



WINTER ADDRESS

The New Britain

the tide of ideas from Attlee to Thatcher

Nigel Lawson



CENTRE FOR POLICY STUDIES



WINTER ADDRESS

The New Britain

the tide of ideas from Attlee to Thatcher

Nigel Lawson

CENTRE FOR POLICY STUDIES

8 Wilfred Street, London SW1E 6PL
1988

The author

The Rt Hon Nigel Lawson MP has been Chancellor of the Exchequer since June 1983. Before that, he served as Financial Secretary to the Treasury (May 1979-September 1981), and Secretary of State for Energy (September 1981-June 1983).

The Centre for Policy Studies never expresses a corporate view in any of its publications. Contributions are chosen for their independence of thought and cogency of argument.

ISBN 1-870265-30-0

© Centre for Policy Studies, February 1988

Printed in England by G.Donald & Co. Ltd.
92-94 Church Road, Mitcham, Surrey, CR4 3TD

The New Britain

EARLIER THIS MONTH, MARGARET THATCHER BECAME THE LONGEST-serving prime minister this century – and indeed well before the next general election it will have become mathematically impossible for anyone else to take the record from her.

That much is indisputable. What I believe is almost as indisputable, and certainly more important, is that the Government she has led these past eight years and eight months has transformed the politics of Britain – indeed Britain itself – to an extent no other Government has achieved since the Attlee Government of 1945 to 1951.

Yet the circumstances in which two mould-breaking Governments came into being were very different. Clement Attlee followed six years of total war; Margaret Thatcher an unprecedentedly long period of peace. Attlee inherited a country still flushed with the pride of victory; Margaret Thatcher came to office after a decade of self-doubt and relative decline. And the personalities and styles of the two leaders could scarcely have been more different.

What, then, is it that these two Governments have in common, which those that came between them, of either party, have lacked?

Attlee's landslide victory in 1945 was regarded with incomprehension abroad and astonishment by political commentators at home. True, the solitary opinion poll, which for the first time gingerly made an appearance during the campaign, had predicted it, but few took any notice of that. How was it possible that Winston Churchill, the greatest Englishman within living memory, who had become the very symbol and embodiment of the British nation, could be rejected by the British people in the hour of his triumph?

The force that overcame him was the tide of ideas.

Britain had entered the War in the cause of freedom, and soon found herself engaged in a struggle for survival. But as time went by the myth was increasingly fostered that what we were fighting for was the building of a new Britain – in Correlli Barnett's apt phrase, a new Jerusalem – after the War.

The new Britain would mark a complete break with the past and the dawn of a better society. But the swords that had

won the War would serve equally well as ploughshares to win the peace. And what had won the War was clearly the co-ordination of national activity by State planning and State control, amidst a new atmosphere of egalitarianism symbolised by the ration book and the queue.

It was this tide of ideas that swept the Attlee Government into office, and the Government in turn set to work with a will to change the face of Britain.

Wartime controls were religiously retained. A succession of major industries were nationalised – coal, steel, electricity, the railways, gas – to the point where by 1950 State-owned concerns accounted for a fifth of total industrial output. The National Health Service was created. And so was the Welfare State – on a basis markedly more spendthrift than even Beveridge had envisaged. At the same time, the new Government set about a massive and unprecedented programme of council house building, giving this a priority far above that of infrastructure and the needs of industry.

Within little more than six years, the Attlee Government had been voted out of office, battered by economic failure and exhausted of ideas. The gulf between its vaulting social ambitions for the use of national wealth and a weak economy's capacity to create that wealth had become increasingly apparent.

Yet for all that, the Attlee Government had not only changed the face of Britain. It had set the political agenda for the next quarter of a century. The two key principles which informed its actions and for which it stood, big government and the drive towards equality, remained effectively unchallenged for more than a generation, the very heart of the post-War consensus.

Under governments of both parties, Britain became known as a country of steeply progressive income tax rates, a social security system far more ambitious than the economy could afford, and an all-pervasive atmosphere of keeping down with the Jones's – whose greatest monument, perhaps, was to be Labour's eventual destruction of the grammar schools. The fact that no-one benefited from all this, least of all the poor, was neither here nor there. As Anthony Crosland put it:

the argument for more equality is based not on any direct

material gain to the poor, but on the claims of social and natural justice.

