BRITISH ECONOMIC POLICY
IN THE 1950S AND 1960S

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1. Introduction

1.1 When we wrote the abstract for this paper back in the summer we felt that we had something original to say, but now we are not so sure. First, we found that Sam Brittan, or rather Sir Samuel Brittan as he now likes to be called, had had similar ideas over thirty years ago in his *Left or right?: the bogus dilemma* (Brittan 1968). Worse still, Tony Blair has taken to preaching another part of our message, in his terms that ‘foreign policy and domestic policy are part of the same thing’ (cited in Preston 2002). We began wondering if we were coming to advocate some ‘Third Way’ approach to the study of postwar British economic policy. At this point we were tempted to give the whole thing up as a waste of time and you may wish that we had. Whatever the faults in this paper, we are at least confident that our analysis is based on a more solid empirical foundation than the Third Way, being a by-product of an ESRC-funded project with Rodney Lowe and Astrid Ringe to produce a handbook on the documents in the Public Record Office (PRO) relating to economic policy in the Conservative governments of 1951–64 (Ringe et al. 2003).

1.2 As Lowe (1997) has pointed out this period is a golden age in terms of the availability of government records. Indeed, it is the sheer bulk of material which both offers enormous opportunities but also huge costs in time and resources for historians of the postwar period. It is to reduce such costs and to ensure a more efficient use of limited research time that the ESRC and the Leverhulme Trust have been willing to support the publication of handbooks such as this one to supplement the PRO’s own research guides (see also (Alford et al. 1992; Land et al. 1992; Bridgen and Lowe 1998). In addition to the completion of the handbook, the project has provided an exceptional, perhaps unique, opportunity to assess government records relating to economic policy in this period both broadly and deeply. We have consulted not just the records of the core executive of policy makers (the Cabinet, its committees and the central departments) but, in addition, records ranging from those of MAFF to the UK Atomic Energy Commission (Rhodes and Dunleavy 1995; Rhodes 1997; Smith 1999).

1.3 It was in the light of the exceptional opportunity that we came to review the existing historiography of British economic policy in the golden age and gradually came to view it with increasing dissatisfaction. This dissatisfaction related to three aspects of the existing literature:

- the overemphasis of dichotomies;
- the compartmentalisation of the debates; and
- the static nature of the analysis.

1.4 Moreover, we then found similar dissatisfaction in other branches of history and in other social sciences: there was a demand to incorporate, in a range of ways, greater complexity. The inherent tension between the complexity of the real world and the simplicity sought after by theoretical modellers has long been recognised in the social sciences. What was new was that rather than demanding greater complexity for complexity’s sake, it was being argued that simple general theories achieved clarity by excluding that which often mattered most (for example, more theoretically, Rosenau 1997 and Hagström and Chandler 1998). Thus there was a need to incorporate greater complexity.
1.5 Twenty years ago, Tomlinson, in his Problems of British economic policy, 1870–1945 (1981), urged economic historians to take stock of long-running debates, to pause to reconsider what we think we know about the policy process. A further pause is now appropriate, for we have now amassed a significant stock of archive based studies of policy during the golden age, and we have a recent trend in the economic history profession at least to take a less gloomy view of relative economic decline and the record of successive government’s economic policies. This is exactly what we try to accomplish in this paper. Having set out the key features of the existing historiography, the nature of the perceived problems and the resulting needs to move the historiography beyond its current position, the paper then considers different ways of dealing with increased complexity before providing some case study illustrations of their relevance to the study of economic policy.

2. Existing historiography

2.1 In recent years the historiography of Britain’s postwar economic policy has burgeoned. There have been some econometric studies (Broadberry and Crafts 1996) but the vast majority have relied upon an archival-based approach. Whatever the methodology, it is inevitable that these studies adopt some form of organising perspective around which to frame their analysis. As Jim Tomlinson has noted, adopting such a perspective (in his case decline), ‘necessarily organises our thinking into particular channels, and pushes us towards certain ways of looking at the world’ (Tomlinson 2001, p. 2). Tomlinson goes on to illustrate and then to question the dominance of decline as an organising perspective with which historians consider the post-war period.

2.2 Accepting the notion of decline has become the norm in many studies since the late 1950s when awareness of relative economic decline spread. In turn, certain questions and issues have predominated in the literature, most notably those trying to illustrate and explain how Britain’s economic performance had been so poor, that this reflected failure and led on to analyses of who or what was to blame and how to improve performance. Many examples could be cited but perhaps formative in this respect were three Penguin Specials from the early 1960s: The stagnant society, What’s wrong with British industry, and What’s wrong with the unions, to which could be added Hugh Thomas’s edited collection The establishment, which contained Tommy Balogh’s corrosive attack on the Treasury, ‘The apotheosis of the dilettante’. (Balogh 1959; Shanks 1961; Wigham 1961; Malik 1964). Equally formative were Andrew Shonfield’s British economic policy since the war (1958) and Anthony Sampson’s The anatomy of Britain (1962). These works typified, if in an extreme form, much which followed, although in recent years with the rise of institutional explanations the focus has shifted to the inappropriate nature of Britain’s postwar settlement as an explanation of Britain’s decline (Crafts 1992; Broadberry and Crafts 1996; Middleton 1996; Booth et al. 1997; Eichengreen and Iversen 1999; Ringe and Rollings 2000; Wood 2000; Rollings 2001).

2.3 Nevertheless, dominating as it has been, decline has not been the only organising perspective to be found in the literature on postwar British economic policy. Two others merit consideration here. First, and often closely related to the declinist literature is the issue of Britain’s postwar international position. This
perspective has spawned at least three areas of debate. At the most general level is that which considers the impact of Britain’s attempts to maintain its Great Power status (Barnett 1995; Gorst and Johnman 1997; Barnett 2001). The extensive literature on Britain and European integration, much of which revolves around whether Britain missed an opportunity in not playing a leading role in European integration, provides the second example. This literature adopts a broadly common approach whether it is on the formation of the European Coal and Steel Community (Dell 1995; Lord 1996), the Treaty of Rome and the Free Trade Area negotiations (Camps 1993; Schenk 1996; Schaad 1998; Steinnes 1998; Ellison 2000), Britain’s first application to join the European Economic Community in 1961 (Kaiser 1996; Tratt 1996; Ludlow 1997; Steininger 1997; Wilkes 1997) or more popular accounts covering the whole postwar period (Denman 1996; Young 1998).

