“Forging the Iron Lady: Thatcher, the Conservatives, and the Crisis of the 1970s”

TERRENCE CASEY
Professor of Political Science and Head
Department of Humanities and Social Sciences
Rose-Hulman Institute of Technology
Terre Haute, IN 47803 USA
casey1@rose-hulman.edu

Paper presented at the Political Studies Association Annual Conference, Sheffield, UK, 30 March-1 April 2015.
INTRODUCTION

This paper examines the period that led to the last major shift in Britain’s political economy—the move toward neoliberalism in the late 1970s. Neoliberalism spread globally, but the beachhead was established in the UK under Margaret Thatcher’s leadership of the Conservative Party. In 1970, however, Margaret Thatcher was hardly the free market champion we think of today, and the Tory governments of which she was a part were steeped in the ideals of the postwar consensus. By the end of the decade Thatcher, however, the party, and the country had begun a decisive shift in both politics and political economy. What conditions facilitated this great transformation? Understanding how this transformation occurred in the past can help to illuminate the opportunities and constraints for substantial political economic reform in the present.1

Still, why revisit this era? The life of Margaret Thatcher and the history of Britain in the 1970s are not, to be sure, untold stories. Biographies of Thatcher proliferate2 and there are many excellent general histories of Britain in the 1970s.3 Yet this story demands a retelling for multiple reasons. First, it is a great story loaded with drama: states of emergency, power cuts, and three-day weeks, miners’ strikes, the IMF bailout, the Winter of Discontent. All serve to paint a picture of a society that, whether accurate or not, felt to many like it was coming apart, allusions to Weimar being not were not uncommon among the political elite (Beckett, 2009, p. 3; Turner, 2008, p.24). Engaging characters abound in this drama, yet one woman is at the center, someone who emerged from this chaotic decade to dominate British politics through the next: Margaret Thatcher. What makes this story compelling, and an aspect frequently lost in the broader Thatcher biographies or period histories, is that Margaret Thatcher in 1970 was not really Margaret Thatcher. The political leader we know now as the “Iron Lady”, the leader who faced down radical trade unionists, IRA bombers, and Soviet Premiers alike, was not thought of by anybody as such at the start of the decade. Nor was she even the dominant voice of rightwing Tories; Enoch Powell and Keith Joseph (in sequence) shared claims to that honor. The

1 This project is ultimately intended to produce a book on the subject. As such, of necessity it represents something of a summation of the argument. It is, to use the terminology of my engineering colleagues at Rose-Hulman, more of a “proof of concept” piece than a finished product.

2 The number of biographies of Thatcher are vastly too many to list. Some of the most interesting recent additions include the authorized biography of Charles Moore, Margaret Thatcher: From Grantham to the Falklands (New York, Knopf, 2013). A second volume covering her governments is to follow. See also Robin Harris, Not for Turning: The Life of Margaret Thatcher (London: Bantam, 2013) and John Campbell’s two volume set subtitled The Grocer’s Daughter (London: Vintage, 2008) and The Iron Lady (2014). This is not to mention Margaret Thatcher’s autobiographies, The Downing Street Years (New York: Harper Collins, 1993) and The Path to Power (1995) and the biopic The Iron Lady (2011) starring Meryl Streep.

cascading crises of the decade intervened. By 1979, Thatcher, the party (very reluctantly so), and the
country (less reluctantly) begun a shift in both politics and political economy, a shift that would have
profound consequences for Britain and the world. All of this was forged in the political cauldron of the
1970s; it is Thatcherism’s “origin story”. In the Thatcherite telling the verities of the Keynesian
consensus vanished (as they were an illusion all along), the economy went into freefall, the unions ran
wild, and the country seemed “ungovernable”. Britain was the “sick man of Europe”, requiring harsh
medicine. Mrs. Thatcher played nurse, administering the free market cure. Not only an element of
Conservative mythology, this a was a tale of sufficient political strength and durability that Labour
found themselves unable to return to office until inoculating themselves from the past, a trick Tony
Blair managed with the simple insertion of the word “New”, attempting to forever consign Old Labour
to 1979.

A crop of recent research seeks reexamine the period in a new light. Despite the disruptions, life
for the average Briton in the seventies was comfortable and prosperous. A survey in 1977 showed 82%
of people were satisfied with life in Britain, much higher than those in France or Italy. (Sandbrook,
2010, p. 347). Andy Beckett’s (2008) history of the era focuses less on the eventual victors of the
Thatcher era and more on their opponents, particularly the demonized trade unionists, although his
conclusions are not radically different from previous studies. Lawrence Black and Hugh Pemberton (in
Black, Pemberton and Thane, 2009) focus on the intellectual hegemony of the negative
characterization. In their view the problems of the 1970s were real and, for those involved, really
shocking, but not nearly as bad as often portrayed in the overheated rhetoric of the time, which has
simply been echoed since, creating “false memories” shaping our interpretations (p. 14). Colin Hay
(Hay, 2010; see also 1996 and 2009) has focused specifically the Winter of Discontent, although it
speaks to its overall interpretation of the decade. He argues that this was a “manufactured crisis” (Hay,
2009, p. 545). The characterization of the Winter of Discount as symptomatic of the exhaustion of the
Keynesian growth model does not, in Hay’s view, match the facts. The lesson is that “…crisis narratives
are relatively autonomous of the symptoms they seek to make sense of.” (Hay, 2010, p. 467.) What
rendered it a crisis was how it was characterized by politician and the media. “Keynesianism’s death in
Britain was not economically given, but politically orchestrated” (Hay, 2010, p. 447). The Keynesian
postwar consensus was thus unnecessarily exorcized by Thatcher.

---

4 Beckett also cites the New Economics Foundation’s Measure of Domestic Progress, which indicated the best year in the
Britain since 1950 was 1976, a data point somewhat questionable on its face.
5 As they put it, “The economic crisis did not threaten the survival of the nations and the media played an important
’amplifying’ role in creating the sense that it did.” p. 9.
6 Hay is rather insistent that a more modest view of the Winter of Discontent emerges when it is properly contextualized,
particularly noting the wage restraint embodied in the Social Contract up to that point. Yet he largely disconnects from the
longer stream of industrial unrest earlier in the decade.
Herein lies the most compelling reason to reexamine the story of Britain in the 1970s -- to help us to understand the viability of alternative political economies in the present. No one contests that the seventies led to Thatcherism and this was a true sea-change in British politics and political economy. We have more recently experienced another jarring economic crisis and the UK and other economies continue to rebuild. Despite the seismic impact of the financial crisis, the structures of Anglo-American capitalism, remain for the most part unchanged. For some, the reasons for this remains, if not a mystery, at least a disappointment (Crouch, 2011). The subtext of the revisionist analysis of the seventies is to discern an alternative path in the present. How did Thatcher and the Conservatives open the door to radical economic reform? As Hay puts it, “The achievement of the Conservatives and the new right more broadly in 1979 was to define, frame and narrate the crisis, reading and reinterpreting each and every episode, event and policy failings of the winter of 1978-79 as a symptom of a more general crisis that required a more decisive and systematic response.” The problem in the present is “...an absence of an alternative economic paradigm capable of constituting the present crisis as crisis.” (Hay, 2009, p. 551, emphasis in original). The issue is thus one of framing; the recognition of paradigmatic failure requires an alternative that can interpret these events as a structural crisis. The Thatcherites succeeded because they framed the crises of the 1970s as a structural crisis of the postwar consensus and offered an alternative economic model. The lesson then for Hay and others is to set out a framework that would establish the current problems of as structural problems and articulate an alternative in the hopes of inducing a sea-change away from the neoliberal political economy (Couch, 2013 and Hay and Payne, 2015).

However, if the events of British politics in the 1970s are indicative of the process by which major political-economic change occurs, and the assertion of this paper is that they are, then these authors are likely to be disappointed. Yes, the presence of a coherent alternative model is a necessary condition for overturning the existing political-economic order, but it is far from sufficient. It was the failure to manage the economic and political crises of the seventies within the terms of the postwar consensus that created the intellectual space for alternative narratives to develop and find a voice in mainstream of politics. Following decades of relative economic decline, the stagflation and industrial unrest of the decade convinced many that the system had become dysfunctional and open to a new approach. Major political-economic transformation, therefore, requires much more than just crisis and critique. It requires a well-articulated alternative advanced by an electorally viable voice in conditions that are politically conducive to success. The rise of neoliberalism in Britain in the 1970s can be explained by the confluence of six “Ps”: poor economic performance; a widespread recognition of policy failure; well-developed alternative possibilities for reform; key personalities to push these ideas to the

---

7 Black and Pemberton hint at this; see pp. 11-2. Colin Hay (2010) is quite explicit; see pp. 466-68.
forefront; control of a major party; and favorable political conditions. The damage of the 2008 financial crisis, the relatively slow recovery since, and concerns about persistent, even rising, inequality highlight continued shortcomings in economic performance, creating opportunities for radical change. That said, those opposed to neoliberalism have yet to converge around a clearly articulated alternative that has a political champion and substantial electoral support. Nor is there an accepted narrative, beyond a generic condemnation of neoliberalism, as to exactly which policies failed and are therefore in need of reform. As such, it is not surprising that the financial crisis has not (yet) produced a substantial change in Britain’s political economy.

**Twilight of Consensus: The Tragedy of the Heath Government**

Harold Macmillan could reasonably declare in 1957 that “most of our people had never had it so good”. The evidence was rather favorable. Britain was in the midst of the long postwar boom, the “golden age” of economic growth. Governments managed this largess under the terms of the “postwar consensus”, instituted by Attlee and accepted by the Conservatives when they returned to power in 1951. These included a cradle-to-grave welfare state, with levels of taxation to support it; a commitment to full employment; Keynesian, demand-management; and recognition and acceptance of the strong role of trade unions. Political debate revolved around the management rather than the terms of this system. Serious politicians did not seriously question these propositions. Those that did, such as Enoch Powell, were seen as cranks.

And why question it? After all, the economy was booming. In the postwar era output increased a roughly 2.5% per year (Crafts, 2002, p. 44). From 1950 to 1970, real per capita GDP in the UK increased by 35.5% (The Conference Board, Total Economy Database). Still, by the time Macmillan publicly touted this economic good fortune, it was becoming clear that others were doing much better. Britain’s growth rate looked much less impressive against France (4%), Italy (5%), Germany (5%), or Japan (5%) (Crafts, 2002, p. 44). France’s per capita GDP was three-quarters that of the UK in 1950; by 1970 they earned 7% more. Britain’s share of manufacturing trade, nearly a quarter of global output in 1950, had shrunk to just one tenth (Beckett, 2009, p. 16). In the first half of the 20th century Britain relative economic slide was largely against America. After World War II, Britain was being overtaken by European economies, particularly the Six of the EEC. Analyzing the sources of British economic decline is itself a huge and contentious literature, beyond our purposes. Nicholas Crafts (2002, pp. 76-81), perhaps the preeminent economic statistician of that decline, puts it down to the a combination of

---

8 Author’s calculation.
increasingly damaging industrial relations, and underdeveloped vocational system, insufficient competition due to cartelization, poor management, government policy overly focused on short-run macroeconomic outcomes (‘stop-go’), and an overreliance on nationalization and the creation of ‘national champions’ without improving the underlying productivity of the economy. As a result, Britain’s potential growth rate was reduced by 0.75-1% per annum in this period (p. 77).