Nor was this all. The Attlee Government had set at the heart of its economic policy a commitment to full employment; and this, too, was to dominate the history of the 25 years after it had left office. The Keynes-inspired Employment Policy White Paper of 1944, on which the post-War approach was ostensibly based, was well aware of the dangers inherent in the policy approach it recommended:

It would be a disaster if the intention of the Government to maintain total expenditure were interpreted as exonerating the citizen from the duty of fending for himself and resulted in a weakening of personal enterprise. For if an expansion of total expenditure were applied to cure unemployment of a type due, not to absence of jobs, but to failure of workers to move to places and occupations where they were needed, the policy of the Government would be frustrated and a dangerous rise in prices might follow.

In the event, warnings such as these were simply brushed aside. The intention of promoting full employment was interpreted as a cast-iron guarantee, which the Government was committed to honour, even though it had no means to do so. In the process personal enterprise was indeed gravely weakened and a dangerous rise in prices – rampant and endemic inflation – in due course followed.

And when it did, the attempted remedy was still more big government, in the shape of incomes policy – still more State intervention, still more enforced egalitarianism, and the inevitable concomitant of still more political power to the trade union bosses.

The less successful government became, the more it sought to extend its area of responsibility. As Professor Anthony King wrote in the mid 'seventies:

Once upon a time, man looked to God to order the world. Then he looked to the market. Now he looks to government.

It is easy to understand why the ideas of egalitarianism

and big government should have dominated the post-War Labour Government. Given the influence of the War itself, it is also understandable that they should have met with little challenge at that stage. But what is surprising – and demands explanation – is that there was so little effective challenge for so long thereafter.

It is not as if the post-War consensus was an accepted success. After a brief period during the post-War Churchill Government, when things seemed to be going rather well, there was an increasing awareness that Britain's economy was falling behind that of her major competitors. And at the same time the debacle of Suez had dealt a savage blow to Britain's self-esteem as a world power. Before long, a whole industry had sprung up proclaiming and seeking to analyse the decline of Britain.

Meanwhile, the pursuit of equality, so far from leading to a community of interest, harmony and co-operation at the work-place, as its advocates had hoped, had brought in its wake a steady deterioration in industrial relations and an increasing resort to strikes – most of all, ironically, within the public sector itself.

In short, the pursuit of equality had led to growing discord, and the exercise of big government had led to the point where it was widely felt that Britain had become ungovernable.

Yet it was not until the final stages of this process, in the mid-1970s, as the tensions that had been building up exploded in a holocaust of inflation, a disease as socially destructive as it is economically damaging, that the tide of ideas began to turn. Not until then did it come to be realised that the problem lay not in the inefficient management of the prevailing consensus, but in the consensus itself: that the use of State power to run the economy and to enforce equality lay at the very root of our national difficulties, and had to be abandoned.

Why did it take so long for the penny to drop?

There can be only one explanation.

The post-War consensus had captured the moral initiative. The pursuit of greater equality through State action – however coercive, and whatever the practical outcome – was felt to be morally right.

And by the same token capitalism, based on self-interest, was felt to be morally disreputable. Capitalism, it was thought,

would create a beggar-my-neighbour society, a war of all against all in which the weakest would go to the wall.

In fact, there is nothing particularly moral about big government. Nor is there, in my judgement, any moral value in an egalitarianism founded on envy and implemented by coercion. But for far too long, we were content to ridicule socialism in practice, but to allow its moral under-pinnings and pretensions to go virtually unchallenged.

There are two key errors which conservatives are particularly prone to make. The first is to undervalue the importance of ideas in political life. The second is to underestimate the importance of the moral initiative.

Nevertheless, as time went on, government's increasing inability to deliver on its commitments and to fulfil its promises became clear on all sides. Not least to the man in the street, who saw governments trying to do more and more, and succeeding in less and less. In particular, he saw governments become steadily less able to assert the national interest over that of powerful pressure groups, thus losing the very authority of government itself.

So, eventually, the tide of ideas turned – an event whose significance was noted by perceptive observers on both sides of the ideological divide:

There can be no doubt that recent years have witnessed a dramatic shift of intellectual opinion towards a more limited role for government intervention in the economy.