2.4 Finally, and most familiar to economic historians is the debate over the impact of sterling’s international role on the domestic economy. Within this last group, there is the general literature on the position of sterling (Strange 1971; Fforde 1992; Schenk 1994; Krozewski 2001) and that which focuses more exclusively on the significance of Operation Robot when, in 1952, the Conservative government considered, but ultimately rejected, introducing sterling convertibility with a floating exchange rate (Cairncross 1985; MacDougall 1987; Proctor 1993; Dell 1996; Bulpitt and Burnham 1999; Burnham 2000; Kelly 2000).

2.5 The significance of Operation Robot also plays a role in the third key organising perspective, that is the influence of ideas on policy in this period. To economic historians this means the long-running and recently revived debate on the Keynesian revolution, that is the role of Keynesian ideas on government economic policy (Booth 1983; Tomlinson 1984; Booth 1985; Tomlinson 1987; Rollings 1988; Peden 1990; Peden 2000; Booth 2001; Booth 2001). Some have had added a political dimension to this literature (Rollings 1992; Rollings 1994; Tomlinson 1995; Kelly 2000) and from here it is a short step to the more general debate on postwar consensus (Dutton 1991; Kavanagh and Morris 1994; Jones and Kandiah 1996; Rollings 1996; Kerr 2001). Common to all of these debates is the issue of whether policy became centrist, that is on a left/right spectrum should we locate it in the middle ground. The 1958 resignations by the three Treasury ministers, Peter Thorneycroft, Nigel Birch and Enoch Powell has been used as a case study of this very issue (Rollings 1996; Jarvis 1998; Booth 2000; Green 2000).

2.6 Hopefully, this is sufficient to show that much of the existing historiography of British economic policy deal with issues and questions which emerge from these three organising perspectives. There are exceptions which cannot easily be classified into one of these three frameworks, for example Martin Chick’s (1997) excellent account of industrial policy under the first postwar Labour government (also Tomlinson 1997 more generally on the Attlee period), but they still frame parts of these accounts. Equally, some historians, even if only implicitly, have acknowledged the constraints imposed by these frameworks (Tiratsoo and Tomlinson 1998, pp. 102-3; Booth 2000, Krozewski 2001, pp. 7-8). Nor does it matter that some works do not fit: we are simply arguing that these three perspectives have had a profound influence on the historiography and the questions addressed in it and that the vast majority of work, our own included, does originate from these starting points.
3. Problems

3.1 Is there a problem with this situation? We would suggest that there is, particularly with archival accounts. The sheer mass of records available for this ‘golden age’ of archive material is daunting. Combined with increasing academic specialisation, there is an inevitable tendency to be focussed, be it on a case study or a particular area of policy. More importantly, this reinforces an inclination to base accounts of economic policy on certain key classes, such as the Cabinet (CAB 128 and CAB 129) and its committees (CAB 130 and CAB 134), the papers of the Economic Section (T230), and, less frequently, the papers of Sir Edward Bridges, the Permanent Secretary to the Treasury until 1956 (T 273) and those of the Prime Minister’s Office (PREM 11). If the study is on domestic policy this will probably be supplemented by the Budget papers (T 171), while those on international topics may add the main Foreign Office series (FO 371) and the files of the Overseas Finance Division of the Treasury (T 236). There can be no denying that these are central classes of government records on economic policy but it is only a minute part of the miles of records available and continued concentration on these classes alone raises a number of potential dangers.

3.2 First, while these are the papers of the core executive, these key departments do not work in a vacuum. Many interactions with other parts of government and wider society impinge on these departments (Lowe and Rollings 2000). More than this, looking at the files of these departments can be misleading, even deliberately inaccurate, as well as an often incomplete record (Lowe 1997). This has long been recognised (Booth and Glynn 1979). Secondly, there is a danger of sterility, with the same topics and the same questions being asked reinforced by the use of the same records. New insights are limited to the release of previously closed records within these classes. For example, the release of two files previously closed (T236/3241 and 3244) relating to Operation Robot have formed the basis of a number of new accounts of the episode (Dell 1996; Burnham 2000; Booth 2001; Booth 2001). This is not meant as criticism of these particular accounts: updating of existing historiography in this way is a crucial part of an economic historian’s task. However, it does contrast with the vast masses of government records which remain unconsulted.

3.3 Finally, there is a clear danger of compartmentalisation here. On one level this can be seen in the intellectual divisions between disciplines with intellectual specialisation, but it is also true on a narrower level. To make topics manageable they are often regarded as discrete, with historians blissfully unaware of linkages to other topics. This criticism is not limited to postwar economic history – its starting point is the split between empire and Britain in the general literature (for example Burton 1994) – but is particularly appropriate to the study of economic policy given its theoretical foundations. Tinbergen argued that the achievement of a set number of government objectives required the government to operate at least the same number of policy instruments, that is, it was unlikely that one instrument could achieve more than one target at a time (Kaldor 1971). Few economic historians disaggregate as far as Tinbergen in their methodology but neither do they acknowledge Sir Alec Cairncross’s dictum that policy should be viewed as ‘a seamless web’ (1970, p. 20).

3.4 A second area of difficulty in the historiography relates to the use of dichotomies and the excessive oversimplification which results. Again, this criticism
can be levelled at other areas of history (Klein 1995) but dichotomies seem to dominate the way questions are phrased on postwar economic policy. Typical questions asked — Was there a Keynesian revolution? Was there a postwar consensus? Should Britain have joined the EEC before 1973? Did manufacturing industry fail? — all present a clear dichotomy, where the light switch is on or off. Sole alternatives presented in this way can be valuable tools — after all one of the authors has written books entitled *Government versus the market* and *Charlatans or saviours?* (Middleton 1996; 1998), albeit that the dichotomies are rejected in both cases — but they can also pasteurise the history, miss the nuances of the debates and fail to illuminate what was distinctive. Moreover, they lead historians to overemphasise the significance of particular episodes as key tests of their arguments, hence the focus on Operation Robot for example. All too often, as a result, economic historians talk past each other from positions entrenched by the way the questions have been posed.