This was Ted Heath’s inheritance when the Tories unexpectedly swept to victory in 1970. He would be further be buffeted by a series of global economic challenges: the end of the long postwar boom, the collapse of Bretton Woods, the first oil crisis. Having been dealt a poor hand, though, Heath played it badly. If there is one great failing for Heath as a leader, it is that he never wavered in his approach, despite events or how others were reacting. A solid One Nation Tory, his preferred strategy was most assuredly not free market liberalism. That hardly deterred Harold Wilson from saying it was anyway. By all accounts, including Mrs. Thatcher’s autobiography (Thatcher, 1995, p. 160), the shadow cabinet meeting held at the Selsdon Park Hotel in January 1970 was largely inclusive, agreeing to no significant policy shifts, let alone a radical shift to the right (Beckett, 2009, p. 30; Denham and Garnett, p. 196; Sandbrook, 2010, p. 58). Nevertheless, for Wilson ‘Selsdon Man’ emerged – a cold, calculating economic liberal determined to destroy the welfare state and increase inequality. In retrospect this claim is absurd, but on some level the image took, especially as Heath did little to disabuse the idea. The sense of leadership and direction invoked by the Selsdon Man image contrasted well with the vacillation and infighting of the Wilson Government, and it shored up his support among rightwing Conservatives.9

The Tories 1970 manifesto, “A Better Tomorrow” (Conservative Party, 1970), promised a “quiet revolution”. While fudging much (as manifestos do), it promised tax cuts, support for competitive free enterprise, and end to nationalizations and support for failing industries, and new legislation to constrain the unions. It all had a distinctly laissez faire overtone10 -- enough red meat to inspire hope in the right and loathing in the left. After the election The Times breathlessly told its readers that the Heath Government was likely to bring more change than any administration since Attlee (Sandbrook, 2009, p. 61). Thus develops the Thatcherite view of Heath’s original sin: he raised the flag of economic freedom at Selsdon then turned tail (his famous ‘U turn’) as soon as things got rough. Given Heath’s previous pronouncements and the manifesto commitments, coloring Heath as an economic liberal was

---

9 Not to mention that Heath led the charge to dismantle the system of Retail Price Maintenance, one of the very few recent victories for the market, in the waning days of the last Conservative Government.

10 Journalist Simon Jenkins described it as “…a more Thatcherite manifesto than Thatcher’s manifesto.” (quoted in Tory! Tory! Tory! BBC Documentary, 2006).
not that much of a stretch. Yet the Selsdon program was something of a mirage and this view totally mischaracterizes Heath. He was very much a man of his era, with vivid memories of the deprivations of the 1930s and a dedication to avoid a repeat at all costs. He wanted to unite the country behind a non-ideological program of technocratic reform -- efficiency and modernization. Far from a Hayekian liberal, he was in some respects exactly who Hayek had in mind when he dedicated *The Road to Serfdom* to “socialists of all parties” (Harris, 2013, p. 101). His goal was never to abandon the terms of the postwar consensus, it was to perfect them.

The challenges to Heath came fast and furious, most notably, although not limited to, industrial unrest. Following a dose of austerity under outgoing Labour Chancellor Roy Jenkins, pay settlements started to creep into double digits. The Tories wanted to constrain wages, particularly in the public sector pay, to keep a lid on prices. Officially they continued to oppose a statutory incomes policy, though. A new Industrial Relations Bill was also in the offing, dangling greater recognition for unions in exchange for (much) greater regulation of their conduct (Beckett, 2008, p. 58). Having just defeated Barbara Castle’s *In Place of Strife* and facing pressure on wages from below, the unions were in no mood to compromise. Confrontation was thus predictable. When it came it exposed the weakness of Heath’s modernizing ambitions (Sandbrook, 2010, p. 74). Council workers offered the first major strike in Autumn 1970, leading to the first mounds of rubbish in Leicester Square (and elsewhere) that decade. Public sympathy and a favorable independent review meant that the unions got almost everything they wanted. In December 1970, power station workers (legally barred from striking) began work-to-rule and an overtime ban. Within days, the “lights were going out” as periodic blackouts spread throughout the country. Even the Commons was forced to meet by candlelight. A State of Emergency was declared; it would be the first of five during Heath’s three and a half years government. The conflict was brought to an end when an independent commission under Lord Wilberforce reviewed the power workers claims, returning with a very generous package in February 1971. The lesson for the unions was clear: strikes worked (Sandbrook 2010, p. 75-79).

Heath pegged his hope for more cooperative relations with the unions on the Industrial Relations Act. It provided for compulsory secret ballots, cooling off periods, legally binding collective agreements, and a National Industrial Relations Court able to render legally binding decisions. It sought to enshrine union members’ rights, yet it also enshrined the right not to join a union, striking at the closed shop, an unacceptable price for union leaders. This point could have been articulated had,

---

11 Even that venerable scholar of British politics, Samuel Beer, described Heath as taking a “U-turn from neoliberalism” and notes that in his first policy statement as leader, he dropped the party’s previous commitments to national planning and incomes policy (Beer, 1982, pp. 84-85).
say, the TUC been consulted in the drafting. They were not. It was a take it or leave it offer.12 Despite
stiff resistance from the Opposition and the unions, the bill had public support and Heath had a
majority. It became law in September 1971. It did not really matter, though. In order for the system to
function, unions had to register with the National Industrial Relations Court. Since those that did not
lost tax breaks and faced potential civil penalties for strike action, it had not occurred to the
government that they would not. The TUC simply instructed their member unions not to register. Few
employers were willing to buck their existing agreements with unions in an attempt to force them into
this system. With the unions simply refusing to participate, the National Industrial Relations Court was
neutered before it even came into existence. The government invested enormous amounts of time and
effort for no gain – except to portray Ted Heath as the “enemy of the workers” (Sandbrook 2010, p. 108-
13).

It also meant that this system was not in place when the National Union of Miners (NUM)
decided to go on strike for the first time since 1926. As prices crept up so did pay in the private sector;
Ford gave workers a 33% increase in April 1971 and average wages were up 13% (Sandbrook, 2010, p.
86). The miners’ relative position was slipping. Joe Gormley, the NUM leader, was relatively moderate,
but was surrounded by a colleagues much to his left, including Scottish Communist Mick McGahey and
Arthur Scargill from Yorkshire. In the summer of 1971 the NUM conference approved a motion to
request an additional £9 per week, a boost of 47%. The Coal Board countered with £1.80 as the
Government’s pay policy limited increases to 8%. On 8 January 1972, the miners struck. At the outset,
they looked set for a defeat.13 The winter was mild and the coal stocks high (Sandbrook, 2010, p. 114-
16). The Government, however, had not reckoned on the unity or strategic nous of their opponents, who
used flying pickets to disrupt not only the movement of coal stocks, but any supplies needed to keep the
power plants at full capacity. Most remembered are the events at the Saltley Coke Depot of the West
Midlands Power Board just outside of Birmingham. As trucks continued to move the coke, NUM
reinforcements were called in from Yorkshire, led by Scargill. Images of mass pickets pushing and
shoving against mass police to prevent lorry drivers from getting through filled the nightly news. When
miners alone proved insufficient, Scargill put out a call to all of the workers in Birmingham to join
them, and they arrived in their thousands. The police were simply overwhelmed and Saltley was shut
down. The “Battle of Saltey”14 has now the stuff of legend on the left (heroic workers) and right

---

12 The odds of them taking it were slim. Joe Gormley of NUM described it as the “unexpurgated copy of In Place of Strife”. Government seems not to have pondered how they might convince the unions to accept their plan given that they had just defeated a more permissive plan under Wilson. They would pay a high price for their lack of curiosity.

13 Portrayed in the media as underdogs, this helps to explain why public opinion stayed firmly behind them.

14 For a detailed review of events there, see Beckett, pp. 64-85; Sandbrook, 2010, pp. 121-26; and Turner, pp. 12-14.
By February 1972 another state of emergency had been declared as power cuts spread throughout the country. The government imposed draconian restrictions on the use of power for retail and entertainment establishments and admonished families to sharply restrict their usage at home or face even further blackouts. Massive restrictions were also imposed on factories, with most firms limited to only three days of power per week. Schools, offices, hospitals were also being shut down. (It speaks volumes about the seventies that while this miners’ strike led to a three day week, this was not the miners’ strike or the three day week. That would come two years later.) Public opinion continued to back the miners. The Coal Board increased their offer to 12%; NUM rejected it. An independent review again under the generous tutelage of Lord Wilberforce offered 27%. The miners, victory in their grasp, held out for more (Sandbrook, 2010, p. 130). The government panicked. As Douglas Hurd, then Heath’s secretary, described it, “The government now wandered over the battlefield looking for someone to surrender too – and being massacred all the time” (quoted in Turner, p. 15). On 18 February 1972, in a final negotiation involving Heath, Gormley, and Trade Unions Congress (TUC) head Vic Feathers, the government capitulated. The miners got everything they wanted and more.15 There is no question that it was a capitulation to the greater economic and political muscle of the unions. The immediate effect was to convince bien pensant opinion that a corporatist incomes policy was inevitable (Thatcher, p. 219). Heath also concluded that he needed a more interventionist industrial strategy (Moore, p. 232-3).

Heath’s “quite revolution” proved quite limited, and as a quintessential man of the postwar era he shuddered at the idea of limits (Sandbrook, 2010, p. 299). The key to everything was to increase growth. Like Macmillan before him, he sought a “dash for growth”, an option made all the more essential as unemployment hit the politically significant one million mark on 20 January 1972 – with the a horrified reaction from the press and Opposition. In March 1972, Anthony Barber, promoted to Chancellor after Iain McLeod’s untimely death, presented a budget that sought to increase UK growth 10% in the next two years. Barber slashed taxes, increased benefits, and offered an array of incentives for industry. This would boost public sector borrowing to £3.5 billion and certainly threaten inflation. Barber assured MPs that in an environment of full employment and rising benefits, the unions would restrain from asking for large pay increases. That this would cure the nation’s ills without any threat of inflation was, to say the least, the “economics of wishful thinking” (Sandbrook, 2010, p. 303), particularly as it came on the cusp of a worldwide increase in commodity prices. Conservative backbenchers, nevertheless, gave Barber a standing ovation (Sandbrook, 2010, p, 302).