Thus Ralph Harris, writing in 1978; while Bernard Donoughue recalls the then Labour Prime Minister, James Callaghan, saying on the eve of the 1979 General Election:

You know there are times, perhaps once every thirty years, when there is a sea change in politics. It then does not matter what you say or what you do. There is a shift in what the public wants and what it approves of. I suspect there is now such a sea change – and it is for Mrs Thatcher.

It was this sea change that swept Margaret Thatcher and the Conservatives into office.

The new approach was encapsulated in two short paragraphs of our 1979 Manifesto:

We want to work *with* the grain of human nature, helping people to help themselves – and others. This is the way to restore that self-reliance and self-confidence which are the basis of personal responsibility and national success.

Attempting to do too much, politicians have failed to do those things which *should* be done. This has damaged the country and the authority of government. We must concentrate on what should be the priorities of *any* government.

These principles, and the policies which have flowed from them, represent a radical departure from those of Attlee and the post-War consensus.

- Instead of big government, we believe that progress and prosperity are best secured through choice and the market.
- Instead of egalitarianism, we believe there should be incentive and opportunity.

These were the principles on which the new Britain was to be built.

Although the 1979 Election result provided a clear mandate, there was, of course, no guarantee that the Thatcher Government would be able to change society in the way we wished. Certainly, the circumstances were less auspicious than for Attlee. Success in creating the New Britain depended not only on demonstrating competence – that is, establishing our authority to govern – but also on confirming people in their view that what we were doing was basically right.

To some extent, the two go together. It is hard to persuade people for very long that you are on the right track if none of your policies deliver the goods. But without a commitment to the principles for which a government stands, it is impossible to achieve the lasting transformation of a nation. You have to win the battles for hearts and minds as well as for wallets. To put it another way, while economic failure will most certainly drive a government out of office, economic success alone will not ensure that it retains office.

The authority of previous governments had foundered on two reefs, above all: the problems of inflation and of trade union

power. Both had to be tackled if we were to convince the British people that the new approach was the right one.

The problem of inflation seemed endemic in British society. Successive attempts to deal with it through price controls and incomes policies had brought no more than at best a temporary respite. But so long as inflation remained high, there was no prospect of creating a proper foundation for either economic recovery or a stable society.

Getting inflation down entailed measures that previous governments had not thought feasible. But by implementing those measures, sticking to them in the face of resistance, we were able not only to bring inflation down and keep it down, but to help establish our own competence and moral courage in the process. This also restored some of the authority of government in general, which had been sadly dissipated by the process of governments trying to do too much and failing in the essentials.

The authority of government was even more clearly at stake in the second crucial test – dealing with the trade unions.

There had been agreement for some years that reform was badly needed, and a succession of attempts had been made, by Labour and Conservative governments alike – most notably Labour's *In Place of Strife* and the Conservative Industrial Relations Act of 1971. But all had come to grief, with grave damage not just to the authority of government, but to the welfare of the ordinary trade unionist and of society at large.

The eventual solution required a threefold approach. The determined prosecution of controversial but carefully-judged legislation. The adoption of an economic policy that in no way depended on the goodwill of trade union bosses. And the resolution to stand up to strikers – by steel workers and civil servants in the early years, and later, and crucially, the coal strike. Inevitably, this was portrayed as a battle between the Government and the unions. But its significance went much wider. It was a vital part of re-establishing economic freedom for the individual trade unionist, who had lost it to the shop steward and the national leadership, and for the citizen who had suffered far too long the manifold abuses of extensive union power.

And also in our first term came, out of the blue, the

Falklands experience, which finally laid the ghost of Suez. It also showed the world – and, even more important, ourselves – that Britain still possessed a patriotism and a moral fibre that many thought had gone forever.

The Government's initial programme has now been implemented. In the almost nine years since 1979, the Thatcher Government has changed the face of Britain, to an extent that no British Government since Attlee's has; a fact that is recognised throughout the world. Sound money and sound public finances have been restored. Excessive trade union power has been ended. The new economic climate has enabled new businesses to burgeon and prosper. Inefficient State monoliths have been turned into leaner and fitter industries, many of them flourishing in the private sector. These are achievements whose benefits few would now contest.

The new Britain that has resulted has been endorsed overwhelmingly in two subsequent General Elections. Such an achievement could not have been secured by competence alone. It shows that the battle for hearts and minds is being won.