3.5 There are obvious qualifications to this characterisation: few would fail to acknowledge that postwar British economic policy in the golden age was neither planned nor purely market driven. As has been shown already, the debate on the postwar consensus is similar. In these examples, historians attempt to locate policy somewhere along a spectrum from left (planned economy) to right (market forces). Returning to our analogy, we now have a dimmer switch. A unidimensional scale of this sort is more nuanced than the pigeonholing associated with the use of dichotomies, but they still only focus on one variable, whereas in the complex world of policy-making there are numerous variables. For example, it would be hard to sustain the argument that the budget was formulated in this period purely in terms of economic theory, given the many influences and interests involved in the budget. Thus a unidimensional approach of this sort helps us to understand the influence of economic theory but tells us much less about other influences on the budget and, with that, raises the danger of exaggerating the role of theory by misunderstanding the motives behind budget decisions.

3.6 The excessive use of dichotomies is compounded by the third problem with the existing historiography, that is its overly static approach. In our efforts at periodisation and paradigm shifts there is a tendency to ignore incremental change and the ongoing dynamic of history. As Rodney Lowe (1993) has pointed out, for example, the Welfare State was not a monolith. Much the same can be said of the managed economy and also of Britain’s international monetary policy in this period, but it would be hard to detect these continuous developments and shifts in much of the historiography, not least that as a ‘Thatcherite’ interpretation of postwar British economic policy and performance has taken hold there has been an inevitable tendency to portray 1945–79 as years of ‘consensus’ in which there was little policy change as one paradigm prevailed (Kerr 2001) to the detriment of the British economy and polity.

4. Changes required

4.1 Having set out what we perceive to be the major problems, we can now turn to the other side of the coin, what the historiography needs. Much of this has been hinted at in highlighting the problems. Two types of need stand out: a greater incorporation of linkages and a more dynamic framework. These linkages take a variety of forms.
First, recognition of the multidimensional nature of economic policy is a useful starting point. Significantly, it was in 1968, with the experience of the postwar years, that no less than Sam Brittan argued that the left/right spectrum ‘obscures more than it illuminates’, on the grounds that not only it was ‘misleading as a classification of political differences, but its persistence in current discussion has a positively harmful effect. It leads ... to the muffling of important issues, to a bias in favour of certain viewpoints against others, and to the erection of unnecessary barriers between those who should be natural allies’. As he puts it later in the book, ‘Even the most oversimplified way of describing a political position must be in terms of more than one dimension if it is not to be a complete distortion’ (Brittan 1968 pp. 11, 85).

Having accepted the need for a multidimensional approach he goes on to set out three dimensions – egalitarianism/elitism, radicalism/orthodoxy, and liberalism/authoritarianism. He then tried to map characteristic types on these dimensions to show the value of the exercise.

4.2 However, as he himself realised, there was no reason to accept the dimensions highlighted by Brittan (1968, pp. 83–108) and that there could be many other appropriate dimensions. Herein lies one of the problems of the multidimensional approach: there was little agreement amongst political scientists on the most appropriate dimensions and it was uncertain how much these extra dimensions added to the simple left/right spectrum (Huber and Inglehart 1995; Warwick 2002). As a result, there has been a tendency to revert to the common ground of the simple left/right spectrum (Castles and Mair 1984; Gabel and Huber 2000; Laver and Garry 2000). As Ian Budge, one of the leading experts in the field has noted:

> We have to concentrate on a single left-right dimension. No higher order dimensional representation is as generalisable; and clearly a unidimensional space gives a more direct visual impression of party positions and movement between them than any other. The alternative to this, apart from representing each country in spaces of different dimensions, is a twenty-dimensional representation which cannot be directly visualised and which incorporates most of the idiosyncratic elements which enter into competition differently in each country (Budge 1994, pp. 456-7).

4.3 However, while this may be a valid justification for comparative quantitative analysis of party positions we should try to go further. This is an empirical problem of measurement and agreement. Theoretically, it is accepted that policy spaces are multidimensional, and cannot be unidimensional (Warwick 2002). In addition, with regard to government policy Budge himself admits ‘parties present policies and the media discuss them in one-dimensional left-right terms, even though in deciding on policy in government they use many separable dimensions’ (Budge 1994, p. 457n.). Moreover, if we accept that institutions matter in the sense that their nature affects policy outcomes, then the nature of each relevant institution affects the policy process and helps to shape the policy outcome. Accordingly, this can only be described in the context of a multidimensional space, since the policy emerges from a variety of institutional settings that influence the policy process (Scharpf 1997). It may not be easy for economic historians to establish an agreed empirical framework by which a multidimensional approach can be developed, but it does seem necessary.
4.4 In developing these frameworks there is also a need to be more encompassing. Adopting a governance approach from political science suggests that within government the core executive is characterised by fragmentation, differentiation and weakness as well as by strength and centralisation (Rhodes 1997; Lowe and Rollings 2000). Rather than viewing government as a simple hierarchy, it should be seen as being made of a variety of relationships and interactions, which mean that focussing exclusively on the core executive misses or distorts many of these relationships. More generally, there has been an unwarranted and counter-productive fixation on an arbitrary public/private debate (Evans 1995; Gamble 2000). Instead, the boundaries between government and society should be seen as less clear-cut, less uniform and less important as networks exist which cross this boundary (Smith 1993; Hirst 2000). Put another way, while government has a degree of autonomy, it should be seen as ‘an endogenous player interacting with the economic system as a coherent cluster of institutions rather than a neutral, omnipotent agent exogenously attached to the economic system with the mission of resolving its coordination problems’ (Aoki et al. 1996, p. 2). Studying a small elite part of central government in isolation again misses these linkages with society: a more complex and holistic picture based on a range of sources is required. More than this, it misses the linkages between different policy areas via institutions. Although it has been common to highlight a link between short-term macroeconomic policy and the performance of the real economy in the long-term, most famously in this period with the complaints about the impact of Stop-Go on Britain’s growth potential, theoretically economists tended to separate the short and long terms. Yet, within an institutional framework there can be an influential two-way relationship, for example between monetary policies and wage bargaining (Iversen 1999; Iversen, Pontusson et al. 2000). As Peter Hall notes, and contrary to Tinbergen, ‘We are used to thinking about the impact of policies in terms of their immediate objectives. But, … some of the most significant consequences of a particular line of policy may lie in the kind of social organisation it fosters or destroys in the long term’ (Hall 1999, p. 163).