15 Gormley describes (cited in both Beckett, p. 87 and Sandbrook, 2010, p. 131) that his industrial relations officer was literally sifting around in his files to find demands passed by NUM conferences in years gone by. Heath accepted everything.
The “Barber Boom” that followed was coupled with a reform of the banking system (Competition and Credit Control) in 1971 that substantially loosened up credit. This had already led to a substantial increase in the money supply, much of which was finding its way into a speculative property boom rather than increased business investment (Sandbrook, 2010, p. 305-6). If business would not acquiesce in investing and creating more jobs, Heath felt the state would prod them along. Despite decrying lame duck industry support under Labour and “de-nationalizing” (privatization not yet being the term) some small scale enterprises (Beckett, p. 48) the Tories had already been backed into some major new nationalizations, specifically Rolls Royce’s aircraft manufacture and the Upper Clyde Shipbuilders.16 Having dipped their toes in the water of industrial policy, the government now dived in with the Industry Act of 1972. The Act restored regional grants and gave the government authority provide aid to selected industries; that is, picking winners.17 While Heath tried to sell this as the British version of French (and Japanese) dirigisme (Sandbrook, p. 309), it looked to many observers like a rollback to the Wilson years.18

For all of this to even have a chance of working, inflation had to be controlled. Heath still believed he could get cooperation from the unions. Even before the dust had settled from the miners’ strike, Heath was inviting union leaders, especially Amalgamated Engineering Union (AEU) leader Hugh Scanlon and Transport and General Workers Union leader Jack Jones (the “terrible twins” of the union movement), round to Number 10 for talks (Sandbrook, 2010, p. 319). From mid-summer 1972 Heath held a series of tripartite meetings between the TUC and CBI, aimed at striking an agreement to control both prices and wages. Heath was willing to go in order to get an accord,19 including contemplating the repeal of the Industrial Relations Act.20 Cooperation from the unions was never likely to be forthcoming, however. The labor movement was changing. Even if their leaders might be willing

16 The Tories sold off Thomas Cook, Lunn Poly, and Carlisle pubs purchased to control excessive drinking by munitions workers during the First World War, and were condemned by Labour for doing so. Rolls Royce, the first major nationalization since 1945, was justified on national security grounds. UCS was a consortium organized by Tony Benn where the workers refused to stop working when closure was threatened. The UCS bailout was justified so as to prevent a significant increase in unemployment, but carried the further ideological taint of being seen as giving in to left-wing militants.
17 Ironically, it was businessman John Davies, parachuted in from the CBI to be the Secretary for Trade and Industry, who brought forth the White Paper outlining this (Moore, p. 232 and Clarke, p. 331)
18 Tony Benn, of one, was delighted, calling it “spadework for socialism”. It should be noted that there was no major opposition to the Industry Act from within the Conservative Party. Thatcher recollects in her autobiography (p. 221) how it was reported that when Davies announced the Industry Act in the Commons, the Labour benches were cheering while Tories were silent.
19 Heath wanted the government, CBI and TUC to work together as “social partners” for the good of the nation. The problem was that the other actors involved were not so motivated. Heath saw himself as “the incarnation of One Nation patriotism” (Sandbrook, 2010p. 319). He never wavered in this approach, no matter how intransigent the unions.
20 It might not have been much of a concession as by August 1972 the Act was effectively dead. The Act intended to punish unions and officials who did not cooperate. When a group of Merseyside dockers from the TGWU (the so-called “Pentonville Five”) faced incarceration for non-compliance, the government finagled to see them released after a short spell rather than be made martyrs. With united non-compliance from the unions, the Act was unworkable.
to moderate their demands, the shop stewards and rank and file were becoming more militant. Even if
those leaders had wanted a deal (Vic Feathers of the TUC seemed keen; Scanlon and Jones did not),
they were unlikely to be able to deliver their members and keep them behind a deal that stabilized a
Tory government. In the end, while perfectly content for the government to impose statutory controls
on prices, union leaders refused to accept the same on wages (Moore, p. 233). Heath’s tripartite
approach was in tatters. Still, inflation had to be combatted. In November 1972 he rose in the Commons
to announce an immediate 90-day freeze on prices, wages, dividends, and rents – Stage 1 of a
multistage policy to combat inflation. As Opposition Leader, Heath had spent years attacking Labour
for a statutory incomes policy. He was now doing the exact same thing, albeit claiming otherwise.21
Thus was set in train the process by which Ted Heath would be brought down, first by the unions, then
by his own party.

Heath did not commit one U-turn, but several. Still, the imposition of statutory wage and price
controls was the key – “one U-turn to far” for many Tory backbenchers (Thatcher, 225). The 1970
manifesto was rather specific on this: “We utterly reject the philosophy of compulsory wage controls”
(Conservative Party, 1970). The most damning assault thus came from his own benches when Enoch
Powell queried: “Does my right hon. Friend not know that that it is fatal for any Government...to seek to
govern in direct opposition to the principles on which they were entrusted with the right to
govern?....has my right hon. Friend taken leave of his senses?” (quoted in Sandbrook, 2010, p. 323). As
so often, Powell’s was a lonely voice. Conservative MPs swallowed hard and backed their leader.22  But
discomfort was growing. Organizations like the Economic Dining Group and the Selsdon Group were
formed as a home for like-minded, free market oriented MPs (Denham and Garnett, p. 226).
Backbenchers also elected one of Heath’s long-standing opponents, Edward du Cann, as the chair of the
1922 Committee that autumn (Moore, p. 233). The ranks were for now were quite.

As were the later champions of the market seated at Heath’s Cabinet table. Both Keith Joseph
and Margaret Thatcher supported Heath in the contest for Conservative Party Leader, Joseph bringing
a wavering Thatcher around by telling her that, “Ted has a passion to get Britain right” (Thatcher, p.
136). Joseph had entered Parliament in 1956 and rose to become Minster for Housing in the Macmillan
and Douglas-Home governments. Joseph said he readily embraced the fashionable statist thinking of
the time, saying he was a “passionate expansionist” in government (Denham and Garnett, p. 128).
Alfred Sherman, later to head the Centre for Policy Studies under Joseph, noted “In the age of

---

21 When questioned by Roy Jenkins on the difference, he noted that Labour had be shrinking the economy when they
imposed control; his policy’s goal was growth, on the other hand (Sandbrook, 2010, p. 322). Since the purpose of the policy
is to control inflation, the relevance of this is unclear.

22 Powell was the only Conservative to vote against the Counter-Inflation (Temporary Measures) Bill. Thatcher (p. 225) says
that he was cold shouldered, but many Tory MPs secretly agreed with him.
Macmillan, Joseph fitted in seamlessly.” (Sherman, 2005, p. 44) To be sure, there were inklings of his future conversion. He started visiting the “awkward squad” at the Institute for Economic Affairs (IEA) in the mid-1960s. And Sherman was working on him even then. He gave a speech in Reading in April 1967 while a member of Heath’s Shadow Cabinet exclaiming that the great failure of past governments (presumably Conservative as well as Labour) was not letting private enterprise work properly (Denham and Garnett, p. 159). The press thus pegged him as a Powellite after this, but it was at best partially true. His dryness on economic policy was more than countered by a downright sogginess on social policy. Joseph was driven by a deep social consciousness and a strong desire to alleviate the suffering of the poor (Denham and Garnett, p. 55), creating a long-term internal war against his desire for fiscal rectitude. At the head of the Department of Health and Social Security under Heath, “he promptly returned to the bosom of orthodoxy” (Sherman, p. 46), becoming one of the biggest spending ministers in the cabinet, increasing disability benefit, child allowance and attempting a costly reorganization of the NHS (Sandbrook, 2010, p. 71). He was hardly the tribune of the market in the Heath Cabinet.

Nor was his political ally, Margaret Thatcher, in her role as Secretary of Education and Science under Heath. As with Joseph, the foundations of her political ideology were already in place, but ill-defined. Her Conservative Political Centre lecture in 1968 entitled “What’s Wrong with Politics?” argued that government did too much, trying to provide and legislate for everything (Thatcher, 1968). This was followed up with an article in the Daily Telegraph attacking the idea of “consensus” as the basis for politics (Harris, p. 69). Whatever the depths of her convictions at this stage, it did not manifest in her management of the DES. Politically, of course, the most memorable aspect of her time there was the flak she took for ending the subsidy for free milk at primary schools, morphing her into “Margaret Thatcher, milk snatcher”. The Sun questioned her humanity and deemed her the “the most unpopular woman in Britain”. The “milk snatcher” episode was politically formative, but a minor element of her policy legacy at the DES. She was also responsible for implementing a policy inherited from Labour (and a totemic policy of the left): the replacement of selective grammar schools with comprehensives. While making a stand for localism – under her the DES was not going to force local authorities to go comprehensive against their wishes – she proactively enforced the policy, approving ten times more comprehensives than she rejected (Moore, p. 215). The grammar school product thus

---

23 When he visited monetarist economist and IEA contributor Alan Walters at the LSE after her tenure as minister, he received a very icy reception, having much to atone for (Denham and Garnett, p. 238).
24 According to her official biographer, Charles Moore, as a crypto-Powellite, but not a Powellite, she started to rise as “the respectable voice of the Tory right”.
25 A second article decried excessive “participation” in politics.
26 Politically, she was in a tough position and almost lost her job. Most likely what saved her is Heath’s unwillingness, on advice from Chief Whip Francis Pym, against sacking the only woman in the Cabinet (Moore, p. 223). Harris (p. 82) also suggests that Heath did not like to be told by the press who to sack by the press.
oversaw their ultimate destruction. She also substantially expanded the education budget, investing nearly £48 million in new buildings and expanding polytechnics and nursery schools (Sandbrook, 2010, p. 71). The Guardian described her as “a more egalitarian minister than her Labour predecessor” (quoted in Sandbrook, p. 71-2). At the DES was that she was seen by civil servants as a minister who could fight her corner and extract resources from the Treasury, the measure of success at the time (Moore, pp. 224-28). This left her little time or inclination to take principled stands outside of her brief. Her strategy in the Cabinet was “shut up and spend” (Moore, p. 225).

In 1972-73, then, the bulk of the party, including those most responsible for later overturning the postwar consensus, remained wedded to it, whether by choice or by default, despite the U-turns.

“...the principle architects of Thatcherism – Sir Keith Joseph, Sir Geoffrey Howe,27 and the future Prime Minster herself – did not spend the early 1970s begging Heath to take a harder line. Instead they spent them inside his Cabinet, nodding and smiling at his alleged U-turns, and, in the cases of Joseph and Thatcher, enthusiastically throwing around enormous sums of public money. At that stage, the idea that they were the sworn enemies of the postwar consensus would have seemed absurd.” (Sandbrook, 2010, p. 326)28

To be sure, these future Thatcherite ministers were not at the heart of Heath’s decision making structure (Thatcher, p. 200). Mrs. Thatcher offered a soft mea culpa in her autobiography, admitting that perhaps she should have resigned, but noting, probably correctly, that her resignation at the time would have had minimal impact. Her silence at the time, though, was part of the reason Enoch Powell never quite trusted, despite their ideological affinities (Harris, 2013, p. 74). More to the point, while she hated the U-turn, neither she nor others had a clearly developed alternative (Thatcher, p. 221). Even if they had, the general political environment was not propitious. The postwar consensus was still just that and the main responsibility of government remained full employment (Sandbrook, 2010, p. 325). It took the tragic dénouement of the Heath Government to focus minds.