I believe it is being won on the moral level too. Many people have long been prepared to accept that capitalism was effective. But they recoiled from it because they thought it was somehow morally dubious. In the heyday of the post-War consensus, even the practical case for capitalism was rarely argued with fervour, with a few signal exceptions. And the moral case for capitalism was lost by default. It needed to be put.

At root, the point is that a society based on freedom is inherently stronger, and healthier, than a society based on State coercion.

Any society which sees the State as the principal agent of social and economic progress, and consequently as the ultimate arbiter in the distribution of income, wealth, and position, is a society in which State action is automatically considered to be morally superior to actions stemming from an individual's free choice.

But capitalism is based on the idea of voluntary co-operation and voluntary exchange. Self-improvement is a basic human instinct. So is self-interest. But – and this is the point which the critics of capitalism need to be clear on – neither need lead to selfishness. The basic human instinct of self-interest

encompasses the desire of a man to benefit his family as well as himself, and we see hundreds of examples in our daily lives of how man helps his neighbour - without being told by the State that he should do so. It may be no coincidence that since 1979 giving to charity has doubled in real terms.

Nor is it in any way immoral for the State to take less from the citizen by way of taxes. The benefits from the transfer of decision-making from the State to the citizen, which accompanies this process, are many. On the moral plane, as that admirable documentary, *Yes, Prime Minister* has memorably illustrated, those who work in government are no more immune from self-interest than anyone else. And on the practical plane, a lower burden of taxation is an essential element in developing the enterprise culture which experience shows is far and away the most successful means of creating the resources for better public services, too. Few socialist delusions have been more damaging - partly because few have been more successful in conditioning public thinking - than the delusion that politics and government are about the sharing out of a cake of a given size.

The nation has also been fundamentally changed by the spread of ownership to an extent hitherto undreamed of. It is the basic human - and essentially capitalist - instinct of self-improvement which lies behind this phenomenon. And its moral worth is increasingly clear, as the visible enhancement of personal responsibility demonstrates for those who have eyes to see. The spread of home ownership through, in particular, the sale of council houses, represents one of the largest transfers of assets and opportunities from government to the people ever achieved in this or any other country. And the change in attitudes that this has brought with it is profound and enduring.

The spread of ownership is also being achieved by the dramatic extension of share ownership, which recent events in the markets will have done nothing to arrest. Much of this has accompanied our privatisation programme, where we have pioneered a movement that has now spread throughout the world. But equally important, so far as ownership is concerned, has been the spread of employee share ownership, which, going as it does with the grain of human nature, can do far more to achieve harmony at the workplace than any enforced

egalitarianism.

And then there is the spread of ownership through private pensions – first, somewhat vicariously, perhaps, through occupational schemes and now, far more valuably, through personal pensions.

The spread of personal ownership is in harmony with the deepest instincts of the British people. Few changes have done more to create one nation: to create a *true* consensus, not one agreed by a ruling elite at the top and imposed as a fundamentally alien creed from above, but one that emerges spontaneously on the ground, and develops from there. It is as important in social terms as it is in economic terms. But, increasingly, it will display yet another crucial dimension, as one generation of owners creates a second generation of inheritors, a fact which will serve most powerfully to entrench the changes which we, as a government, have sought to bring about.

This entrenchment is a political fact of the first importance.

But there is much still to be done. Inflation has been sharply reduced, but not yet eliminated. Further major privatisations lie ahead.

And beyond these consolidations of existing achievements, a key challenge for the future must be to spread the benefits of freedom and personal responsibility further into areas of society from which they are still too frequently absent; notably education, rented housing, and the inner cities.

Our new educational policy is designed to transfer power from local education authorities to parents and school governing bodies, so that people can have a real influence over the education of their children. We intend to give parents, head teachers, and school governing bodies more direct power and responsibility. Those who criticise the policy as centralizing are missing the point – sometimes, I suspect, deliberately. The role of central government is simply that of an indispensable agent, not taking power to itself, but transferring it to the people. Since local government in most cases showed no signs of divesting itself of power voluntarily, the only option was for central government to step in.

The crying need for improved standards of education, the recognition of this by the far-sighted, and the successful resistance to change by the vested interests, is a constant theme

of British social and economic history over the past hundred years. It is striking how those who oppose our reforms have no alternative to offer.