4.5 Building on this, the dialectical nature of relationships needs to be recognised and incorporated as well (Hay and Marsh 1999). One criticism that has been made of archivally-based history is that, because of the nature of the material, it overemphasises the role of individuals and personalities as agents of change: ‘policy outcomes are viewed as the result of conflict among relatively autonomous political actors’ (Johnston 1999, p. 157; Hay 1994). Historians might not accept this criticism in its entirety but would recognise that much contemporary history is very heavily actor-centred. On the other side of the coin, institutional accounts tend to overemphasise structure – the particular nature of institutions is the key explanatory variable – and actors are given no influence. It is necessary to move beyond this simple structure/agency dualism to recognise the complex relational and dialectical interplay between the two (Hay 1995; Johnston 1999; Marsh 1999).

4.6 Similarly, and taking us back to Tony Blair, there is a dialectical relationship between the domestic sphere of policy and the international. Each impacts upon and contextualises the other. Britain and the Empire are not separate discrete entities but this is how the literature commonly presents them (Burton 1994). Equally, this is not a single relationship but a host of cross-cutting relationships from parts of the international to the domestic and vice versa. In a similar vein, Mosley has argued that the debate on the influence of international financial markets on national government
policy is too simplistic and general: while there is strong influence it relates only to a narrow range of policies (Mosley 2000).

4.7 A further dialectical relationship relevant here is between the ideational and the material. This is particularly relevant to the debate on the Keynesian revolution. As David Marquand has written:

If practical men are apt to be enslaved by defunct economists, living economists inhabit a world managed by practical men. As Gramsci knew, intellectual leadership precedes domination, but as he also knew, successful intellectual leaders tailor their appeals to inherited traditions, beliefs and behaviour, ideas and policies; attempts to unpick it, to give primacy to thought over action, or to action over thought, confuse more than they illuminate (Marquand 1996, p. 6).

4.8 Thus Alan Booth’s recent definition of Keynesianism in the golden age as being the views of the Economic Section, the small group of economists in government, and, in particular its Director, Robert Hall, is superficially attractive because of its simplicity (Booth 2001a; b). However, it ignores the dialectical relationships between the economists and other Treasury officials and between the economists and the institutions of government in which they operate. These are two-way relationships.

4.9 This leads into the second type of need, that is a more dynamic framework. It follows logically from what has already been discussed. First, if one is using a multidimensional model then, surely, a temporal dimension should be included. Secondly, if there are dialectical relationships there are must also be a process of learning and adaptation through feedback loops. Put more generally, there has been a tendency to focus on outcomes, be it the policy outcome – Was there a Keynesian revolution? – or the economic outcome – What was the effect of ‘Stop-Go’? Even when, as in the Stop-Go debate, attention turned to the reasons for policy, the explanations remained static. For example, Dow’s (1964) classic study of the managed economy in Britain emphasised time lags caused by the policy process – the inevitable delays in the collection of data, decision-making and the resulting policies having an effect. This is presented in an unchanging way when the period marked some key changes in data collection techniques for instance. There is a need to move away from an exclusive focus on outcomes to adopt a less partial and more dynamic approach in which outcomes are part of the broader process of change (Hay and Marsh 1999).

5. Turning these needs into empirically useable frameworks

5.1 It is easy enough to criticise the current historiography and to provide a wish list of desirable changes. Providing useable frameworks for empirical study is less straightforward. One attempt to provide such an explanatory framework is the dialectical approach recently proposed by Marsh and Smith (Marsh 1998; Marsh and Smith 2000). This developed out of their dissatisfaction with the existing policy networks literature, of which they have played a central role. Their approach is set out in diagrammatic form in Figure 1.
5.2 However, there are problems with their approach and these reflect problems with any attempt to incorporate dialectical relationships. First, there are many two-way arrows. Only ‘innate skill’ is viewed as an independent variable and there is no notion of whether some relationships matter more than others (Raab 2001, p. 551). This is a general issue with such approaches (Hall 1999).

5.3 Similarly, it is very easy to argue that everything is contingent, but all one is left with then is description, which is definitely not what Marsh and Smith are trying to achieve. Clearly then, we have to accept that while we should try to move to a more complex approach, it will always remain partial and that it is necessary to cut into the knot of reciprocal relationships at some point, that point in part depending on the issue being considered. Fritz Scharpf is well aware of the problems of modelling complexity: the influence of institutions, the importance of relationships between them and of the external policy environment mean that, even with only a few institutions, one quickly opens up a vast range of possible constellations of explanations to what will often be unique cases (Scharpf 1997, pp. 22-3). Accordingly, he argues, following Elster, that we should look for ‘small or medium-sized mechanisms’ rather than general and comprehensive regularities (Elster 1989, p. viii).

5.4 Scharpf sees two methods of interpreting such mechanisms. The first, more analytical approach, is to use of game-theoretic models. Some economic historians

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*Source:* Marsh and Smith (2000, figure 1).
have moved in this direction very successfully, for example the collaborative enterprise which led to Analytic narratives (Bates et al. 1998). However, this was an extremely time-consuming exercise and few (if any?) current economic historians of Britain in the golden age have any game theory skills beyond the most rudimentary. A second problem, noted by Scharpf, is that such models ‘are likely to be of limited scope and will only represent certain subsets of the complex, multiarena and multilevel interactions that are characteristic of real-world processes of policy formation and policy implementation. Thus it is usually necessary to combine several such modules into a more complete explanation’ (Scharpf 1997, p. 31). The development of two-level games or nested games offers a potential solution here (Putnam 1988; Tsebelis 1990), and it is interesting to note that their use in the field of comparative political economy is spreading in the US at least (Moravcsik 1993; Milner 1997), as is the notion of nested institutions (Aggarwal 1998; Hall 1999).

5.5 The second method that Scharpf proposes is more familiar ground for archival historians, that is to develop ‘inductive generalisations of the understanding that can be gained through in-depth empirical studies of the complex functioning of particular political systems’ (Scharpf 1997, p. 32). We have argued that the dominant existing generalisations about British economic policy in the golden age are flawed by failing to acknowledge sufficiently the complexity of the system. In the final section of the paper we present some case studies illustrating this argument as a first step towards other, more appropriate, generalisations. Much more work needs to be done in this respect and we hope that the handbook helps to further this.

