

Economic History of England – Part 5

Perhaps it was the good souls of cities and towns such as Bristol or Liverpool who started to think of what life might be like 'when all of this is over'. Wherever the change in the desires of ordinary British people first arose one thing was certain - ordinary people, both civilians and military personnel would have won a victory, when it came. The social order would have to change - no longer would public school boys dictate who did what and when. When peace came the masses would have earned the right to be afforded decency and a chance to delegate to their elected representatives the responsibility for considering the well-being of everyone and not just a select few.

Perhaps, as J B Priestley said, 'the country had been bombed and burned into democracy'.

Amongst the intellectual left such ideas as nationalisation, a classless education system, limitations of the vast differences between incomes and the return of the colonies to their rightful owners, namely those who actually lived there began to form the nucleus of their post war agenda. Along with these ambitions would be decent medical care for all children of school age, houses that were not a breeding ground for death and disease and help for those in the latter years of their life. And of course the 'crowning glory' to all of these ambitions was the National Health Service.

Alas, one statistic was not available to those who planned for a just society post peace and that was the real cost of war. By 1946 it had cost Britain over £7000 million and at the end of hostilities the country was virtually bankrupt. Nevertheless, a significant change in economic thought had arisen in the years immediately after the **Battle of Britain**.

Beveridge, of the LSE and like Keynes a Liberal, produced his report on social insurance and full employment. It followed on from Keynes own findings on full employment, which had been published in 1936. Within what was to be an historic document Beveridge wrote that ' the government should be committed to providing freedom from want by securing to each a minimum income sufficient for subsistence.'

From such eloquence grew the belief that government should care for each citizen from cradle to grave.

Beveridge was not alone and to their credit Butler (a Tory and the major architect of the 1944 Education Act) and others promised a ' great programme of social reform' once peace had been achieved. Such opinions were not universally held and amongst a considerable number, including a number of employer federations the war being fought was to secure peace from Nazi tyranny and not for the creation of a socialist utopia.

When peace did finally come on 8th May 1945 a General Election soon followed. Most observers expected Churchill to win an enormous majority, though the first opinion poll ever published did predict a 2% win for Labour. Though correct in predicting who would win it was some way off estimating what would be a landslide victory for Atlee. It is estimated that over 80% of servicemen voted Labour and they secured 393 seats for Labour as against the 213 for the Conservatives.

Atlee was to take about 20% of private enterprise into public ownership and worked hard to convince the electorate that we shared a common destiny and should work as a community, with shared obligations and benefits. A rejection of self-interest was central to this philosophy. Though Atlee lost power in 1951 the coming years were to be labelled as

Butskellism, as both major parties followed broadly similar economic agendas. (Butler was Chancellor of the Exchequer, whilst his shadow for Labour was Hugh Gaitskell) A re-invented Britain went about building decent public sector housing, making hospitals places of first-class care and developing an education system that would allow everyone the opportunity to expand their abilities. These must have been exciting times.

In reality the grand ideas seldom had sufficient funds to allow them to be adequately financed. The dreams of Laski, Wilson, Bevan and others always suffered from the costs associated with maintaining a large military presence both east of Suez and on mainland

Europe (West Germany). In what remains a seminal decision, Ernest Bevan, the Labour Foreign Secretary, decided that Britain should have an independent nuclear deterrent and so we entered the nuclear age with all its costs and tensions.

In the early 1950's defence spending rose to be 10% of GDP but with demand running high, as it had done in the immediate post world war one boom, few questioned such sums. Britain was being lent huge amounts of money by the US but it was still a power to be admired and listened to. The pound had been valued at its pre-war level, a mistake that as soon rectified by market forces but for many this was not allowed to affect the march out of austerity. Britain played its part in containing the Communist threat of Stalin and his new satellite states. Korea came and went Suez likewise and insurgents began to fight us in far off places such as Cyprus, Kenya and Malaya but we still maintained a 'world presence'.

In the Middle East Israel had been created from what had been Palestine and the injustices this created in the minds of many Arab nations in the region still influence our daily lives. Persia was 'conceived' by a CIA designed overthrow of a 'hostile' regime. In fairness this was after the Iranian government nationalised what mostly British-owned oilfields were. Oil was becoming the most potent symbol of economic and political power. It would return to damage western economic stability in 1967, 1973 and 1979.

The world was changing and Britain was also going to have to face a significant realignment of its role in the world. Within a few years of Suez our Empire would be dismantled and we were not a founder signatory to the 1957 Treaty of Rome, which brought the European Union into being.

The 1960's saw us re-invent what it was to be British, though few parents of that generation could fully understand Carnaby Street, The Beatles and an age of permissive behaviour. The first generation of youth with money in its pocket wanted its own identity and not the values, records and heroes of its predecessors. 'The times they were a changing' but in 1970 to the surprise of many then becoming active in British politics the new decade ushered in Edward Heath and his free-enterprise Conservative government.