The second showdown between Heath and the miners had its roots in the government’s macroeconomic policy. The “Barber Boom” had been heady, producing an impressive looking 7.4% growth for 1973. Increased demand expressed as increased imports, however, and a general rise in commodity prices, even before the oil shocks, was increasing inflation around the globe. The balance of payments was pushed further into the red, putting greater pressure on the value of the pound. Combined with the loosening of credit, the money supply (M3) was swelling, up 25% for two consecutive years (Sandbrook, 2010, p. 530). Inflation was accelerating as the economy overheated.

27 Howe was Minster of State at the Department of Trade and Industry.
28 Biographers for both Joseph and Thatcher plead for forgiveness for their profligacy as ministers. Moore (p. 213) notes that only a small part of education spending was really directly under Mrs. Thatcher’s control. Denham and Garnett suggest that any minister at DHSS would have been as equally profligate as Joseph in those years.
Barber’s March 1973 budget pushed up spending even further. Financial journalists like Samuel Brittan and Peter Jay started to raise the alarm;²⁹ most backbenchers delighted that the economy was growing again (Sandbrook, 2010, p. 532). By the spring the Chancellor would be forced to put the brakes on, cutting back spending and raising the minimum lending rate to 11.5% in a bid to stabilize the pound. All this would do is create a secondary banking crisis and bursting a credit bubble of their own creation.

The struggle against inflation pushed incomes policy to the fore. In January 1973 Heath unveiled Stage 2 of his pay policy, limiting rises to a flat £1 per week plus 4% for a maximum of £250 total starting on 1 April, all to be enforced by Pay Boards and Price Commissions. A temporary reprieve on massive wage increases was achieved and the TUC’s efforts to organize resistance among their members never caught fire (Sandbrook, 2010, p. 529). Yet inflation continued to rise, hitting 9.4% in August 1973. Stage 3, announced in October 1973, gave greater flexibility, but still set the ceiling at 7% or £2.20 per week. Politically, Heath might have been able to keep a steady tiller had inflation been kept in check. In fact, it was about to explode, driven by the OPEC oil embargo imposed in mid-October. The global price of crude increased to five times the 1970 rate by the end of the year (Beckett, p. 129). Pressures against the pay policy had already been building. Now they boiled over.

The miners found themselves in an exceptionally advantageous position, seeing no reason why government could not pay the miners for coal what they were paying the Arabs for oil (Beckett, p. 131; Sandbrook, 2010, p. 580). The NUM conference had passed a demand for a 35% pay increase over the summer, well beyond the Stage 3 norms. The Coal Board offered the miners 16.5% in October, the maximum that they could allow, trying to avoid confrontation by offering as much as they could up front (Sandbrook, 2010, p. 578). With the price of energy becoming dearer and winter looming, the miners were in no mood to compromise, announcing an overtime ban in early November (Beckett, p. 131). Heath continued to meet with NUM representatives, never ceasing to try and reach a compromise – a policy of war and peace at the same time (Moore, p. 241). In retrospect, there was no point. Heath could not abandon the Stage 3 limits and the NUM could never accept them. That political motivation kept the sides apart is indicated by the response that NUM VP Mick McGahey gave to an exasperated Heath when pressed on what he really wanted, “I want to see the end of your government” (Moore p. 243).³⁰ The miners clearly had the upper hand. The overtime ban led to a steady fall in coal output, and the Cabinet was receiving predictions that a full-scale strike could lead to massive cuts in power. At a political impasse and as a way to get ahead of potential shortfalls in power, Heath announced on 13 December 1973³¹ that the country would be going on a three-day week as of 1 January 1974. Full page

²⁹ Sandbrook (p. 532) notes that both The Economist and The Times urged Barber on.
³⁰ Whether this is an exact quote or paraphrase is unclear.
³¹ A few days later Barber presented a budget which slashed 4% off of public spending and clamped down on expanding credit, including ‘the corset’ on bank lending. (Sandbrook, 2010, p. 590).
ads detailed the Three Day Order. To save power, shops could only be open mornings or afternoons, temperatures in offices were to be limited to 63°F, floodlighting banned from sporting events, and the BBC and ITV were ordered to end broadcasting at 10:30pm. This was the three-day week proper.

The gauntlet thrown down, Heath still continued to negotiate with the unions and resisted calls for an early election. A potential graceful exit was offered by now TUC head Len Murray on 9 January 1974, promising to treat the miners as a ‘special case’ and using any higher settlement for them as a basis for other industries. Using oil crisis as an excuse, Heath might have been able to sell this to the party and the public. But it was a clear violation of the Stage 3 norms and, more compellingly, the government simply did not believe that the TUC could ensure that all of the unions would go along. The last real opportunity for a settlement slipped away (Sandbrook, 2010, pp. 603-05). Heath’s overall calculation was that the public would respond positively to the state of emergency, their privations leading them to condemn the miners and reward the Government. He was half right. Despite the restrictions, people managed to get on with things; “...the impact of the three-day week on everyday life was destabilizing rather than disastrous” (Beckett, p. 138). The relative ease with which the economy adjusted to the three-day week undermined the Government’s case of a crisis (Moore, p. 244; Sandbrook, 2010, p. 600). Public opinion was divided pretty evenly as to whether the Government or miners were more to blame. On 4 February 1974, the NUM announced that an overwhelming 81% of their members had voted to strike. Facing another bruising (and likely unsuccessful) battle against the miners, Heath decided to take his case to the people, asking the Queen for dissolution on 7 February for an election on the 28th.

The February 1974 election was quickly characterized as “Who governs?” --a fair summation of the rationale Ted Heath presented to the nation when announcing the election. It was posed as a great showdown on great principle. Certainly many Tory backbenchers, seeking revenge for 1972, relished a head-on fight against the unions. Conservative rhetoric during the campaign was frequently a mix of the pugilistic and the apocalyptic. Those sentiments were more superficial than heartfelt for their leader. Ted Heath wanted to assert his authority over the unions, but not crush them. He remained a One Nation Tory looking for conciliation, not confrontation (Beckett, p. 147). The Tory manifesto, while painting Labour as radicals and condemning extremist unions, otherwise struck a mollifying tone. Whatever the practical merits of this approach, “Britain united in moderation” (Conservative Party, 1974) was hardly a call to arms. Plus it highlighted the flaw at the heart of the Tory message. A heckler at a mass rally in Gravesend called out to Heath, “What can you do if you win that you can’t do now?” –

---

32 In a 1977 interview, Thatcher expressed regret that Heath had not taken the deal. Certainly others in the Cabinet felt the same. (Sandbrook, 2010, p. 637).
33 Beckett (p. 143) disputes this claim, contending that output fell by on fifth during the three-day week. It gets to the question of how much over Manning and low productivity were burdening industry at this point.
a good question for which there was no ready answer (quoted in Moore, p. 245). This gave Harold Wilson the perfect opportunity to tout his vaguely defined “Social Contract” with the unions, a visible path out of the impasse. Nevertheless, the polls showed the Conservatives in the lead, despite the economic turmoil of their three years in office. Labour was, after all, not in a particularly robust state, wounded by the internal rift over EEC entry. Their February 1974 manifesto, moreover, was a reflection of the declining power of Harold Wilson and the rising power of the left wing in the party. Heath’s gamble might yet pay off.

Many factors during the campaign conspired to tip the balance against them. The anti-climax of the three-day week and increasing focus on inflation blunted the Tory narrative. Conservative voters were being lost to a surging Liberal Party. A Pay Board report supported the miners’ claims against the government. Finally, in the last week of the campaign, Heath’s great nemesis, Enoch Powell, having already stepped down from his Wolverhampton seat in protest to this “fraudulent election”, informed the world that he would vote Labour as they promised a referendum on EEC membership, and implicitly encouraged his followers to do the same (Seabrook, 2010, pp. 626-33). When the vote finally came, although Heath’s Tories secured slightly more votes than Labour, they only won 297 seats to Labour’s 301. Heath had lost his majority. The simple answer to Heath’s “Who Governs?” question was “Not you, mate”. Attempts at coalition with the Liberals foundered on electoral reform. Harold Wilson and Labour were back in Number 10.

Ted Heath is generally seen as a failed Prime Minister. There are certainly few bright spots in the economic record. Employment, prices, productivity all went from bad to worse during his tenure. On paper, the growth record, Heath’s cure-all for these problems, was impressive, but it was only came through the economic steroids of massive fiscal stimulus. As a globalizing economy, the impact on the balance of payments and the value of the pound rendered this unsustainable, leading to a sharp reversal and a rapid economic slowdown. When Heath left Downing Street, the economy was plunging into recession. Admittedly it was a global downturn, but even within that context, things were worse in Britain, now widely seen as the “Sick Man of Europe”. Some of the blame heaped on Heath is unfair. He is falsely demonized by both the left, for seeking confrontation with the unions (with whom he wanted nothing more than a constructive partnership), and the right for betraying the free market principles of Selsdon (which he never held in the first place) (Sandbrook, 2010, p. 641). Parts of Heath’s legacy improved with age, particularly his attempts to end to the bloodletting of Northern Ireland through the

---

34 It promised to “Bring about a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families…Eliminate poverty wherever it exists in Britain… Make power in industry genuinely accountable to the workers…Achieve far greater economic equality…[and] Increase social equality by giving far greater importance to full employment” (Labour Party, 1974).

35 He was not alone. Ralph Harris, the great promoter of the free market at the Institute for Economic Affairs, later admitted that he voted for Labour in 1974 to get rid of Heath (Sandbrook, 2012, p. 219)
Sunningdale Agreement and for finally getting Britain into the EEC. Nevertheless, the key issue here is his legacy of economic management. It is tempting to portray Ted Heath as just spectacularly unlucky, piloting through unexpectedly stormy economic seas. But this is to miss the point. Stagflation did not cause Heath’s problems; it exposed the failures of his policies (Sandbrook, 2010, p. 537). Faced with the daunting challenges of the early 1970s, Heath’s policies mirrored the nostrums of the postwar consensus – trying to increase employment and productivity by increasing demand and the money supply, while offsetting the concomitant inflation of prices and wages through government controls (Sherman, p. 71). These patently failed, producing instead the dread ‘stagflation’. Within the Conservative Party, opinion was split as to the root cause of this failure. The personal failings of Heath as a leader predominated. A smaller coterie started thinking in terms of a root and branch rethink of economic management. First they had to get rid of Heath. Then they had to develop an alternative policy.