6. Case studies of economic policy 1951–64

6.1 Planning and competition

6.1.1 Accounts of economic policy in the period 1951-64 have remained broadly unchanged since the period in the way that policy is seen to change (Brittan 1971; Harris 1972; Leruez 1975; Budd 1978; Hall 1986; Jeffreys?. This narrative takes a characteristic form. The Conservatives were elected in 1951 on a manifesto of ‘Setting the people free’. Once the Korean War boom was over decontrol was implemented rapidly and followed for most of the rest of the 1950s by a period of non-intervention. However, by the late 1950s growing awareness of Britain’s relative decline and the contrasting good performance of the French economy under indicative planning led to ‘the great reappraisal’. With that, Conservative economic policy became increasingly interventionist and framed around some notion of trying to plan the economy in order to break out of the perceived stop-go cycle: there had been a ‘conversion’ to planning (Leruez 1975, p. 81).

6.1.2 There can be little doubt that the government did become more interventionist in many policy areas in the early 1960s, even if it is criticised as ineffective: ‘too little, too late’ (Tiratsoo and Tomlinson 1998, pp. 164, 170)[add Tomlinson]. Selwyn Lloyd, the Chancellor of the Exchequer, famously told the House of Commons in July 1961 about planning, ‘I am not frightened of the word’ (Parliamentary Debates 1961, col. 220). Beyond well-known initiatives like the creation of the National Economic Development Council (Ringe and Rollings 2000; Wood 2000) and of the Public Expenditure Survey Committee (Lowe 1997), this is visible in a host of other policy
areas. Incomes policy gradually became more interventionist in the late 1950s, moving from the publication of a White Paper urging restraint, to the creation of the ‘independent’ Council on Prices, Productivity and Incomes in 1957, the 1961 ‘pay pause’, the 1962 move towards a long-term incomes policy in the form of the National Incomes Commission and, finally, the consideration of a proposal from the Treasury, the Board of Trade and the Inland Revenue to tax excessive profits and induce management to restrain price increases as a way of controlling wage inflation.

6.1.3 A clearer trend towards planning is visible in regional policy, another policy area where the Conservatives were largely inactive in the first half of the 1950s but which was highlighted by Macmillan as part of his strategy for modernising Britain in the early 1960s. The development of ‘growth points’, instead of local levels of unemployment, as the starting point of regional policy was supplemented by the symbolic appointment of Lord Hailsham in January 1963 as the Minister of the North East. It was Hailsham who had similarly been appointed as Minister of Science in 1959 to remedy perceived deficiencies in civilian R & D. In neither case was he particularly successful but both appointments illustrate a willingness by the Conservative government for it to be seen to take responsibility for remediying perceived market failures.

6.1.4 Yet, we would argue, it is wrong to present these moves as symptomatic of a simple unidimensional shift from market to planning, from right to left, typically found in the historiography. Contrasting with the picture above, the great reappraisal of the early 1960s also emphasised the importance of increasing competition and the role of market forces, contrasting with traditional interpretations (Tiratsoo and Tomlinson 1998, p. 119). From 1959 onwards the Conservatives started to make efforts to introduce more commercial criteria into the operation of the nationalised industries, for example, ultimately leading to the 1961 White Paper Financial and economic obligations of the nationalised industries (Cmnd. 1337). Of wider significance was the government’s policy towards European integration. From the attempt to establish the Free Trade Area through to the negotiations following Britain’s first application to join the EEC in 1961, the economic context of policy was the need for ‘the cold shower of competition’ as it was often put. Reginald Maudling’s views illustrate this well:

I think that the great effect of going into a wider European market will be that efficient firms will prosper and the inefficient will go down. That, surely, is precisely what we must see in this country if our economy is really to expand and our growth is to be more rapid (Parliamentary Debates 1961, col. 1605).

6.1.5 Significantly, once de Gaulle vetoed Britain’s application in 1963 this led to renewed efforts to increase competitive pressures by other means. Domestically, this meant the introduction of legislation to abolish resale price maintenance and the 1963 White Paper Monopolies, mergers and restrictive practices (Cmnd. 2229). On the international front, serious consideration was given to a unilateral cut in UK tariffs of up to 25 per cent but was not introduced since attention had turned to the Kennedy round of tariff negotiations and existing tariffs provided a useful bargaining tool.

6.1.6 Developments towards greater intervention and towards greater competition in the early 1960s were parallel parts of ‘a single revolution’ (Butt 1967, p. 374). A
unidimensional scale would simply try to balance these moves, pasteurising them into some middle ground. This is clearly unsatisfactory and results in a misleading representation of the great reappraisal. Tiratsoo and Tomlinson’s (1998) recent account shows some signs of moving beyond this position. This is perhaps clearest in the chapter on competition. Here it is noted how the Conservative Party has an ambiguous relationship to competition and that the nature of competition policy ‘is one index of the “liberalism” (in the economic sense) of policy, so that by assessing the extent of the commitment to competition we can offer one guide to the overall nature of the policy regime’ (pp. 102-3). That this is only one guide is the crucial point in our eyes: modernisation was a multidimensional concept. Presenting it as a shift along a simple left/right spectrum confuses more than it reveals.

6.2 European integration and British economic policy

6.2.1 The case study above raised, among other points, the importance of European integration to the development of UK trade policy from the late 1950s in the sense of increasing external competition on the domestic UK economy. The emergence in this period of first the European Coal and Steel Community and more significantly from January 1958 of the European Economic Community are commonly recognised to have changed the context in which British economic policy was formulated (Tiratsoo and Tomlinson 1998, pp. 114-19). However, since Britain did not become a member until 1973, the impact of its existence on domestic British economic policy prior to that date is seen as marginal. Thereafter, Britain’s continuing ambivalence and reluctance to embrace European integration has continued to limit its effect. In this light, it is perhaps unsurprising that most standard texts on British economic history/policy since 1945 are virtually silent on the topic of European integration: it is seen as having been largely irrelevant or, at best, compartmentalised as a separate issue (Cairncross 1992; Crafts and Woodward 1992; Floud and McCloskey 1994).

