

## **History of Labour thinking about the economy**

Labour thinking about the economy has been at the heart of what socialism has meant to people but that has changed over time. I identify five phases in Labour thinking and note that proposals for a National Investment Bank and an industrial strategy feature in all of them. The purpose of these posts is to identify important themes and defining positions in the past, and ask where we fit in? For more historical detail Noel Thompson's Political Economy and the Labour Party is a good source.

The first phase lasted from the adoption of clause iv of Labour's new constitution in 1918 committing the party to 'the common ownership of the means of production, distribution and exchange' to collapse of the second Labour government in 1931; it is the socialism of the Fabians (Sidney Webb), and the Independent Labour Party (ILP) leaders Ramsey MacDonald and Philip Snowden.

In the second period the focus is firmly on nationalisation and planning, from the reconstruction of Labour economic policy in the 1930's through to the debates about public ownership in the late 1950's.

The defenders of public ownership won the day in the 50's but in fact the emphasis shifted decisively under Harold Wilson to a mix of direct and indirect measures to control the economy including a National Plan and a new Department for Economic Affairs; easy to mock it today (it didn't work) but it was more ambitious than Keynesian demand management.

More ambitious by far in the fourth phase was the Alternative Economic Strategy in the 1970's and 1980's associated with Tony Benn and Stuart Holland ('The Socialist Challenge') on which Labour fought the 1983 election. Nationalisation still took second place to measures to manage the economy, but those measures were extensive and bitterly resisted.

New Labour finally buried clause 4, abandoned any plan for the economy other than policies to stimulate 'growth' from which a dividend could be drawn to finance public services and a reduction in child poverty.

What should be the defining narrative of the new phase in Labour's history opened by the election of Jeremy Corbyn?

What underpins all the phases except that of New Labour is the core socialist commitment that political democracy must be matched by economic democracy, that one way or another the working class – we would probably say 'the people' today – should make the key decisions about how we make a living, and those decisions should be made in the public interest. What follows in other posts – I will split them up to save overwhelming people – is about the 'one way or another' that have been put forward in the past.

## **Common ownership, gradualism and proving Labour fit to govern.**

When Labour governments disappoint, and when a Labour Prime Minister and Chancellor like MacDonald and Snowden join the Tories in a national government to cut the dole and attack their own people, it is tempting to dismiss their 'socialism' as a pretence. I hope, on the contrary, that we take their ideas seriously.

For the Fabians socialism was about eliminating waste and inefficiency; for Snowden, a moral crusade, and for MacDonald the inevitable evolution of society. But for all of them socialism was defined by the gradual socialisation of the economy by parliamentary means. Snowden complained that 88% of the wealth was held by 2.5% of the population, advocated a capital levy to pay down the national debt, and envisaged a National Economic Council to co-ordinate national production as the socialised economy grew.

It is a commonplace of the history books that Marxism was marginal in the British labour movement but the socialism of MacDonald and Snowden actually had a lot in common with the Marxism of the Second International. Socialism was the inevitable next stage in the evolution of human society. Like some of their Marxist critics Snowden condemned the Bolsheviks for trying to jump over historical stages. And like the more conventional German Marxists, socialism was for an undefined future. Gradual progress meant seeking the best available reforms in the circumstances of the day. For MacDonald that meant proving Labour was fit to govern. In 1924 there were more ex-Liberals and Tories in his Cabinet than Labour people

The Independent Labour Party (ILP) had fallen out with MacDonald much earlier and advocated more radical, immediate steps towards socialism in their policy "A Living Wage" which proposed a National Investment Bank using the savings of the Post Office, municipal banks and nationalised insurance companies to become 'one of the most powerful means by which the [public] penetration and control of industry [would] be promoted'; the Bank would 'in association with an Industrial Commission and the councils of the nationalised services [act as ] the planning and directive centre of the nation's industrial life'.

Their policy wasn't accepted and the second Labour government ended in tears. Confronted with economic collapse MacDonald and Snowden jumped ship to impose cuts in the dole as part of a Tory-dominated national government. Some drew the conclusion that their 'socialism' was irrelevant; it couldn't be introduced overnight and when the room for reform ran out they had no choice but to fall back on conventional economic management. Arguably, there were plenty of things the government might have done; the real difficulty was political but that is part of a bigger argument.

