of the Board of Trade, Dalton and Isaacs, the Minister of Labour. But this body did not effectively integrate the various aspects – financial, labour, foreign trade – of economic policy. Neither did it build up an economic planning staff, so the Economic Section remained the main source of economic expertise in the government machine.[64]

In response to the crisis of 1947 this machinery underwent a number of major changes. Edwin Plowden was appointed Chief Planning Officer early in the year and a small Central Economic Planning Staff was established, and a tripartite Economic Planning Board was set up. This series of moves culminated in Cripps becoming Minister of Economic Affairs in September, and for a while it looked as though economic policy was to be dominated by a ministry other than the Treasury. But after Dalton's resignation in November, Cripps became Chancellor and the Ministry of Economic Affairs was merged with the Treasury.

In practice this series of changes returned the Treasury to dominance of economic policy-making, and effected a much better co-ordination between budgetary and other aspects of policy. At one level this meant that Keynesian views of the dominance of budgetary policy in overall economic management won out against those who would have had 'planning' by physical controls at the centre of policy. But in fact a coherent planning philosophy in strong opposition to the new role of the budget never emerged. As suggested in chapter 6, Gosplanners were extremely thin on the ground, even in the Central Economic Planning Staff, where Meade tried to conjure them up. On the other hand, if Cripps was no Gosplanner, he was equally not an adherent of Meade-style Keynesianism. Above all, he strongly believed in 'planning' via tripartite co-operation in a way quite at variance with any current *economic* doctrine. Neither he, nor the policies pursued under his Chan-

[64] Cairncross, *Years of Recovery*, pp. 50–2.

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cellorship, can sensibly be placed on the economists' simple 'central planning versus management of aggregate demand' spectrum.

The Treasury under Cripps

Under Cripps, between 1948 and 1950, budgetary policy broadly followed the pattern set in November 1947. Calculations of the 'inflationary gap' in the *Economic Survey* were given greater prominence, and led to a policy of persistent budget surpluses. These gaps were calculated around an assessment of the extent to which expected private savings fell short of expected total investment, with the budget designed to cover this shortfall in savings.[65]

However, the use of the budget as a Keynesian instrument was still bedevilled by the lack of proper integration of the budget with the national income accounts. In the 1948 budget, following criticism of the way the budget was presented in 1947, an 'alternative classification' was appended to the normal accounts to try and link the budget surplus to the level of demand in the economy as a whole. But this change was less than might have first appeared because the new figures basically involved just a reshuffling of the existing Exchequer accounts, not a wholesale reclassification.[66] Such a reclassification was urged by the Economic Section, but without support from the Treasury. The Treasury's main concerns were to reduce expenditure and to maintain confidence by giving the appearance of a budget surplus, and for these purposes a 'conventional' surplus was adequate. For example, in 1949 Trend argued for an overall (conventional) surplus as being 'mainly required for purposes of the preservation of our credit at home and abroad' and as the figure 'most easily understood by the general public and the foreigner'.[67]

On the ministerial side Cripps found growing doubts about the case for large budget surpluses. In March 1950 Attlee wrote to him suggesting that the high taxation used to finance the surpluses discouraged saving and encouraged the rich to consume out of previous savings, with the result that the wealthy were consuming at the expense of the less well-off.[68] Others in the Cabinet seemed to agree with this analysis, and Cripps had to make a major presentation to the Cabinet to convince

[65] PRO T171/396, 'Draft Budget Speech', March 1948; T171/397, 'Roffey Park Discussions' 5–6 Feb. 1949.
[66] Dow, *Management*, p. 183.
[67] PRO T171/397, Trend to Chancellor of the Exchequer, 24 Feb. 1949; 'Chancellor's Brief for Cabinet', 10 March 1949.
[68] PRO T171/400, Attlee to Cripps, 11 March 1950.

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them of the appropriateness of the budget surplus in current economic circumstances. He argued that any tax cuts to try and increase savings would have to be highly regressive if they were to be effective, and therefore quite at odds with Labour's redistributional policies.[69]

In fact, the general point made by Attlee, that the level of taxation to finance budget surpluses was having a counter-productive effect on the level of savings, was pursued strongly by Cripps' advisers in this period. The tone was set by a memorandum by Hall in 1948 in a survey of budgetary prospects over the next four years, which argued that tax reductions could be combined with a budgetary surplus only if those tax cuts were concentrated on higher incomes in order to boost private savings. His way out of this dilemma was to cut expenditure, especially on subsidies.[70] This general line on the disincentive effects of the current level of taxation and the need to cut expenditure was supported by the Treasury, and became the most persistent theme in budgetary advice for the rest of Cripps' period in office. It also gained support from ministerial figures like Douglas Jay, who wanted to ease the budgetary pressure by combining 'a mild credit disinflation with a slightly less savage Budget'. This was the basis of Jay's strong interest in trying to revive the use of monetary policy, albeit without higher interest rates.[71]