6.2.2 Yet, there is an emerging literature which suggests that Britain’s relative economic decline and failure to be involved in European integration from the outset are part of the same story (Denman 1996; Owen 1999; Holt 2001, p. 290). While this argument links the subjects, like the textbook accounts, it fails to appreciate the ways in which European integration did impinge on British policy formulation well before British membership in 1973. The impact of European integration on British domestic economic policy went further much earlier than traditionally presented. Its tentacles spread to influence a range of domestic policies through general and specific influences. After Britain had applied for membership in 1961, and continued after the 1963 veto, there was a general understanding that policies should not be introduced which would make membership harder. In other words, policy in the EEC provided a starting framework in which British policy was framed. This does not mean that the understanding was not broken – it was – but that there had to be good reason not to maintain it.

6.2.3 Two more specific examples are taxation and competition policy. The key aspect of taxation changed over time. In the mid- to late-1950s it was the harmonisation of social welfare costs that received most attention. British industry believed that UK welfare costs and their contribution towards them exceeded those on the continent and were holding back improved economic performance. Membership of a Free Trade Area or the EEC in which harmonisation of welfare provision
occurred would remove this burden. However, it soon emerged that this was not the case and the issue slowly disappeared. While there was discussion of the harmonisation of corporate taxation, it was the issue of value-added taxation (VAT) which then moved centre stage. The Federation of British Industries had been pushing during the 1950s for a shift in the balance of taxation from direct to indirect taxation and its 1960 Brighton conference linked the subject to economic growth. One aspect that emerged from this was the issue of replacing purchase tax with VAT, which had been introduced in France and became accepted in the early 1960s as the standard to which EEC member countries would harmonise. More specifically, it was argued that VAT would promote exports. The government was reluctant to make this change but felt compelled to appoint the (Richardson) Committee on Turnover Taxation to appease public opinion. Although the committee’s Report (Cmd. 2300) rejected the introduction of VAT, the issue refused to go away, reappearing at various stages throughout the 1960s until it was introduced in 1973. It took a long time for the Inland Revenue and Customs and Excise to be convinced that Britain’s superior tax system needed to move towards a continental model: there was not much learning or adaptation illustrated by these officials but they were eventually compelled to give ground.

6.2.4 Similarly, the development of the EEC’s competition policy was followed closely in Britain. Firms operating in the EEC had to comply with its terms as well as UK policy. Thus there was marked increases in interest at the time of the Treaty of Rome and, especially, in 1962 when the way in which the EEC’s policy was to be implemented was announced, given that it called for the registration of trade agreements. However, given the newness of the EEC and its institutions, both government and industry were uncertain how EEC policy would develop in practice and there were diverse interpretations of the meaning of the policy. The result was a joint learning process in which information was exchanged freely and advice to companies adapted accordingly. Once, however, it became clear that EEC competition policy was developing much more slowly than expected, interest in the topic waned, to be replaced by other issues.

6.2.5 Thus there are examples of European integration having diverse linkages with domestic economic policy in Britain. Policy, or rather perceived policy, in the EEC was used as a benchmark against which to criticise UK policy, as in the example of welfare costs, and to influence policy change, as in the case of VAT. More than this, EEC and UK policy were both developing together, meaning that the salience of particular issues changed over time as policy changed. Given this dynamic, there was also a learning process, most clearly illustrated by the case of competition policy, where, with increased knowledge and experience, views on policies adapted.

6.3 Exchange rate policy

6.3.1 Sterling has been the nemesis of so many postwar governments. Thus, the period between the devaluation of 1949 and the decision to float sterling in 1972 (roughly the golden age), is conventionally depicted as one in which successive administrations, conditioned by slow growth and ‘Stop-Go’, sought to manage the unmanageable (sterling and the balance of payments) and avoid the unavoidable (sterling depreciation, either to a lower adjustable peg or to a full flexible rate regime). Cast in this manner, the study of exchange rate policy connects directly to
the heart of two literatures/narratives: that on postwar decline and that on the rise and fall of Keynesianism (see Middleton 2002). However, exchange rate policy does not exist in an entirely satisfactory manner within these twin narratives, and we contend that for this period (and indeed later) it can be used to illustrate our three themes of the false dichotomies, the compartmentalisation and the insufficient attention granted to the dynamism of the policy debates.

6.3.2 First, exchange rate regime choice is classically depicted as a dichotomy, that of the so-called ‘corner’ solutions of an impregnable fixed exchange rate versus a genuine floating exchange rate (for example, this pervades Aldcroft and Oliver’s 1998 global assessment of twentieth-century exchange rate regimes). Very recent debates amongst economists and international financial agencies epitomise this bi-polar conception that countries need to choose either to peg their currencies hard or to allow them to genuinely float, with no sustainable intermediate policy regimes possible (Fisher 2001). However, this was not always the case and certainly not in practice for our period when intermediate regimes were the norm within the optimal exchange rate arrangement debate. After all, the Bretton Woods regime itself was in practice that of a soft peg, not a hard peg (supported by a currency board), and after 1972 – save for 1990–2 – Britain has had a variety of arrangements within the sub-group of flexible exchange rate regimes, that of a managed float.

6.3.3 Intermediate solutions were rich in volume and variety and had been so for some time, with perhaps the modern phase of the debate beginning with Harrod’s (1933) invention of the crawling peg. Of course, the case for a fully flexible regime had been put by Friedman in his classic 1953 paper (written in 1950), but Meade had been developing theory towards the same end (simultaneous attainment of internal and external equilibrium, the core concern of macroeconomic policy) since at least 1948. Meade (1955) provided the first fully articulated popular version of a managed float. Later, once Scott (1959) had revived Harrod’s proposal, Meade (1966) and Williamson (1966) published influential papers proposing a crawling peg as a means of the British economy breaking free from ‘Stop-Go’, but this work needs to be seen as part of a broader western dialogue – within and outside of the IMF – about ways in which greater flexibility could be introduced into the Bretton Woods par value exchange rate mechanism. Meanwhile, of course, Flemming and Mundell were also opening up the Keynesian macroeconomic model and thereby transforming the understanding of policy assignment in relation to the simultaneous achievement of internal and external equilibrium. In short time, this led on to a discourse in terms of Cooper’s (1968) ‘impossible trinity’, i.e. it is not possible to have an open capital market, a fixed exchange rate and an independent monetary policy. Given the unusual degree of openness of the British economy in terms of trade and capital, the professed politics behind its fixed exchange rate and claims for national independence in monetary policy, opening up the Keynesian model made for a myriad of possible non-corner solutions, but also disaster if the authorities sought to ignore the impossibility of the trinity. We contend, therefore, that so far as the economists are concerned, a fixed versus flexible dichotomy pasteurises much intellectual progress in open economy macroeconomics at this time.