Changing Personnel: The End of Heath and the Rise of Thatcher

With a minority Labour Government, the likelihood of another election shielded Heath from an immediate leadership challenge. For bulk of the Shadow Cabinet and those inside Conservative Central Office, the failures of the previous administration were more presentational than policy. What the voters did not like was confrontation. The key to returning to power was to win back those voters that had drifted to the Liberals in February. Never mind that Heath was now the poster child for confrontational politics, however unjust the image (Sandbrook, 2012, p. 155). For the right wing of the party, Heath had started off well and then U-turned into disaster. A fundamental rethink of their approach was in order. The intellectual leader of this internal revolution was Keith Joseph. In the reshuffle following defeat, Joseph wanted to be appointed Shadow Chancellorship. Heath stuck with Robert Carr instead, offering Joseph the Industry portfolio. Joseph, interested in no other post, asked to lead a review of economic policy. Seeing nothing wrong with his economic policy, Heath declined. They eventually on Joseph heading off to set up a new think tank, in theory to examine the sources of the West German economic miracle.\(^{36}\) Joseph intended to call it the “Institute for the Social Market Economy” but was talked out of it by Alf Sherman, his previous mentor and soon to be director of this new body. Thus the Centre for Policy Studies was born in March 1974 (Denham and Garnett, pp. 237-38).

\(^{36}\) It is not clear whether Joseph or Heath was the progenitor if this idea. Sherman (p. 48) implies Heath set this up to keep him busy. Denham and Garnett (pp. 238-9) imply Joseph pushed the idea. Certainly Heath did not trust him unattended, putting Adam Ridley from the Conservative Research Department on the board and having Peter Thorneycroft and Jim Prior attend dinner meetings to keep an eye on things.
It would become the base from which they launched the free market counter-revolution in the Conservative Party.

The CPS was hardly the first to try at bringing such ideas to political light. A whole generation of conservatives had grown up reading Friedrich Hayek’s warnings about the dangers of an overly intrusive state. The monetarist ideas of Milton Friedman — that inflation was a monetary phenomenon and trying to push down employment beyond its “natural rate” was only likely to induce inflation — were working their way across the Atlantic, finding favor not only among economists like Alan Walters, but also in the boardrooms of the City, and the halls of the Treasury and Bank of England (Sandbrook, 2012, p. 226). The Institute of Economic Affairs, a think tank started with the fortune of Antony Fisher and run by Ralph Harris and Arthur Seldon, had been around since the late 1950s, pumping out a steady stream of pamphlets applying market solutions to Britain’s postwar ills (Beckett, p. 272). Despite dishing out highly unfashionable ideas for the era, they developed a small following among frontline politicians. Joseph, Thatcher, Geoffrey Howe, and Enoch Powell would all become regular visitors to the IEA in the early and mid-1960s. Powell, it should be noted, was a vocal advocate for fiscal constraint and monetary control going back to his resignation from Macmillan’s Government in 1958. That message was tainted by his “Rivers of Blood” speech, which saw him ejected from the Shadow Cabinet. The IEA, an already existing oasis for the Conservative right, was officially non-partisan and thus welcomed the CPS, an organization that could reach directly into the Conservative Party. The timing of the CPS launch was propitious as the political winds had taken a favorable shift. Among elites and grassroots alike, a growing number were questioning the efficacy of an ever-expanding state and advocated for reduced government and greater economic freedom. At the elite level, economic journalists like Samuel Brittan at the Financial Times were questioning whether full employment was compatible with low inflation. Peter Jay at The Times was popularizing the ideas of monetarism (Sandbook, 2012, pp. 227-28). At the grassroots level, groups like the National Association for Freedom and the Middle Class Association were organizing (Beckett, pp. 375-82). The move toward the market was part of a wider shift in political cultures, albeit finding most fertile ground in Anglo-American polities. The CPS and Joseph were largely reiterating ideas generated elsewhere, they did so more effectively than anybody else, moving those ideas from the ideological fringes to the center of public discourse.

Sherman found in Joseph “…a repentant sinner desperate to atone for his misdeeds” (Moore, p. 256). He deployed him to full effect through a series of speeches that struck at the heart of the postwar

---

37 Change in the broader intellectual tide is indicated by the Nobel Prize for economics going to Hayek in 1974 and Friedman in 1976.
38 A fortune made by introducing the American factory farming of chickens into the UK.
consensus and staked out an alternative vision. Before doing so, Joseph took a shot at winning over the Shadow Cabinet. In May 1974 he circulated a memo on inflation, suggesting that monetary expansion had to be abated to slow inflation (Joseph, 1974a). An extended debate ensued in the Shadow Cabinet meeting that followed on 3 May, but his were colleagues remained unconvinced, particularly questioning how a monetary contraction would be implemented in practice. Having not converted the Shadow Cabinet, he now began his public crusade, planting his flag first at Upminster on 22 June. “This is no time to be mealy-mouthed. Since the end of the Second World War we have had altogether too much Socialism.” He cited 30 years of interventions, good intentions, and disappointments. “We have tried to take shortcuts to Utopia” (Joseph, 1974b). Blame fell on both Labour and Conservative Governments, including the ones of which he was a member. Joseph relished in the self-flagellation of the newly converted, famously stating, “It was only in April 1974 that I converted to Conservatism. (I had thought I was a Conservative but I now see that I was not really one at all).” At Leith on 8 August he contended the profitability of British industry had “suffered a catastrophic decline”. Why should this have occurred in a country with a history of technological advancement and profitable enterprise? Because of “[i]nflation, the arch destroyer”. The Philips curve, with its trade off of inflation for employment, had been the North Star of all postwar governments. Joseph wished to reverse the priorities, making inflation fighting the main goal. He rejected, moreover, that Keynesian stimulus would make things right. “Pep pills are no cure for hemorrhage” (Joseph, 1974c). Of course, where did all of this inflation come from? The common wisdom focused on the cost-push of excessive wage demands and rising oil prices. At Preston on 5 September 1974, he pinned the blame squarely on the state. He started directly and ominously: “Inflation is threatening to destroy our society”. Yet it need not be, as it is, “…largely a self-inflicted wound…the result of trying to do too much too quickly. In economic terms, our inflation has been the result of the creation of new money….When the money supply grows to quickly, inflation results”. Incomes policy could never resolve this as wage demands would always outpace inflation: “…like trying to stop water coming out of a leaky hose without turning off the tap…”. Inflation could be contained “…if we can in fact gradually start moderating the trend rate of growth in the money supply…”. Monetary control was no panacea, but it is “…pre-essential for everything else we need and want to do…” (Joseph, 1974d). At Upminster and Leith, Joseph leveled his artillery at the foundations of the postwar consensus. At Preston he sought to erect an alternative approach: monetarism.

---

39 He qualified this: “…deceleration should, if unacceptable levels of unemployment are to be avoided, be very gradual”
40 From the Foreword of Reversing the Trend, the CPS printed compilation of these speeches from 1975. Cited in Denham and Garnett, p. 250. Joseph’s claim of “genuine Conservatism” rings rather hollow. The pragmatic, non-ideological centrism of Churchill, Macmillan and Heath was far closer to the traditions of the party than his newfound views. Nor were they that newfound. He had privately continued to express right wing views even as he passively accepted the U-turns of Heath.
All of this made for a very public challenge, his self-flagellation equally flaying the entire party establishment, played out for all to see in the press. He had circulated his speeches to the Shadow Cabinet in advance, and many of his colleagues were appalled. Jim Prior appealed to Thatcher to try to talk him out of the Preston speech (Denham and Garnett, p. 255). Reginald Maulding felt the need to publicly defend his record as Chancellor in *The Times*. Privately he said the Joseph was “nutty as a fruitcake” (Denham and Garnett, p. 255). And all of this was occurring as the party was preparing for another election. Sacking Joseph from the Shadow Cabinet, like Powell before him, would have been reasonable. While distraught by Joseph’s heresy, Heath kept him on (sacking him so close to an election carrying its own dangers) downplaying their differences in public. More to the point, Joseph’s rhetorical efforts aside, he had done little to move the party. Despite a quick nod to the need for both fiscal and monetary control, the October 1974 manifesto still called for prices controls and incomes (Conservative Party, 1974b). Heath made no major concessions to the rising right wing.

October 1974 was a downbeat election, described by *The Economist* as “the election that never was” (quoted in Sandbrook, 2012, p. 158). From the beginning Heath argued that the crisis called for a ‘national unity’, and advocated a government ‘of all the talents’, implying a coalition (Moore, p. 264). (Thatcher noted in her memoirs (p. 240) that the further the party moved from Heath’s position, the more he wanted it tamed by coalition.) Joseph was largely exiled from the campaign, but Margaret Thatcher, now the Environment spokesman, played a prominent role. It fell to her to present a bit of bribery to win back those middle class voters from the Liberals: a cap on mortgage rates at 9 ½ percent and a promise to abolish the rates (Moore, p. 259). She was comfortable with neither of these positions, but she took to her task and delivered these “without a scintilla of doubt” (Thatcher, p. 249). The forcefulness and vigor of her presentation gained her notice as a rising star, one of the bright spots in an otherwise dismal campaign (Moore, p. 259). In the end it did little good. Labour upped their seats to a meager but manageable majority of three, while the Conservative vote fell to 36 percent.

Whatever one thought of his policies, Heath was an election loser, dropping three out of four tries. Everyone understood that Heath had to go, except Ted Heath. “Political assassination, rather than an honorable retirement, was the only way to be rid of him” (Harris, p. 94). Four days after the election, the 1922 Committee unanimously voted for a leadership contest. But who to challenge Heath? The Conservative front bench, especially Willie Whitelaw, were unwilling. Enoch Powell, had long since talked himself off of the front benches and now out of the party, reemerging as an Ulster Unionist. Joseph was now champion of the right through his speeches, but just as quickly scuttled his chances.

---

41 It stated, “There must be restraint in prices and incomes and we will rigorously control public spending and the money supply, which is a vital, though not the only, part of our counter-inflation armoury”.

42 Joseph had been approached by backbenchers encouraging him to stand (Denham and Garnett, pp. 264-65).
with his speech to the Edgbaston Conservative Association in Birmingham on 19 October. In discussing poverty and family breakdown, he included the infamous line, “the balance of our population, our human stock, is threatened” (Joseph, 1974e). The whiff of eugenics set off a firestorm in the media. Joseph made it worse by trying to clarify, explain, and then partially apologize for his words. Among Tory MPs this reinforced the lingering sense that his political judgement could not be trusted (Denham and Garnett, p. 271). By November it was clear that he could not stand and he visited Margaret Thatcher in her in her room in the Commons to tell her. She responded, “Keith, if you’re not going to stand, I will, because someone who represents our viewpoint has to stand”. When Thatcher visit Heath a few days later to inform him that she intended to oppose him, he dismissively shrugged his shoulders and said, “If you must” (Thatcher, p. 266-67).