In what might be seen by some as a dress rehearsal for Thatcherism the in-coming Tory government took on the unions and attacked other areas of the economy, which were in their opinion, holding Britain back. Such a confrontational period was not without its casualties, and Heath lost the elections of 1974 and Harold Wilson brought back what was to be a fractured and unstable Labour Party to government. Ironically, his own role was ended in March 1976 when he resigned. The Lib-Lab Pact was put together to keep James Callaghan in Number 10, he in turn refused to 'go to the country' in the autumn of 1978 and what followed became known as the 'winter of discontent' and paved the way for Margaret Thatcher and a government that openly returned to the values of Victorian England. Socialism was energetically dismantled and industry had to 'sink or swim' without any form of State intervention. Battles were fought between workers and the guardians of the establishment and a form of economic and social thinking that had dominated this country's way of protecting its citizenship was finally laid to rest. The British never did 'get on their bikes' but the country was changed forever. Council houses were sold to those who could afford them and counties such as Essex became the leading lights in determining how many seats the successive Thatcher governments won elections.

Greed was an acceptable word, as were profit and enterprise but as with so many of the social revolutions of previous generations the grocer's daughter ultimately met her end - stabbed in the back not by someone from the upper classes but by the son of a tightrope walker - John Major. He wanted a 'back to basics' Britain that relied on self-sufficiency and was centred on a philosophy many miles from those of old patrician Tories who had walked the corridors of power in pre-war Britain. The 'loads of money' generation had been firmly installed in the seats of power but they made one fatal error.

They ignored the hunger of the emerging moneyed classes for news of their leaders and apparent role models. Alas, when it came it centred not on yet more ways to acquire a 'nice little earner' but in front page headlines of sexual adventures cash for questions and bribes. The market, left to it, had created its own martyrs and its premature demise. Their sacrifice led to Tony Blair and the least left-wing Labour government in parliamentary history. Social Democracy, for long the main alternative to the 'right' on mainland Europe had come to power in Britain. As I write he too is embroiled in a situation very much of his own making, in that he has returned to the old alliance, or 'special relationship' with the US and decided to defeat the new enemy, well one of two decades standing - Iraq.

With communism a thing of the past political leaders have turned their attention to other potential enemies. They briefly flirted with the asymmetric forces of evil, or terrorism but that seemed impossible to quell, so a more static foe was sort by the right wing followers of George W Bush. Amongst many who consider themselves to be 'fundamentalists', though of the Christian variety, such organisations as the UN is of little real purpose and they distrust multi-lateral gatherings - hence their withdrawal from so many treaties that most consider worth endorsing. We now wait to see what will happen when the 'call to duty' finally comes from The White House. It might yet lead to the end of the political life of a man elected in 1997 in a mood of 'a need for a change, open and accountable government and 'cool Britannia'.

In just over fifty years Britain has experimented with conventional left of centre socialism, variants somewhere in between and has wandered through a decade or more of almost puritanical right-wing politics. All of these expressions of democratic change have been lived out against a background of our changing status in the world, our need to seek new alliances and the challenges presented by globalisation. We are currently fourth in the GDP league, a member of the UN Security Council, somewhere near to the 'centre of

European' thinking and the leader of The Commonwealth, which contains almost one quarter of the world's population. I wonder how those who laid down their lives between 1939 and 1946 would mark as in the 'progress league'?

Enough of the folly of politics and politicians, let's turn again to economics and the emergence of a new order, this time in Europe.

With the end of war Europe had to start to re-build its damaged economies. This was made an even more difficult task by large population movements. After the collapse of Germany many prisoners of war and slave-workers started to migrate towards their homelands. To this number was added the 5 million Russians who also headed home. Not all moved voluntarily and in both Germany and Russia forced migration took place. The new political frontiers were established at the conferences of Yalta and Potsdam.

The US noted with some concern the poverty that accompanied many of the population movements, many of whom returned to find little left of what had once been their thriving economies. They also watched the growing presence of communists in countries as diverse as Italy, Greece and France. They announced that they would fund a scheme economic aid known as the Marshall Plan. 1949 could attribute 14% of European national income to this ambitious plan. Most European countries applied for aid, though Poland and Czechoslovakia withdrew their request. None of the other countries that formed the new allies of the Soviet Union applied for aid. So worried were the allied powers by the increase in Soviet influence in Eastern Europe that in 1949 they formed

NATO - the North Atlantic Treaty Organisation, which as well as most European states also had the US and Canada as members. Seven years later, in 1956, the Soviet Union 'invited' its client states to join a similar organisation, known as the Warsaw Pact. Both sides therefore faced each other with huge nuclear arsenals. In the same year as NATO was formed COMECON came into existence. This was the economic organisation of the communist countries. It was not until 1957 that Europe created its version of this with the forming of the European Economic Community.