6.3.4 Our dissatisfaction is deepened when one considers the very different political standpoints adopted by participants in these British debates. Consider the so-called ‘elasticity pessimists’ of the early-mid 1960s, those opposing devaluation because
they were unconvinced that Britain’s balance of payments difficulties stemmed from
the price uncompetitiveness of British tradable goods. Harrod, of course, was a long-
standing pessimist in this regard, and by this time a Conservative in his politics. Joan
Robinson held similar views on the exchange rate, but was never burdened with the
label of conservative in anything. It was Robinson, of course, who, shortly after the
General theory’s appearance, had made the important observation that there is no
unique, policy-free equilibrium exchange rate which accords with balance of
payments equilibrium. The notion of such an equilibrium rate is accordingly a
chimera, and since the General theory we have come to understand and to make
exchange rate choices within a framework that there are an infinite number of
equilibrium rates (and by inference regimes) which correspond to various mixes of
demand and supply conditions and monetary, fiscal, trade and other policies
(Robinson 1937, p. 154).

6.3.5 Moreover, within Whitehall, from the time of ROBOT’s defeat in 1952
onwards, the positions taken were not straightforward because in practice the issues of
when, how and in what sense to attain convertibility of sterling were conflated (full
convertibility was not attained until December 1958). Thus some policy insiders who
one would expect to favour a floating rate, such as Hall and Plowden, who were
broadly ‘expansionists’, did not because of the implications of early convertibility for
sterling and the balance of payments. Moreover, fad and fashion came into play. As
Brittan (1964, pp. 173–4) put it in the first edition of his insider-inspired account of
the Treasury in the 1950s and 1960s:

In the early 1950s the idea that we could dispose of our balance of payments
problem by leaving sterling to its own devices was advocated by economists and
politicians who were regarded as Right Wing. Indeed, every Conservative
Chancellor before Mr Selwyn Lloyd [1960–2] seriously considered letting the
pound float up and down to find its own level in the world currency markets. If
no one took the plunge it was through lack of nerve rather than doctrinal
inhibitions. It was among ‘progressive’ and ‘Left of centre’ economists that
exchange rate changes were violently opposed as a false solution that did not get
to the root of the difficulties.

Today the pendulum has swung right back. Any thought of touching sterling is
denounced in leading articles and political and City columns as irresponsibly
extreme – too extreme for the official leaders of the Labour Party; and
economists who believe in floating rates (mostly moderate Lib-Labs in their
politics) are treated almost as bomb-carrying Bolsheviks.

6.3.6 The incongruence of politics and exchange rate choice leads naturally to our
second dissatisfaction, that of compartmentalisation, and especially with respect to an
assumed separability between the domestic and foreign aspects of economic policy.
The very phase ‘external constraint’ often gives the impression of such separability
when there was no such reality, but instead a seamless web for postwar policy as there
had been before (as, for example, in Boyce’s 1987 skilful handling of the political
economy of Britain’s interwar economic internationalism). The postwar British
economy was in the vanguard of renewed globalisation in trade and finance, its
financial centre occupied a unique global and domestic position, and even before we
take account of government’s geo-political postures and responses to the end of
empire, we must expect that the domestic and the foreign impact upon and
contextualise each other in ways which were especially significant for economic policy, and of its national symbol: sterling.

6.3.7 Part of the problem here is the insularity with which the issue of sterling has typically been discussed. Sterling was not just a policy ‘problem’ for the British authorities in the usual short-term sense, but conditioned the longer-term policy space, as for example with the role the issue played in Britain’s three applications to join the EEC. Beyond this, ‘sterling [w]as the dollar’s first line of defense’ (Eichengreen 1996, p. 125), and thus a problem for the US. Above all, the problem of internationalising the sterling liabilities, and resolving the future of the Sterling Area, was a global problem. Indeed, this was one of the most obvious conclusions to be drawn from the Suez crisis (Boughton 2001). Many commentators by the early 1960s (Hirsch 1965) had no trouble in concluding that the burden of sterling’s reserve function had to be transferred to an international institution, such as the IMF (cf. Cohen’s 1971 important cost-benefit analysis of sterling’s international role which produced a less clear-cut case for full ‘domestication’ of the pound). James (1996, p. 186), in his official IMF history of the Bretton Woods system, is emphatic that ‘The instability caused by the sterling balance overhang and the danger of liquidation ... lay behind each of the major British crises of the second half of the 1960s.’ Hirsch’s (1965, pp. 48–9) detailed assessment of the anatomy of the eight sterling crises between 1947–65 confirmed that it was factors relating to sterling’s international role and speculation that predominated. This necessarily feeds back to our assessment of the effectiveness of British macroeconomic policy, for many of the sceptical school on the supposed destabilising and growth-inhibiting consequences of ‘Stop-Go’ (for example, Matthews 1969, p. 128) saw the three most important crises of our period (1957, 1961 and 1966) as not due to the state of the current account balance of payments, which was improving, but as essentially crises of confidence in sterling in which the remedies lay beyond macroeconomic policy.

6.3.8 In this case, as others, compartmentalisation prevents the full complexity of Britain’s situation from being appreciated, and as with the simple questions about exchange rate choice so typical of the literature (devalue or not) fails to convey just how narrow was the contemporary policy space unless a government was prepared to contemplate a radical paradigm shift. Paradigm shift, of course, has featured much in the social learning literature, and is an example of where economic historians and political scientists have tried to work together, or at least to read each other’s works, so as to escape from that all-pervasive of compartmentalisations: that of the Balkanisation of the social sciences. Beginning with Hall (1993) on whether the monetarist counter-revolution and the eclipse of Keynesianism in Britain in the 1970s might be understood as a paradigm shift, this has since has grown into a mature literature which has recently begun to examine the Keynesian plus experiment (Pemberton 2000; Oliver and Pemberton 2001; see also Green 2001). It appears to offer considerable scope for enriching our understanding of ideational change, not least in shifting the spotlight towards very practical but vital questions of how policymakers learn.