The (quite interesting) details of the 1975 Conservative leadership contests have been well documented elsewhere (See Sandbrook, 2012, Chapter 11; and Moore, Chapter 11). Needless to say, the odds were against Thatcher. To Heath and those around him, the idea of a middle-class woman leading the Conservative Party was ridiculous (Sandbrook, 2012, p. 248). The Economist saw her as “precisely the sort of candidate that ought to be able to stand, and lose, harmlessly” (Moore, p. 275). She had some advantages, though. In the post-election Shadow Cabinet reshuffle, Thatcher had been made deputy to Robert Carr as Treasury spokesman. Her skill and aggressiveness in her assaults on Labour’s Finance Bill against the equally skillful and aggressive Dennis Healey won her plaudits among backbenchers and contrasted with Heath’s conciliation (Moore, p. 285). The “big beasts” of the Shadow Cabinet would not stand against Heath and the other potential serious challenger (with Joseph withdrawn), Edward du Cann, backed out after some weeks of prevarication. She was the only senior figure with the courage to stand up to Heath. Thatcher also inherited Airey Neave, who hated Ted Heath, as her campaign manager once du Cann dropped out. He was well networked with backbench MPs and ran a tactically brilliant campaign, always seeming to know just what pitch to deliver to each MP to get them onside. He played up the idea that Thatcher was behind to encourage anti-Heath waverers. The most important thing going for Thatcher, of course, was she was not Ted Heath. Heath, whose interpersonal skills were pitiful, had never cultivated the backbenches and attempts to do so during the campaign

---

43 Sandbrook (2012, p. 235) also notes a bizarre interview given to The Observer, where Joseph alternated long silences with table-pounding predictions of doom. While spiked by the editor, a copy made it into Private Eye. It reinforced the Maudling view.
44 In other accounts Thatcher had Heath replying “You’ll lose”. Either way, he was dismissive of her challenge.
45 Enoch Powell declared, “They wouldn’t put up with those hats and that accent” (Sandbrook, 2012, p. 245).
46 This produced one of her most famous exchanges. When Healey described her as “La Passionara of privilege”, she shot back: “Some Chancellors are macroeconomic. Other Chancellors are fiscal. This one is just plain cheap!” – a good enough quip to be repeated by Meryl Streep in The Iron Lady.
47 Du Cann has extensive business interests in the City, many of which he determined would not be best exposed to the glare of a leadership campaign.
48 Having already offered his services to Joseph and Whitelaw, as well as du Cann.
only made matters worse (Moore, p. 252). The orthodox view of the 1975 election was that it was mainly an anti-Heath vote – a ‘peasants uprising’ creating an ‘accidental leader’. Heath’s personal negatives were real, but the ideological positives for Thatcher were more significant than is often recognized, as detailed analysis by Philip Cowley and Matthew Bailey has shown (Cowley and Bailey, 2000). Thatcher elaborated what “My kind of Tory party” looked like in an article in the *Daily Telegraph* shortly before the leadership vote. She placed a strong emphasis on the promotion of middle class values. “My kind of Tory party would make no secret of its belief in individual freedom and individual prosperity, in the maintenance of law and order, in the wide distribution of private property, in rewards for energy, skill and thrift, in diversity of choice, in the preservation of local rights and local communities” (20 January 1975). It was not just a fight for the leadership; it was a fight for freedom (Moore, p. 288) Heath still made woolly appeals to ‘national unity’ (Sandbrook, 2012, p. 248).

Even so, most Tory voters preferred Heath, as did the Conservative press. But only MPs had a vote. When they exercised it on 4 February, 130 opted for Thatcher, only 119 for Heath. Though not enough for her to win outright on the first ballot, Heath was done. Others now entered the contest: William Whitelaw, John Peyton, Jim Prior, and Geoffrey Howe. Fortune favoring the brave, however, Thatcher’s vote increased on the second ballot on 11 February, with Willie Whitelaw a distant second and the others far behind. Margaret Thatcher was now the leader of the Conservative Party.49 Now began the long, tortuous journey to remake it in her image.

### Finding an Alternative: The Battle of Ideas within the Conservatives Party

Deposing Ted Heath was one thing; winning over the soul of the party and control of the Shadow Cabinet something else entirely. Her new Shadow Cabinet, with Whitelaw as Deputy Leader, was overwhelmingly populated by (what would come to be called) “wets”. Both Peter Walker and Robert Carr, prominent Heathites, were purged. Of the 24 members of the Shadow Cabinet, though, only Keith Joseph and Geoffrey Howe were ideological allies. The wets included Jim Prior (Employment), Francis Pym (Agriculture), Ian Gilmour (Home Office) and Reginald Maudling (foreign affairs). Lords Halisham (without portfolio) and Carrington (Leader of the Lords) were included and (Lord) Peter Thorneycroft was made Chairman of the Party. Joseph again wanted the Treasury or nothing and was again disappointed. Thatcher was able to convince him to take Industry with the sweetener of him being made number three, in charge of policy and research (Moore, p. 298).

---

49 Thatcher’s victory prompted Labour MP Dennis Skinner to quip that “the estate agents had taken over from the estate owners” (Sandbrook, 2012, p. 255).
remained ideologically influential on Thatcher, but she was also among the many who doubted his political good sense. He was steadily marginalized from the inner circle (Harris, p. 122), his main contribution to the Thatcher revolution having already been rendered through his speeches of 1974 and 1975. These enthused the true believers and provided indication that an alternative was possible (Denham and Garnett, p. 321). All told, Thatcher had few friends and many potential adversaries in the Shadow Cabinet. As Mrs. Thatcher put it, “...given the fragility as yet of my position and the need to express a balance of opinion in the Shadow Cabinet to bring the Party together...” she had little choice.

Nor was the party machinery any more amenable. Thorneycroft as Chairman had abandoned any idealism that may have lingered from his resignation as Macmillan’s Chancellor. Winning was the main thing, which encouraged a policy approach mainly concerned with not upsetting voters (Harris, p. 121). The Conservative Research Department (CRD), then under the direction of Chris Patten, was very ‘One Nation’ in its predilection, serving Heath loyally in his last days. They would proactively argue against Thatcher’s preferred policies and patronizingly referred to her as “Hilda”. It was Patten, indeed, who labelled Joseph the “Mad Monk”. Alf Sherman encouraged her to purge the CRD, but she resisted (Sherman, p. 82). At this phase the Centre for Policy Studies reached the height of its importance. Sherman described Thatcher as a woman of beliefs, not ideas (Moore, p. 302). To change policy she had to win the battle of ideas. Outside reinforcements -- “Intellectuals for Margaret” (Moore, 345) -- would be needed, after all, to overcome internal party resistance. The CPS and, to a lesser extent, the IEA provided her with the intellectual ammunition as well as many of the key personnel to fight and win those battles. Through the CPS and IEA Mrs. Thatcher was brought in touch with a steady stream of helpful intellectuals, the most noted of which were Hayek and Friedman (Moore, 342).

Two competing views on how regain power and fix Britain predominated within the party. One view saw the Heath Government as having been on the right track, only to be derailed by radicals in the miners’ union. The moderates of the nation, presumably of all parties, had to be brought together the combat such radicalism. The alternate view –Thatcher’s view -- was that Britain’s relative decline was more deep-seated and structural, requiring a break from the past and a new set of policies. (Harris, pp. 126-7). Her goals included wringing inflation (which would peak at 27% in August 1975) out of the economy using monetary policy; reducing the size of the state and reining in spending; getting control over the trade unions; and reassuring middle-class voters that law and order would be upheld (Sandbrook, 2012, p. 670). But how to get there? In April the Shadow Cabinet met to discuss the broad outlines of policy. In preparation, Joseph and Angus Maude prepared “Notes Toward the Definition of Policy” (Conservative Party, 1975a). Short on policy specifics, the document directly attacked the postwar consensus and the Conservatives role in building it. “Against our better judgement, we competed with the Socialists in offering to perform what in fact is beyond the power of government. We
undertook to ensure full employment... regardless of wage-levels, productivity and the state of the economy” (p. 1). All these good intentions had made matters worse: “…by ignoring history, instincts, human nature and common-sense, we have intensified the very evils which we believed, with the best of intentions, that we could wipe away” (p. 3). Economic problems, moreover, were not just narrow, technical challenges; they must be understood in the wider social context. “A healthy economy is only possible in a healthy body politic – with self-reliance, thrift, respect for laws and confidence in the system of rewards and sanctions” (p. 1). Mrs. Thatcher was delighted, but most of her colleagues were dismayed. The official minutes (Conservative Party, 1975b) describe a mild disagreement. 50 Lord Hailsham’s handwritten account indicates a more spirited exchange (Hailsham, 1975). On the assessment of the previous government, Reginald Maudling proclaimed, “I do NOT agree with ONE little bit”. Ian Gilmour tried to assert that the postwar consensus was a Conservative consensus, not a Labour one, to which Thatcher replied: “Ian, you do believe in capitalism?” The Shadow Cabinet could hardly agree on the past let alone plot a course for the future. Nor was her position that stable. Her approval rating in June 1975 was a meager 35% (Sandbrook, 2012, p. 666). At the 1975 party conference, she offered up a more full-throated of limited government and economic freedom, ending with, “We are coming, I think, to yet another turning point in our long history. We can go on as we have been going and continue down. Or we can stop – and with a decisive act of will we can say ‘Enough’” (Thatcher, 1976). This went down a treat with the party faithful, earning her a standing ovation and stabilizing her leadership. But had to win over the men on the platform.

Unable to resolve their differences, the competing factions opted for coexistence. The formal Conservative Party policy documents that followed were essentially “treaties” between the two sides. *The Right Approach* (Conservative Party, 1976a), adopted shortly before the 1976 party conference, is a wide ranging document spelling out the major Conservative aims. The main stated goals51 were uncontroversial and anodyne, little more than a “string of homilies” (Sherman, p. 87). Inflation would be managed through “a steady and disciplined monetary policy”, but this “will need careful technical study and explanation” and, while it is “a key feature of our economic policy, [it is] by no means the only one”. Public spending cuts were also needed to “bring the economy back into balance”. On incomes policy, “…The Right Approach’s need for compromise reduced it to almost nonsense.” (Moore, p. 340). Restraint in wages was necessary to combat inflation, but that did not necessarily imply the adoption of

---

50 “Several members…thought the paper was too critical of the recent past and, in particular of recent Conservative policy….Conservative policy should be evolutionary, and built on the past, not revolutionary, rejecting the past….it was generally felt that the Conservative Government of 1970-74 had, on the whole, tried to do the right things, but had failed to explain its intentions adequately” (Conservative Party, 1975b).