In the next phase socialism moves centre stage: nationalisation and direct economic management of the economy is envisaged as something to be tackled immediately. This time, the whole party is committed to the idea of a National Investment Board.

### **Nationalisation and Planning**

'No more MacDonalдите slush & phrases' wrote Hugh Dalton after 1931. 'Our ideas must be clear, our aims must be understood, our plan must be definite' declared Labour's NEC. And a series of NEC sub-committees led by Dalton and Herbert Morrison set to work producing them. Labour's "For Socialism and Peace" called for 'a rapid advance to a Socialist reconstruction of national life', and its report on "Currency, Banking and Finance", called for 'emergency powers to deal with any attempt by private financial institutions to obstruct a Labour government'. Like MacDonald, Dalton thought that 'public ownership and control should replace private ownership and control over a steadily increasing part of the economic field'. The difference was that he had a list of industries 'ripe for nationalisation' and many of them were nationalised when he was Chancellor the Exchequer in the 1945 government.

Nationalisation was only part of the story. Planning was an idea widely accepted in the 1930's and Labour was among the enthusiasts. New instruments would be required including a National Investment Board which would 'co-ordinate the mobilisation and allocation of that part of the national wealth which is available for investment ... it would licence new capital issues, prepare annual estimates of the national income and would co-ordinate all schemes of capital expenditure by all public bodies including government departments, local authorities and nationalised industries.'

Labour's 1945 government is remembered for its nationalisation of basic industries, and for laying the foundations for the welfare state but not planning or significant long-lasting control over the economy. Unsurprising since, as one historian remarks, planning was the first casualty of the government programme. There is argument about the reasons. It is not just that Keynesian demand-management became the preferred route for some. My view is that the party had little understanding

of what it was proposing to take on (or how to do it); there was an argument that the budget should be kept separate from the work of the NIB, for example. But more important was Labour's new Chancellor Cripps' insistence that planning had to win consent of employers and they point blank refused to co-operate.

Labour nationalised steel but it was the last throw. The argument for 'consolidation' against further nationalisation won the day. The government was in retreat. But although often obscured, the retreat from planning and the ability to shape the economy was no less important.

### **Harold Wilson's National Plan**

In 1959 Hugh Gaitskell tried to re-write clause 4 to get rid of the open ended commitment to public ownership and ran into a wall of trade union opposition. Historians have largely misunderstood this, attributing trade union opposition to nostalgia. But unions were really defending a core principle, that industry must be run in the public interest and they thought this was at risk [I make this argument in an article for Contemporary British History, 'The ideologies of practical men']. Gaitskell was given short shrift but the party's approach was already changing. In 1957 conference accepted a report "Industry and Society" that proposed to extend public ownership by taking over specific firms rather than the industry, sometimes buying shares rather than taking over the firm. The TUC had floated the idea as early as 1932, and reaffirmed it in 1944. Herbert Morrison opposed it in the name of whole-hog nationalisation! Aneurin Bevan supported it, despite his warning delivered many years earlier that, "When the State extends its control over big business, big business moves in to control the State. The State ceases to be the Umpire. It becomes the prize".

Industry and Society weakened the party's commitment to economic control and this was reflected in the a rather feeble remit for a National Investment Board which would "review and co-ordinate all forms of capital expenditure .. examine the general level of investment programmes ... point up under and over investment in particular industries ... and draw attention to inconsistencies in investment plans".

The National Plan and Department for Economic Affairs that Wilson established to implement the plan were complete failures, almost comically so.

But it is worth noting that the problem to be addressed was still identified in the party's Signposts to the Sixties as "how to ensure that the handful of men who control [modern corporations] can be made responsive and responsible to the nation"; because they were in danger of "usurping the functions of a government which is theoretically responsible to the whole people".

These ideas were to re-emerge in more radical form after Labour's defeat in 1970 in the form of the Alternative Economic Strategy which, although it envisaged a significant extension of public ownership, focused on relatively indirect means of controlling and directing investment, industry and industrial structure through a National Enterprise Board and Planning agreements with the major firms.