Whilst this perception of the new contradictions of very large budget surpluses was widespread in official circles, and led, for example, to the pressure for a royal commission on taxation,[72] it was by no means so widely agreed that subsidies should be the key area for cuts on the expenditure side. In 1948 and 1949 at least, the Treasury did not put as much emphasis on this aspect of budgetary tightening as Hall did, though their respective roles seem to have changed from 1950. Attitudes to subsidies at the official level seem to have varied according to current calculations of the importance of trying to reduce wage inflation by subsidising the cost of living.[73]

At the ministerial level there was a more unwavering resistance to any cuts. Although Dalton alleged that Cripps had at one stage proposed the complete elimination of subsidies, there is no evidence for this beyond Dalton's diary.[74] The Budget Papers suggest Cripps had a clear view that subsidies should be maintained, though subject to a ceiling. In early 1948 he suggested a ceiling of £400m., but this was overtaken by the

[69] PRO T171/400, Cripps, 'Budget Policy', 15 March 1950.
[70] PROT171/397, Hall, 'Budgetary Prospects and Policies 1948–52', 17 July 1948.
[71] PRO T171/397, Jay to Cripps, 3 Feb. 1949; Howson, *Monetary Policy*, pp. 225–30, 284.
[72] See chapter 12 below, where the issue of taxation is discussed.
[73] Rollings, 'Budgetary Policy', pp. 290–1.
[74] Cited in ibid., p. 290.

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incomes policy agreement in February 1948, which committed the government to tight control of the rise in the cost of living.[75]

A ceiling of £465m. was put forward in the 1949 budget, but following the devaluation of September that year this figure was reduced to £410m. However, in the context of the continuing attempt to restrain wage inflation, this figure became a floor as well as a ceiling. Further cuts were proposed but resisted in 1951, so that, as Rollings rightly says, 'until the change of government in November 1951, food subsidies continued to be a crucial element of anti-inflationary policy'.[76]

The previous paragraphs have suggested some qualifications that need to be entered against any view that post-1947 Labour adopted a full-blooded Keynesian approach to budgetary policy. The other half of the story is what happened to controls – how far were they given up under Cripps? One of the paradoxes of 1947 was that the shift to a tighter budgetary policy was coupled to more effective 'planning' of investment by tightened use of controls rather than financial mechanisms. This was the basis of Dalton's oft-quoted remark in response to the Investment Programmes Committee Report that it marked 'a real start to central planning'.[77] Dalton, as so often, was hyperbolic, but there was an important grain of truth in his remark, especially as far as intentions rather than outcomes were concerned. Less pressure on aggregate demand plus a reformed administrative machinery should have made it easier to control the level and composition of investment. In practice this happened to only a limited extent, and mainly in the area of investment in building rather than plant and machinery. The latter was mainly controlled by informal pressure on producers of machinery to maximise their exports.[78]

Curiously, these attempts to control investment were accompanied by 1949 by an increase in the investment tax allowance, first introduced in 1945. This was despite Douglas Jay's cogent criticism that this measure would increase company cash flow but do nothing to affect the level of investment, which was determined largely by the availability of physical resources.[79] It would be idle, therefore, to suggest that in this period budgetary policy and physical planning together generated a close control of investment. One reason was the schizophrenia about investment evident in many discussions. On the one hand investment was a major

[75] PRO T171/394, 'Subsidies and Prices' by Chancellor of the Exchequer, 13 Jan. 1948; Treasury, *Statement on Personal Incomes, Costs and Prices* (1947).
[76] Rollings, 'Budgetary Policy', p. 291.
[77] PRO T229/66, 'Investment Programmes Committee: White Paper on Investment Programme, 1948', 10 Dec.1947.
[78] Dow, *Management*, pp. 150–3.
[79] PRO T171/397, Jay to Cripps, 3 Feb. 1949.

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component of demand, and therefore needed to be restrained in the name of disinflation. On the other hand, it was a source of increased production and productivity, and should be encouraged. Schumpeter argued that, in this area at least, British economists tended to be too Keynesian, in regarding investment too much as a source of short-run demand, rather than long-run supply expansion.[80] The government too seems to have oscillated between these two views.