51 The Conservatives pledge to (1) enable the country to live within its means; (2) to strengthen Parliament and the rule of law; (3) to extend ownership; (4) encourage self-help and family life; (5) improve educational standards; and (6) maintain Britain’s security interests.
a prices and incomes policy. What it did imply was unclear, although the benefits of West German “Concerted Action” were noted. *The Right Approach* contained just enough to keep each faction happy, including Mrs. Thatcher. But it certainly did not represent a radical departure from previous Conservative policies (Sandbrook, 2012, p. 676)

The respective sides continued to try to square the circle in *The Right Approach to the Economy* (Howe, et al., 1977), an initiative of Joseph’s intended for publication before the 1977 conference. It stated up front that another ‘break for freedom’ was needed in Britain. The bulk of the document was an elaboration of the *The Right Approach* positions of issues of public spending, taxation, and industrial policy, areas of general agreement across the party. In key areas, though, prevarication prevailed. Monetary policy would play a, but not the, key role in combatting inflation. This reflected something of an area of agreement, Joseph having argued in his Stockton Lecture that year that monetary stability was a only prerequisite for growth, not the end of it (Joseph, 1976). Still, the Heathites saw monetarism as one very imprecise tool (and hence of limited applicability) while the Thatcherites saw it as the big artillery in the anti-inflation arsenal. Given this, discussion as to how monetary targets were to be applied and its relationship with other policies was left distinctly vague.

The preferred tool of Governments so far was some form of incomes policy. The paper rejected both statutory and voluntary mechanisms. The former merely pent up wage demands for later; the latter relied on the goodwill of the unions, which would not be forthcoming. At the same time, it stated, “…in framing its monetary and other policies the Government must come to some conclusion about the likely scope for pay increases if excessive public expenditure or large-scale unemployment is to be avoided…”. Perhaps some kind of forum was needed where representatives of government, employers, and unions could work through all this? The NEDC, still clinging to life, was identified as a possibility. “Only good can come from this kind of search for common ground.” Ted Heath could not have said it better himself. Mrs. Thatcher was disgusted. This continued push for improved tripartite negotiations had already crossed her desk in a paper from Geoffrey Howe’s Economic Reconstruction Group, one of a plethora of study groups the Tories were deploying at this time, again advocating again West German-style Concerted Action. Mrs. Thatcher was utterly opposed, tersely responding “This paper frightens me to death even more…we should recognize that this German talking shop works because it consists of Germans” (Thatcher, p. 404). For Thatcher such waffle could not carry the imprimatur of the party. *The Right Approach to the Economy* was instead published under the names of its authors and had little

---

52 Although the previous ‘break for freedom’ being referred to was the Tory rule of the 1950s. No reference to the Heath years for the drys yet not clear break from the postwar consensus for the wets.

53 A point not true across the document. A detailed costing out of the impact of the various tax changes on 1977 revenues was included. They were trying to be a specific as they could be without overcommitting. On monetarism there was no agreement as to specifics.
impact on policy. The major questions of the day were: How to combat inflation? and How to deal with the trade unions? After two years as Opposition Leader, Mrs. Thatcher had failed to bring the Shadow Cabinet around to her views on either question. Nor was she inclined to push too hard given her tenuous support among her colleagues and the wider public. Some of her advisors took to calling her “Cautious Margaret” (Beckett, p. 414).

She was somewhat more inclined to radicalism when it came to trade union reform. Given the fate of the Heath Government, dealing with the unions was a priority for many Conservatives. Within the Shadow Cabinet, however, there was absolutely not agreement on policy. The predominant view was first and foremost to say nothing that might upset the unions for fear of hurting their election chances (Hoskyns, 40). Even when politically opportune events arose, lack of coherence muted the Conservative response. In 1977 a strike broke out at the Grunwick film processing plant in north-west London. The low-paid, mostly south Asian female employees sought to organize a union. The owner, George Ward, fired them. The fired women gained recognition from the APEX union and organized a strike. After months of picketing to no effect, the APEX organizer, Jack Dromey, opted for mass picketing, calling in other unions and fellow sympathizers. Overnight a minor industrial dispute was rendered a cause célèbre for the left. Hundreds of picketers turned out day after day to try to prevent non-striking workers being bussed into the factory. Members of the Labour Cabinet joined the lines, as did Arthur Scargill and his Yorkshire miners. The right also took up the cause, with the National Association for Freedom backing Ward.54 Hundreds now joined the fray each day and the conflict grew more violent, all vividly rendered on the nightly news. The picketers were never able to stop the workers coming in or the mail going out, however. After 591 days, the strike was broken (Sandbrook, 2012, p. 6161). For the left it was about workers’ rights; for the right it was a small business owner standing up to union muscle. It was all a precursor of the larger industrial disputes to come. Public opinion, so favorable to the miners in 1972 and 1974, was appalled by the violence around the dispute. A MORI poll in September 1978 showed that 82% thought that unions had too much power, including three-quarters of trade unionists (Sandbrook, 2012, p. 618). Grunwick was a gift, and yet the Conservatives made little headway. When an inquiry led by Lord Scarman recommended that the fired workers be reinstated, Keith Joseph took it as an opportunity to rail against the evils of the closed shop, only to find himself in a public rift with Jim Prior. Caught out on this while visiting Washington, Thatcher felt bound to back her moderate Employment spokesman (Moore, p. 359). Privately, she saw the need to tackle the unions. Publicly, her statements were quite muted

54 Grunwick was a mail order company. When the Union of Post Office Workers (UPW) postal workers unions refused to deliver Grunwick’s mail, NAFF’s Director John Gouriet famously organize a secret operation to spirit the packages out of Grunwick, sort them in an undisclosed location in Oxfordshire, and covertly drop them in postboxes throughout the country so UPW would not be able to identify them.
Thatcher found her alternative voice from two outsiders. John Hoskyns was a former soldier and computer executive. Having sold his company he now looked to serve his country by helping to stop its decline. Norman Straus was also from the business world via Unilever. Neither had previous connections to the party and both felt that the Tories counter to Labour’s socialism had been too ad hoc. They brought a systems analyst’s eye to the problem, with Hoskyns drawing up a “wiring diagram” of the problems of the British economy. Hoskyns met Joseph through the CPS, where he was introduced Strauss, and ultimately met Thatcher through Joseph. Hoskyns argued that the Conservatives needed a clear message on the main problem facing Britain: the trade unions (Hoskyns, p. 27). Early presentations were not greeted with much enthusiasm, including by Mrs. Thatcher. They eventually won Thatcher around and in the summer of 1977 she encouraged him to work on a coherent plan for the campaign. Joseph suggested that he collaborate with Strauss. The result of their collaboration was the “Stepping Stones” report (Stepping Stones, 1977).

Hoskyns had been battling against the sense of complacency pervasive in some corners of Tory thinking, (Hoskyns, p. 39) so Stepping Stones lays out the challenge up front: “The task of the next Tory Government – national recovery – will be of a different order from that facing any other post-war government. Recovery requires as sea-change in Britain’s political economy”. To ensure lasting recovery, the party must implement key “turn-around policies”, drawn from The Right Approach: stabilization of the pound through monetary policy; a shift from income tax to VAT; substantial deregulation of the private sector; and the use of North Sea oil revenues to reduce the public sector borrowing requirement. There was one major obstacle to national revival, though: “the negative role of trade unions”. The Tories had adopted a “low risk” strategy, trying “To compete with Labour in seeking peaceful co-existence with an unchanged union movement”. This strategy would “ensure continued economic decline”. The Conservatives did not need to win the election; they had to win the argument. Stepping Stones advocated taking on the unions directly. Rising antipathy to the unions could be harnessed to electoral advantage and offering a clear mandate for reform (Dorey, p. 102). “Any strategy which does not address the problem of the trades union reform from the outset, ensures failure in office...” (Stepping Stones, p. 13). They proposed to do this through a communication program that contrasted the “Healthy Society”, free of the union’s negative influence, with the “Sick Society” (or “Jim’s Society”) with which they were burdened at the time. Most importantly, their primary target audience was the trade unionists themselves. Rank-and-file members were not nearly as radical as their leaders and could be separated from them. This political jujitsu would “transform the unions from

A September 1976 lunch meeting at Thatcher’s residence ended with her complaining that she’d fed them a joint of roast beef and had nothing to show for it (Thatcher, p. 420). A quick glance at one Hoskyn’s “wiring diagram” and one can see why busy politicians might not have been so enamored of his systems approach. When Alf Sherman first showed his wiring diagram to Thatcher, she giggled and said it looked like a bit of chemical engineering (Hoskyns, p. 18).
Labour’s secret weapon into its major electoral liability”. The proportion of trade unionists voting for the Labour Party, three-quarters in the 1960s, had declined to only half (Beckett, p. 161). Hoskyns and Strauss had identified a golden opportunity. The remainder of the paper lays out a detailed communications strategy to achieve these goals. Stepping Stones was more about how to communicate ideas than it was about specific policies (Thatcher, p. 421). “To the modern reader, “Stepping Stones” seems a stunningly prescient blueprint for the Thatcher government” (Sandbrook, 2012, p. 680).

The final draft was delivered in November 1977 to the Shadow Cabinet. Thatcher was delighted with the result, as were Joseph and Angus Maude. To Hoskyns’ and Strauss’ surprise, Willie Whitelaw was equally supportive (Hoskyns, p. 47). Others in the Shadow Cabinet opposed, along rather predictable lines. Prior thought their approach naïve and objected that trying to divide union members from their leaders might only unite them in opposition to the Tories (Hoskyns, p. 48). Chris Patten at CRD, suspect of anything coming out of the hated CPS, described it as an “inflexible strategy” that showed little political understanding and crafted a CRD alternative (Moore, p. 362). Lord Thorneycroft apparently wanted every copy of Stepping Stones recalled to Central Office and burned (Thatcher, p. 423). When the Shadow Cabinet took up the report on 30 January 1978, opponents outweighed supporters (Conservative Party, 1978). Prior’s concerns that trying to separate union members from their leaders might backfire were raised. Ian Gilmour thought the paper overly ambitious and that it should definitely not be the sole strategy. John Peyton condemned both appeasement and confrontation and longed for some third way. In a most defeatist vein, John Davies argued that if the truth was told about the unions, the Tories were sure to lose the election. Thatcher still supported it but, “having argued ourselves to a standstill” (Thatcher, p. 421), it was tabled for further discussion. It was also reiterated that Jim Prior would remain the primary spokesman on union issues.