### **The Alternative Economic Strategy (AES)**

Labour NEC sub-committees in the early 1970's produced a new and radical version of the long running desire to make industry and the economy accountable. At its core was the idea that there should be a strategic extension of public ownership coupled with planning agreements to influence private sector investment decisions, all overseen by a National Enterprise Board. The NEC policy statement Programme 1973 thought that around 25 of the largest manufacturing companies should be taken into public ownership and that planning agreements should involve around 100 of the leading companies to give the government significant purchase on the economy as a whole.

These policies became a battleground between right and left in the party. The context is important.

The 1970's produced a combination of inflation and stagnation ('stagflation'), something economists had thought couldn't happen. The economy remained in the doldrums despite every attempt by governments to use its spending power to stimulate growth, and this in turn, led many to question the conventional post-war wisdom that Keynesian "demand management" could work. Increased demand seemed only to push up prices not revive the economy. On the right 'monetarist' ideas began to take hold with people advocating smaller government, fiscal discipline, and market solutions to economic problems.

In the Labour Party the AES lost ground in the face of hostility from the party leadership who were themselves influenced by monetarist thinking. James Callaghan famously told Labour's conference in 1976 that, "We used to think you could spend your way out of recession and increase employment by boosting government spending. I tell you, in all candour that that option no longer exists. And in so far as it ever did exist, it only worked on each occasion... by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step..."

Thatcher's victory in 1979 brought left wing ideas and the Alternative Economic Strategy to the forefront once more. Labour's manifesto in 1983 promised to re-nationalise privatised companies and establish a significant public stake in electronics, pharmaceuticals, health equipment and building materials. There would be a new Department of Economic and Industrial Planning and agreed development plans with all leading companies; a National Investment Bank would put new resources from private institutions and from the government into industrial priorities and channel funds from the financial institutions into long-term investment in new technology. The Bank of England would exercise much closer direct control over bank lending.

The 1983 manifesto was dubbed 'the longest suicide note in history' after Labour's election defeat but its 'monetarist' successor doesn't look too good after 30 plus years of neoliberalism and the crash in 2008.

In the 1970's Keynesianism was discredited; after 2008 neoliberalism is discredited. Labour's 'economic' identity is rooted in neither. One way or another it has aimed to bring the economy under democratic control, to make it serve public rather than private interests.

## **Conclusion**

Historical sketches have their limitations, even better ones! These desperately oversimplify the many and varied strands of thinking about Labour economic policies. And to some extent, by picking out proposals for a National Investment Bank, seem to offer a spurious continuity. But sketches are sketches, and maybe they have some value in isolating key questions.

Where do we fit in? It might be said that the paper the Economy Hub will be discussing simply offers a more modest version of the Alternative Economic Strategy of the 1970s. But you might equally say that the economic policies paper, just like the AES but in its own way, expresses at least one of the fundamental socialist commitments in Britain across most of the 20thC. i.e., to a democracy that includes the economy, and to a democratic economy that is managed in the public interest. Details matter, of course, and I will suggest a couple of areas where we may need to say more, but the important thing for me is the main thrust of what is being said (the narrative, if you like), and that is the aim for a democratic economy, managed in the public interest.

One thing we probably haven't said enough about is management of the economy as a whole, not the monetary and fiscal manipulation common to all governments, but its management. Everyone, from the ILP in the 1920s onward (even MacDonald and Snowden in their writing if not government policy) envisaged an overall economic assessment made by the NIB or some other body to shape government interventions. We have talked about an industrial strategy: we may need to think some more about who draws that up and how it would be truly comprehensive, taking in what the private sector does as much as what the government and the public sector does. We are not

talking about a plan for 'a planned economy', but it has to be more than 'indicative planning'; it has to make things happen.

A second thing follows: the inability or unwillingness (or both) of the party to shake up the institutions of capitalist society and to mobilise popular support to impose its vision. The 1945 government did that to some extent although, with the exception of steel, there was widespread establishment support for the nationalisations not to mention social services reform. Cripps wouldn't challenge employer's veto, Wilson hardly challenged the employers, and even the planning agreements of the AES were voluntary. Voluntary won't doesn't seem to work.