In the current context, the important point to emphasise is that budgetary policy after 1947 was not accompanied by a lessening of controls as they affected investment. In the case of foreign transactions tight exchange control also remained in place throughout the Attlee period, except for the unfortunate interlude in the summer of 1947. Direct controls on imports were almost comprehensive down to 1949/50, but were then slowly eased before being tightened again during the Korean War.[81]

Much the most contentious area of controls politically was consumer rationing. Its scope was increased in 1946 and 1947 when bread and potatoes, previously free of control, were included. Food was the main focus and at the peak in 1947/8 about 50 per cent of consumer expenditure on food was rationed, many of these goods being subject to subsidy and price control as well. But from 1948 a process of derationing began, including all clothes and furniture but also progressively many foodstuffs. After the loosening, consumer rationing accounted for only about 12 per cent of total consumer expenditure.[82] These figures put some perspective on this highly contentious area. There seems little doubt that it was the perception of the political sensitivity of consumer rationing, coupled to industrialists' pressure for fewer controls, especially of materials, that led to the highly publicised 'bonfire of controls' announced by Harold Wilson at the Board of Trade in 1948.

However, as already noted, the desire to reduce controls where possible had been there from almost the beginning of the government, and machinery had been set up to pursue this aim. This machinery had been notably expanded in 1947/8. In 1947 a wide-ranging review of controls was undertaken with three purposes. One was to respond to the 'widespread view that controls hamper and delay'. The second aim was to save civil service manpower, and the final one to look at the legislative problems involved, because most controls operated under the Wartime Defence Regulations, which were for a limited period only.[83]

[80] J. Schumpeter, 'English Economists and the State-Managed Economy', *Journal of Political Economy* 57 (1949), pp. 371–82.
[81] Dow, *Management*, pp. 153–8.
[82] Ibid., pp. 147–9.
[83] PRO T222/214, J. H. Woods, 'Review of Controls', 9 Dec. 1947.

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As a result of this review the Board of Trade established its own Special Examiner of Controls, whilst an interdepartmental Controls and Efficiency Committee was set up with a more general remit. The report of the examiner argued that the main problem was the control of the allocation of materials, because this froze the industrial structure, made it almost impossible for new firms to enter an industry, and so encouraged inefficiency. The examiner further argued that the logical way to move on controls was to start at the consumer end, then to reduce controls on manufactures, and finally on material allocations.[84] This broad view was largely endorsed by the Controls and Efficiency Committee. However, it is important to note that this committee did not envisage a complete abolition of controls as the aim; rather it was to review their operation to minimise their ill effects on efficiency, especially in blocking changes in the industrial structure.[85]

These arguments lay behind Wilson's announcement in November 1948 that decontrol would be pursued 'as the balance of payments allows' but subject to any requirements to retain control for reasons of 'economic recovery for industrial efficiency or for full employment'.[86] There was probably plenty of scope for a 'bonfire of controls' without very much loss of effective regulation of the economy. For example, the bonfire seems to have led to the loss of only 30–40 civil service jobs in the Board of Trade. When this was questioned, it was found that, of the 200,000 licences abolished by the bonfire, 125,000 had been for the production of thermos flasks, involving 25 civil servants in what must have been a highly routine procedure whose ending was unlikely to have had a major economic impact.[87]

This example may illustrate a broader truth. The controls in existence in early post-war Britain were immensely complex and elaborate, and many could be abolished with little implication for general policy. There was a great deal of scope for what was called a 'preliminary clearing of the ground' before starting on any 'far-reaching change in the structure of controls operated through the present allocation system'.[88]

Alongside the 'rationalisation' of especially material and consumption controls there was undoubtedly a broad trend towards their reduction, notably in 1948 to 1950. Again, the political aspect of this needs highlighting. If the reduction of shortages provided an economic rationale for this easing, it was important politically for the government to

[84] PRO T222/214, 'Interim Report' by Examiner of Controls, 8 Sept. 1948.
[85] PRO T222/214, 'Interim Report' by Controls and Efficiency Committee, 3 Aug. 1948.
[86] H. Wilson, *Hansard* (Commons), vol. 457, cols. 113–14, 4 Nov. 1948.
[87] PRO T222/215, J. H. Woods to E. Bridges, 2 Dec. 1948.
[88] PRO T222/215, Co-ordinating Committee on Controls, 'Progress Report No. 2', 1949.