Its forerunner, the European Coal and Steel Community was founded in 1952 to both plan the output of these two essentials of economic growth and to remove control of the ingredients of armaments from anyone, single European country.

Some other important dates

1949 - East and West Germany are separated and become individual countries, though the constitution of the latter stated that unification was its aim.

1953 Uprisings in East Germany and Poland

1954 Austria declared a free and independent state and allied occupation ended.

1956 Hungarian uprising savagely put down by Russian troops and the world sees at first-hand what happens when a member of COMECON steps out of line.

1960 first US military advisers seen in South Vietnam

1961 The Berlin Wall constructed

1968 Czechoslovakia invaded by Soviet troops to restore puppet government of Moscow.

Leads to a worldwide demonstration against Soviet Union and its use of force to quell the will of people

1968 Johnstone does not run for re-election as US President and Richard Nixon wins.

Vietnam War becoming a huge conflict and public opinion split as to whether the war was justified.

Despite all these momentous events the economies of Europe boomed in the immediate post war years. By 1959 and the election campaign of that year Harold Macmillan was stating that 'we have never had it so good', he also made a speech warning of the 'winds of change spreading across Southern Africa'. Germany rose to be a major economic power and a member of the three 'locomotive' economies. Consumerism had arrived and such unheard of luxuries as continental holidays began to become the property of others than just the rich.

There were problems and as early as 1970 the US took the dollar off the gold standard.

The cost of the Vietnam war had risen to levels where the US could no longer afford to back every dollar with gold. Then in 1973 came the first major oil crisis. This was triggered by war in the Middle East and almost overnight \$60 billion was transferred from the coffers of the west to those of the oil rich countries. For some year after this and its accompanying four-fold increase in the price of oil many economies recorded high inflation and increasing unemployment. As we have noted in more detail elsewhere at this time economic doctrine underwent a significant change and post Keynesian theories were largely replaced firstly by monetarist principles and then those of the Radical Right.

With right of centre administrations in both London and Washington the time was right for the introduction of free market economics at both the micro and macro level. Free trade, de-regulation and privatisation became the order of the day and a new, global dimension was added to the day-to-day activities of economies.

The Global Economy, including the enlargement of the European Union

Though many of the names of the global business movement have been familiar for several decades the real growth in international branding accelerated in the 1980's and 90's. Electronic communications, worldwide investment and marketing all played their part in creating a truly global economy. Huge transitional corporations now dominate finance, production and distribution. However, as with any economic system to be effective even this global market needs co-operation and regulation. Meetings of the largest 7, 8 10 or 12 members of the 'club' take place on a regular basis. Added to these are the regional forums and agreements that are now being created across the globe.

The most successful single market is the European Union, which has grown from its original six members to fifteen and will, in 2004 boast twenty-five countries within its membership. It now has a single currency operating in the majority of the current membership and has as one of its specific aims the further economic and possibly political integration of member states. In 1994, the USA, Canada and Mexico joined to form the North American Free Trade Association (NAFTA) and in Southeast Asia moves are nearing conclusion for ASEAN, which will possibly include China.

By the mid 1990's the world's top ten trading nations provided 61% of the world's imports and 65% of the exports. Increasingly this trade takes place between the wealthiest and most powerful countries in the world trade league. This has further exacerbated the difference in income distribution between the rich and poor nations.

Europe now accounts for over 50% of the world's wealth and the US holds a further 30%.

Elsewhere, many of the Tiger economies of Southeast Asia have seen an expansion in their share trade-earned wealth. Alas, Africa, parts of Latin America and the former

Soviet Bloc countries have seen their share of world trade fall. South East Asia did undergo a re-alignment of some of its economies in the late 1990's but most bounced back much quicker than had been expected.

Outside these growth areas the responsibility of the multi-lateral agencies charged with assisting the developing world have seen their workload grow enormously. The IMF and World Bank now deal with countries whose average GDP figures struggle to break \$300 per annum. The gulf between rich and poor has widened and a vacuum seems to exist as to how to encourage the better off nations to assist the poorer to get a larger share of the world's riches.

For Britain the 1990's started with one of the deepest recessions seen since the 1930's. It was partly fuelled by economic mismanagement in the UK towards the end of the 1980's and by a slowdown in world trade. The recession lasted nine consecutive quarters and did not end until 1992. From then a mixture of macro policies have brought a sustained period of economic growth. For much of the last decade of the last century growth was moving upwards against an annual trend for post war averages, inflation was falling to almost record low levels and employment was moving to figures never previously recorded. There have been blips but even as the world economy slowed at the beginning of the new millennium Britain remained structurally better prepared to weather a downturn in world economic activity than any of its EU partners. Our trade is now dominated by our membership of the EU and when the current government feels that it is the right time to ask the British people will vote, in a referendum on membership of the European Single Currency. We remain a major world trading economy but will need to work hard to maintain our competitive advantage in the high research intensity markets that earn the majority of our wealth.

The 'crash', international terrorism and more

JNB

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