Again, our reform of housing policy is designed to give tenants the opportunity to opt out of the control of the local authorities and to choose new landlords or evolve new patterns of organisation which could better meet their housing needs and respond more directly to their yearning to be free from such bureaucratic control, as well as to revive, at long last, the private rented sector.

In education and housing, as in our overall approach to the problems of the inner cities, our aim is to transfer power from bureaucratic and often obstructive bodies directly to the people. We have no wish to centralise, still less to impose uniformity from Whitehall. But removing the shackles of local government is something that, in practice, only central government can do.

Nor are these the only problems that remain to be tackled, as the current debate about the provision of health care clearly demonstrates. But whatever the special characteristics of health care, one general truth is inescapable.

There are only two ways in which the supply of and demand for any service can be brought into balance. One, the normal method in a market economy, as evidenced for example in the provision of food and clothing, is through the establishment of a market-clearing complex of prices.

The other way, in the absence of price, is for supply to be determined by administrative decision and demand regulated by the queue. If we are to continue with this second system for health, then there is a heavy responsibility on all those charged with the provision of health care consciously to be guided by the needs and desires of the consumer rather than the preferences and predilections of the provider. And an equally heavy responsibility on them – and others – to refrain from using the existence of the queue, the essential and inevitable regulator of the system they themselves espouse, as if it were evidence of a remediable shortage of resources and an excuse for all other shortcomings.

Only when this is accepted can rational and constructive – and honest – debate begin.

Britain has arrived. It is a Britain in which people are more prosperous and confident, and in which the economy is strong and getting stronger, giving the Government a firm basis upon which to command greater respect and authority abroad. It is clear from history that the exercise of power and influence abroad requires the prior establishment of economic strength and social order at home. It is this which has given the present Government a solid platform on which to stand and on the basis of which we have been able to exercise effective power and influence in all aspects of international affairs, from East-West relations to international financial co-operation.

Conclusion

Having begun with Attlee, let me conclude with him. Attlee's own Government fell in large part because it ran out of steam. Attlee's legacy, however, only came to an end when the tide of ideas turned against it. Whatever the charges laid against the present Government, running out of steam has not been one of them. But how can we be sure that, at some point, the tide will not turn against us?

The answer is that we cannot. Nothing is irreversible in politics. To imagine that it is is a delusion akin to thinking oneself immortal. But, equally, whereas the tide at sea inevitably ebbs and flows, the same inevitability is not true of political tides.

The New Britain which we have begun to create is inherently and intrinsically more durable and entrenchable than the Britain which emerged from the post-War settlement. It is more durable for the simple reason that it is in line with the deepest instincts of the British people, and draws its moral authority from them. And at the end of the day it is moral authority that is the only sound basis for any Government.

A selection of studies

On education

DIAMONDS INTO GLASS:

the Government and the Universities

Elie Kedourie £3.90

ENGLISH OUR ENGLISH: the new orthodoxy examined

John Marenbon £3.90

On local government

THE LOCAL LEFT: and its national pretensions

David Regan £4.90

THE LOCAL RIGHT: enabling not providing

Nicholas Ridley £4.90

On market ideas and values

MORALITY AND MARKETS: gospel of an economist

Lord Harris of High Cross £1.95

VICTORIAN VALUES: and twentieth-century condescension

Gertrude Himmelfarb £2.20

On privatisation

CURRENT CHOICES: good ways & bad to privatise electricity

Allen Sykes and Colin Robinson £4.90

PRIVATISE THE POST: steps towards a competitive service

Robert Albon £3.90

On wider ownership

EQUITY FOR EVERYMAN: new ways to widen ownership

John Redwood £4.20

OWNERS ALL: a proposal for Personal Investment Pools

Philip Chappell and Nigel Vinson £1.95

A subscription to the Centre

Also available from the Centre: associateship for £25. This includes a minimum of ten policy studies published every twelve months, whose average cover price is £3.90; occasional papers and previous publications (while still in print) at half price; and half-price fees for the seminars, colloquia, conferences etc., which the Centre regularly holds. For full details please write or telephone to the Secretary to the Associates, CPS, 8 Wilfred Street, London SW1 (01-630-5818).