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respond. Exactly how the public felt on controls is difficult to judge. Some authors have rightly noted the virulence of attacks on controls, such as in John Jewkes' 1948 book.[89] How far this was translated into popular discontent and loss of support for the government remains a matter of dispute. A significant proportion of the population, at least, accepted the government case that controls were an acceptable price to pay for a policy of 'fair shares for all'.[90]

In sum, controls were reduced in Cripps' period at the Treasury, and this does not seem to have been a matter of great controversy in the government, partly because many of the controls fulfilled no useful purpose, or their purpose was lost as supply expanded. But there is no evidence that amongst ministers (as opposed to officials) there was a view developing that there should be a general movement to replace such controls by budgetary management. This was true, as argued in the next section, even amongst those on the right of the party who might be expected to be most hostile to such 'planning'.

The final phase

In 1950 Cripps was replaced by Gaitskell as the Chancellor of the Exchequer. Gaitskell's short period in office was dominated by the attempt greatly to speed up the pace of rearmament in response to the Korean War. This led to a famous clash with Bevan over spending on the NHS and Bevan's resignation. Budgetary policy was thus at the centre of Labour's concerns in this period, though it was a clash over spending priorities rather than the general use of the budget to manage the economy which excited the controversy.

The 1951 budget discussions began before the Korean emergency led to proposals for a major expansion in defence spending. In the summer of 1950 the Budget Committee was given an optimistic 'steady as she goes' assessment, with evidence of the need for continuing disinflation counterbalanced by evidence that in a number of consumer markets competitive conditions were returning – in other words demand was slackening. But once the defence expansion was proposed demand conditions were seen to 'present us with a formidable problem on the budgets of the next two years. It is clear that drastic measures will be necessary to maintain our present policy of avoiding inflation.'[91]

[89] Booth, *Economic Policy*, p. 166; Jewkes, *Ordeal by Planning*.
[90] Zweiniger-Bargielowska, 'Rationing, Austerity and the Conservative Party Revival'.
[91] PRO T171/403, 'Budget Prospects for 1951/2 and 1952/3'.

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This was the continuing theme of budget discussion up to April 1951. Already in the discussions of the 1950 budget some of the 'formidable difficulties' on the expenditure side had been highlighted. Three areas of expenditure were noted as large and rapidly rising – defence, subsidies and the NHS. But with current defence policy ruling out the first, wage policy ruling out major changes on subsidies, the focus was on NHS expenditure.[92] But while in 1950 the budget position was stable enough to rule out significant tax increases, in 1951 both sides of the budget had to be adjusted to achieve the government's aims.

As always, however, the budget decision was not just a matter of getting the arithmetic right. For example, the Treasury resisted the conclusions of the rather optimistic view taken by Hall of the budgetary prospects, that taxes should be increased and expenditure cut 'to take advantage of public expectations of tightening'. In addition, it was argued that because of the 'impact of the budget on opinion at home and abroad it should have an approximate above the line balance'.[93]

Eventually it was agreed that the surplus in 1951 could be smaller than in 1950 because of the rise in company saving and the reduction in demand arising from the deterioration in the balance of payments. But the surplus generated automatically was cut by the sharp rise in expenditure, especially on defence but also to a much smaller extent on civilian expenditure. Overall the need was to reduce expenditure/raise taxes by £100–200m. Gaitskell summarised the position:

> In this situation, the task of the Budget is to ensure the smooth and swift transfer of resources from production for home consumption to production for defence and exports and to provide appropriate conditions for the working of the necessary physical controls by securing that the money spent at home is enough, but not more than enough, to buy – at prices which cover their costs – the goods and services which will be available after the needs of defence, exports and home investment have been met.[94]

Alongside tax increases, including raising the standard rate of income tax back to 9s 6d ($47\frac{1}{2}$p), the result of these calculations was an insistence on expenditure cuts, which fell most famously on the NHS. The actual amount involved in this was small – about £13m. out of a total expenditure of around £400m., a point emphasised by Bevan in his resignation speech.[95] However, it is clear that for the Treasury, and for Gaitskell, the size of the cut was not the crucial issue; rather, what mat-

[92] PRO T171/400, Budget Committee, 'The Budget Position 1950/51' (n.d., but March 1950). The debate over NHS expenditure is looked at in more detail in chapter 12.
[93] PRO T171/403, E. Bridges, 'Budgetary Problem, 1951', 6 Feb. 1951.
[94] PRO T171/403, Gaitskell, 'Summary of Budget Proposals', 9 April 1951.
[95] M. Foot, *Aneurin Bevan 1945–60* (1975), pp. 333–5.

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tered was the symbolic subordination of social service expenditure to the budgetary arithmetic and ultimately to the claims of the defence programme.