6.3.9 The complaint of the unduly static nature of much of the literature can be variously pursued. We have shown how economists’ theoretical thinking and their policy prescriptions about exchange rates was transformed during the golden age as the Keynesian macroeconomic model was opened up (Kenen 1985). Much would be
made of the promise offered by floating rates, typically of the managed variant, but it is important that this option was always more the favoured remedy of academic economists than it was of politicians and international financiers. As James (1996, p. 234) puts it: ‘Between 1971 and 1974 the international monetary system moved towards floating, not so much because this was an agreed solution, but because it emerged out of a failure to produce an agreed solution.’ In the purely British context, the commitment come what may to the Bretton Woods adjustable peg was in decay not long after the much delayed devaluation of November 1967, in part because of the lag before the parity adjustment was reflected in an improvement in the current account balance of payments (the famous J-curve effect) but also because of what one might think of as a monetarist ‘pre-revolution’ associated with Harry Johnson, in particular that sparked by an IEA pamphlet he co-authored (Johnson and Nash 1969) which caught the attention of the financial community and policy-makers (the ground already having been prepared by the Economist favouring a managed float since just before the 1967 devaluation).

6.3.10 Johnson’s part is known, but not especially publicised, in the Money Study Group of British ‘monetarists’ who, pace the Keynesian conventional wisdom, were refining monetary economics to accommodate British monetary circumstances to Chicago’s theoretical insights. Johnson’s full role must await Don Moggridge’s biography, but it seems relatively clear that his was to be a decisive voice for flexible rates because he put the case differently from earlier proponents and circumstances had changed significantly since Friedman (1953). First, the case for flexible rates was now put in relation to an alternative, that of price and incomes policies, which was scarring British politics and industrial relations and which, so it was argued, was actually exacerbating inflation without curing the underlying condition. Secondly, in America and, to a lesser degree, Britain there were the seeds of what we would later call the New Right which, when combined with the developing monetarist critique of the Keynesian conventional wisdom, was bringing to the fore more market oriented solutions to all economic problems. In Britain the foremost proselytising agency for the market was the IEA, one of the sponsors of Johnson and Nash (1969). Indeed, in that volume Johnson introduced the case for flexible exchange rates as ‘deriv[ing] fundamentally from the laws of supply and demand’, with the exchange rate a price like any other that would be established efficiently and appropriately by competitive markets if unhindered by government interference (Johnson and Nash 1969, p. 20). Thirdly, influential voices within the Keynesian economics establishment were now more united in their advocacy of flexible exchange rate regimes (of various types), and most notably Kaldor (1971, p. 6) whose advocacy was now in terms of how all postwar Keynesians had not understood the implications of open economy macroeconomics for exchange rate policy.

6.3.11 There thus arose a (spurious) convergence – but not one forming an advocacy coalition – between the so-called Keynesians and monetarists, one that obscured their very different policy preferences: faster growth and liberation from ‘Stop-Go’ for the former, and freer markets and more stable prices for the latter. (Interestingly, the role of the fixed exchange rate in providing an anchor and discipline to monetary policy appears not much evident in the late 1960s and early 1970s, and for it to emerge as salient there had first to be the searing influence of double-digit inflation rates, 1974–7, 1979–81.) Moreover, it is not just the dynamic qualities of the exchange rate issue that have been lost sight of, for here we have a further example of how the traditional
Keynesian-monetarist dichotomy conceals what was in practice a convergence of core expert opinion over policy instrument choice/settings.

6.3.12 There are broader political economy issues about the distribution of the cost-benefits of exchange rate arrangements and rate selection and the institutions responsible for these policies which also need to be taken into account. Until relatively recently, the political economy of the determinants of exchange rate policies was embryonic at best, somewhat stuck in the grove that in practice monetary authorities seem rarely to adopt policies regarded by analysts as optimal or at least superior. The policy reform literature generated by the Latin American, and more recently, transitional economies (for example, Rodrik 1996) combined with the impressive growth in the sub-field ‘political economics’ (Drazen 2000a; Persson and Tabellini 2000) has resulted in much more rigorous specification of how and why the choice of arrangement (the degree of fixity) and rate (the degree of emphasis given to short-term competitiveness) is in practice determined. Importantly, in the process shifting preferences as regards inflation control, export promotion, and adjustment to shocks are highlighted, and we are led to reintegrate trade policy lobbying with exchange rate policy and to reconsider, at least for the golden age which was also of course the cold war, the finding that one argument for fixed exchange rate systems is that they increase support for political cooperation more generally. Very recent work which seeks to identify exchange rate policy cycles also looks promising (Drazen 2000b) in identifying competing constituencies grounded in the tradables and non-tradables sectors, but of course this only temporally relevant after June 1972.

6.3.13 And finally we are drawn back to the institutions of policy and to our ESRC-PRO project. From Strange (1971) onwards the irreconcilability of British national government foreign policy objectives and current account balance of payments stability was well-understood, as indeed it had been within the core executive since at least the Sandy’s defence review of 1956–7. Similarly, a sense of the conflict between the Treasury and the Bank on occasions about attaining simultaneous internal and external balance has been well-documented, although it is only recently that the records have allowed us to acknowledge conflicts within the Treasury (Ringe and Rollings 2000) and within the Bank (Schenk 2001) and between the two of them, such that neither can be treated as homogenous agencies. Importantly, we are also beginning to get a sense of the multiple constituencies to which the Bank as well as the Treasury had to respond. We hope for richer histories that capture this complexity and use successfully the growing political economy literature to reveal the distinctiveness of the British case.

7. Conclusions

[To be developed]
1. Taking stock: what do we think we know? what ought to be possible now that the archives are open?
2. Moving forward: incorporating complexity. how?
4. More specifically:
• uniqueness of British case: all cases unique but as Scharpf (1997) argues some general elements in form of modules;
• case studies as one way forward towards such modular generalisations; which for British case? can we extract empirically testable hypotheses?
• case studies illustrate:
  • impact of European integration even when not a member; impact will vary but its existence and development a missing element in national accounts;
  • Concept of modernisation as opposed to planning/market dichotomy; and
  • Sterling as key factor UK but not in stark way usually presented and also an international issue.
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