In retrospect Bevan proved correct that this programme was unworkable. As Samuel Brittan noted:

> The most extraordinary episode in the Labour Government's history was the cavalier way in which it embarked upon an enormous rearmament programme at the time of Korea . . . The Treasury, which is habitually pessimistic about the capacity of the economy to bear civilian programmes which are quite tiny by comparison, took the view that the nation would just *have* to afford the extra arms bill. Mr. Gaitskell and his official advisers, who shared his devotion to the cause of Western defence, made the mistake of assuming that sufficiently strict budgetary planning, together with the reimposition of physical controls, would produce raw materials, machine tools, and components required for an enormously enlarged defence programme.[96]

This verdict has not seriously been challenged, and if it is noted that defence expenditure, already 7 per cent of GNP in 1950, was going to be doubled under the 1950 plan, it is hardly surprising that the effort failed, only remarkable that it was ever thought it could work. Whether this effort, by diverting resources from exports and investment, damaged Britain's economic performance in the long run remains disputed.[97] What seems clearer is that the fundamental reason for such a reckless gamble was the desire to maintain a role as a world power by proving to the US that Britain could still deliver a major defence effort.[98]

Whilst the 1951 budget was extremely important for both the British economy and the Labour government, it cannot readily be used to summarise the long-run evolution of Labour's budgetary policies. It was an aberration not only in the sense of being a response to an emergency – the Korean War – but also in the extent to which political considerations so blatantly dominated over issues of economic management.

In that context the budget of 1950 in some ways provides a better pointer to the trend of budgetary policy. The budget of that year 'sounded sweeter in the ears of taxpayer and tax gatherer alike than the previous few 'austerity' ones. At least the postwar era of economic crisis was closing and a new more plentiful one beginning.'[99]

But did the closing of the age of austerity imply the end of controls and the movement towards an entirely fiscally managed economy? This

[96] S. Brittan, *Steering the Economy* (1969), pp. 110–11. See also J. Mitchell, *Crisis in Britain 1951* (1951), p. 276.
[97] Dow, *Management*, p. 64; Cairncross, *Years of Recovery*, p. 231–2.
[98] Cairncross, *Years of Recovery*, pp. 232–3.
[99] Mitchell, *Crisis*, p. 15.

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does not seem to have been a prospectus accepted by any major Labour figure in 1950. As Rollings has shown, in the debate over the future of controls from 1948 onwards, opinion across the major cabinet ministers concerned with economic issues was united in seeing a continuing role for controls for the foreseeable future. The failure to embody this in legislation resulted not from a lack of political will, but the overtaking of events by the Korean War.[100]

However, as Rollings has noted, this continuation of controls was seen as largely for macroeconomic purposes:

> Although some still saw a microeconomic role for direct controls, the increasing focus was on the macroeconomic objective of full employment. Those who did have a conscious image of their purpose were not recommending permanent economic controls with the aim of restructuring industry. The objective was not to determine the long-term development of industry, but rather to achieve short-term management of the economy.[101]

This point is important for the general thesis of this chapter, that the debate over the role of budgetary policy under the Attlee government should not be seen in terms of Gosplanners versus Keynesians as Meade suggested. Rather, budgetary policy (up to 1950) evolved in the context of what may be simplified as a three-way battle. This was between a Keynesian Economic Section, strongly committed to the ultimate triumph of budgetary policy as the key weapon of economic management, in significant part because of their (classically Keynesian) belief that in a context of adequate aggregate demand government should play a very limited microeconomic role. Second was the Treasury, largely concerned to limit public expenditure, contain inflation and maintain both internal and external 'confidence'. For them Keynesian budgetary arithmetic was a convenient new bottle for some pretty old wine. Third was the ministers, differing in their style and attitudes, but all highly political animals, committed to full employment, but finding that this was not after all to be the issue they had to face. With problems of inflation and the balance of payments deficit to the fore, Keynesian approaches appeared to offer a politically congenial *complement* to retaining broad-brush controls on trade, investment and consumption whilst aiding the running down of many of the politically irksome controls which no one believed formed the basis of a 'planned economy' in the sense of a Soviet-style five-year plan.

By 1950, to reiterate, budgetary policy and the remaining controls seemed to have delivered a non-inflationary economy, with full employ-

[100] Rollings, 'Reichstag Method of Governing?'; 'Poor Mr. Butskell', pp. 183–205.
[101] Rollings, 'Reichstag Method of Governing?', p. 28.

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ment and without serious balance-of-payments problems. Ministers were generally convinced that this combination of instruments should be sufficient to face any threats which might appear on the horizon. Unsurprisingly, they didn't see that the threat would come from a war in Korea and the intensely political economic policies which would flow from this.

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