Chris Patten was asked to further elaborate the CRD’s competing strategy, and his “Further Thoughts on Strategy” advocated letting the Labour Government destroy themselves on the economy. The Tory campaign should emphasize non-economic issues, like education, immigration, housing, and law and order (Dorey, p. 107). Nevertheless, a few days later the steering committee approved Stepping Stones as the basis of policy, along with Patten’s paper and organized three sub-committees to translate it into policy. Two of those teams were chaired by Prior and Gilmour, who battled Stepping Stones through inertia. “For Norman and me,” Hoskyns later wrote, “it was like rowing a barge full of concrete through treacle.” (Hoskyns, p. 61). The Policy Group chaired by Joseph did make progress, producing a

---

56 Hoskyns response to this not inconsequential critique was that the Conservatives had to take some risks (Hoskyns, p. 49).
57 Entitled, “Implementing Our Strategy”.
58 By John Davies, Prior being engaged in an unemployment debate and only joining the end of the discussion.
paper in July 1978 for “trade union democracy”, including postal ballots for union officials and periodic ballots on representation in closed shops (Dorey, p. 109). A speech on these proposals was drafted for Prior, but it was never delivered (Hoskyns, p. 68). Hoskyns’ sense was that the Shadow Cabinet was turning, but Prior still controlled the party’s policy toward the unions, and his public position remained quite conciliatory. Thatcher, with limited time to devote to one issue and exercising the caution of a leader facing an imminent election, did not intervene to resolve the matter. By the fall of 1978, it appeared that the Stepping Stones initiative had stalled (Dorey, pp. 110-11).

Nearly four years into her tenure as Opposition Leader, Thatcher had at her hands a clearly developed alternative strategy for transforming the nation’s political economy. These neoliberal ideas had percolated from the fringes to the pinnacle of the one of the major political parties. What was very clear in the autumn of 1978 was that this was not nearly enough to ensure their adoption. Thatcher and her acolytes were convinced at this point, but she could not carry the Shadow Cabinet. Whether she could carry to public would be found out at the election. “As the election expected in October 1978 approached, the Tories had fought themselves to a stalemate. Mrs. Thatcher’s heart was with Joseph, Stepping Stones and taking on the unions….But her head was with those...who argued that a fuzzier, more cautious approach was electorally necessary....She was trapped in moderation” (Moore, p. 363). It took a titanic clash between the trade unions and the Labour Government to spring her from that trap.

**Permissive Conditions: The Travails of Wilson and Callaghan**

The focus of this paper is the transformation of the Conservative Party, so of the travails of the Wilson and Callaghan Governments need not be analyzed in detail. However, their policies, ideological divisions, and political problems all served to create the political conditions that allowed Thatcher and the Conservatives to move in a more radical and transformative direction. Without that Wilson-Callaghan Labour Government, there would be no Thatcher Government. Harold Wilson had again bested Ted Heath (twice) in 1974, which seemed his primary motivation for holding on to power.59 The charm of the previous decade was lost and he offered neither bold leadership nor innovative ideas. Indeed, the record of his second government was utterly disastrous. Having won election on the promise of a Social Contract, Labour now turned to implement it. “In essence, the social contract committed the government to policies the unions wanted – repeal of the Industrial Relations Act, increased spending on welfare benefits, state-imposed restrictions on prices for essentials -- in return

---

59 Wilson was also purportedly drinking heavily and indulging in paranoid fantasies about how MI5 and South African intelligence were trying to destroy him (Beckett, pp. 164-69). Beckett argues his suspicions had some credibility.
for an undertaking from the unions to accept modest pay rises...” so as to keep inflation in check (Beckett, p. 291). The Government first settled the ongoing miners’ strike, with the Coal Board granting the NUM a mammoth 35% increase February 1975 (Sandbrook, 2012, p. 181). Other unions followed suit, with average wage settlements up to 22% by the time the second 1974 election rolled around (Sandbrook, 2012, p.181). From the unions perspective they could hardly expected to do otherwise with inflation in double-digits. Inflation fighting had been the whole point of the Social Contract, though. Nevertheless, Wilson’s Employment Minister, Michael Foot, showed no inclination to slow things down. The Social Contract in its early manifestation was very one-sided. (Seabrook, 2012, p.182).  

Inflation was now rising much faster in the UK than in other countries. Nor were other economic indicators looking better. Unemployment had doubled in 1974 and was pushing again toward the politically sensitive one million mark. Chancellor Dennis Healey had massively boosted spending both to fulfil campaign promises and as a Keynesian counter to the recession. All of this was premised on igniting the economy back to a high level of growth. Instead they got “stagflation” (Beckett, p. 172). The public finances thus rapidly deteriorated. “Instead of borrowing £2.7 billion for 1974-75 as predicted, Britain would actually need to borrow £6.3 billion, rising a year later to £8.5” (Sandbrook, 2012, p. 173). Spending continued to rise, albeit at a slightly reduced pace. Britain was trapped in a vicious cycle. Prices, wages, and unemployment were all heading upward; output, profits, and productivity down. It was at this time that Jim Callaghan quipped, at best half-jokingly, in a Cabinet meeting that, “If I were a young man I’d emigrate” (Beckett, p. 175).  

A crisis was clearly looming, yet the government seemed puzzled as to how to respond. Wilson lamented, “The trouble with me is that I only have the same old solutions to the same old problems” (quoted in Sandbrook, 2012, p. 418). Others in the Government were not. Two contrasting approaches on how to manage these problems emerged, pointing in very different directions. On one side was Wilson’s new Industry Minister Tony Benn. A “middle-of-the-road modernizer” in Wilson’s previous government, Benn emerged after 1970 as the tribune of the left (Sandbrook, 2012, p. 270). The solution to Britain’s ills, thought Benn, was a renewed and aggressive socialism. He was particularly drawn to the ideas of Stuart Holland, and academic who was central to the development of Labour’s Programme 1973 (Wickham-Jones, p. 130). Holland advocated for the creation of a state holding company that would buy controlling stakes in Britain’s leading companies and then use this to enforce planning agreements between the government and business. This new “National Enterprise Board” would allow Labour to produce the “fundamental and irreversible shift in the balance of power and wealth in favour of working
people and their families” that they had promised in their manifesto. Upon entering office Benn drew up a long list of companies to be bought by the NEB, proposing up to £1 billion per year to be dedicated to the effort. Most of the rest of the Cabinet, including Wilson, thought the plans naïve and counterproductive (Beckett, p. 174). As Benn’s NEB proposals worked their way through the Cabinet, they came under sustained attack and were steadily watered down. When the NEB finally came into existence, the bulk of its money went to bail out a few lame ducks rather than expand the reach of the state for a new socialist Britain (Sandbrook, 2012, pp. 276-77). Benn was able to push his colleagues into some experiments in “industrial democracy”, putting government money into three workers cooperatives, all of which failed miserably. By now, Tony Benn was the bête noire of the right and great champion of socialism of the left: “the greatest hero since Aneurin Bevan” (Sandbrook, 2012, p. 269). For a party whose activists were increasing young, university educated professionals steeped the fashionable neo-Marxism of the time, Benn struck a chord.

To many of Benn’s colleagues, this was all dangerous nonsense. Dennis Healey had ignored the economic warning signs throughout 1974 and, as a good Labour Chancellor during a recession, spent freely. By the New Year his Treasury officials had convinced him that something must be done. In January he gave a speech in Leeds warning that Britain had to above all else combat inflation. His warnings to the Cabinet became even more dire and he advocated – successfully, despite deep misgivings – that spending had to be cut back drastically. Healey presented a budget in April 1975 aimed at reducing inflation. He raised the (already high) basic and higher tax rates by 2% and increased VAT on a range of items. Most importantly, in a bid to lower borrowing and boost business confidence, he announced £1 billion in spending cuts for 1976-77. The Labour backbenches were shocked. Here was a Labour Chancellor, in the midst of a recession, cutting spending. Peter Jay in The Times recognized it for what it was: the abandonment of full employment in favor of inflation fighting (Sandbrook, 2012, pp. 183-85). For Healey, it was not a choice. The Government had to face up to economic realities, solving Britain’s ills through budgetary discipline and reducing inflation.

The fissures within the party were exposed in full when the crisis finally did come in 1976. James Callaghan replaced Harold Wilson as PM after the former’s surprise resignation in March 1976. He faced immediate crisis. With the end of fixed exchange rates in 1971, the pound had fallen 35% in value, the Bank of England exhausting one-third of its reserves in its defense (Sandbrook, 2012, p. 467). In January 1970, the rate was just above $2; by March it was down to $1.70. Healey was only able to stabilize this with £3 billion worth of loans from other central banks (Beckett, p. 332-33). The markets had lost confidence in the UK economy and Healey argued that the government needed to be seen as

---

62 The Kirkby Manufacturing and Engineering Company, the Scottish Daily News, and Meriden Motorcycles. All were shuttered by 1978.
seriously fighting inflation in order to calm the markets and reduce pressure on the pound. To gain this, he offered £1 billion in tax relief in exchange for union leaders agreeing to cap wage settlements at 3%. After extensive negotiations, they got a 5% deal – the best union leaders could offer with inflation was still running at 15% (Sandbrook, pp. 468-69). It was not enough. The pound continued to fall and the Bank of England’s reserves dwindled. Nevertheless, at the Labour Party Conference that October in Blackpool speaker after speaker lined up to denounced Healey’s cuts. They got no respite from their new leader, who instead sought to inform them of the facts of life.

“We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step.” (Callaghan, 1976)

He continued, arguing that unemployment would only come down if labor costs were comparable with competitor countries, that productivity of both labor and capital had to improve. Britain could not continue to “pay ourselves more than we produce”. For Labour loyalist, this all was heresy. In practice, it was also the end of Keynesianism. Callaghan’s Chancellor was not there to see it as about to leave Heathrow for a meeting of Commonwealth finance ministers in Hong Kong. Yet the pound continued its dreadful slide. Having already been driven to Heathrow, but fearing being incommunicado for so many hours, Healey decided to head back to London, the TV cameras rolling as he did. Emergency meetings with his Treasury advisors that night led them to an inexorable conclusion: Britain had no choice but to apply for a conditional IMF loan.

Thus began weeks of negotiations with IMF officials and divisions within the Cabinet. In exchange for a £3.9 billion loan, the IMF negotiators were demanding £1 billion in cuts for 1977-78 and £1.5 billion for 1978-79 (Sandbrook, 2012, p. 497). The Cabinet was fundamentally divided on the proposal and weeks of tense Cabinet meetings ensued. Callaghan, still new and lacking a majority, kept this cards to his chest, although he was moving to support his Chancellor. The main opponents were Anthony Crosland and Tony Benn. The issue came to a head at the Cabinet meeting of on 1 December 1976. Tony Benn advocated rejection, pushing instead for his ‘alternative economic strategy’, the details of which he had laid out in a memorandum (Benn, 1976). Crosland argued for sticking to the existing

---

63 His speech was mostly written by his son-in-law, Peter Jay. A few months later Milton Friedman would note Callaghan’s speech in his own Nobel acceptance speech (Sandbrook, 2012, p. 497)
64 Healey then flew to Blackpool to deliver the news to the conference. Having been kicked off of the National Executive Committee the year before, he had to speak from the floor, and was limited to five minutes. Amidst a rising chorus of jeers, boos, and calls for his resignation, he made the case for cuts in expenditure.
65 This entailed the government putting in import quotas, exchange controls, controls on domestic investment, and extensive planning through his beloved National Enterprise Board (p. 3). All of this, of course, was conveniently incompatible with
strategy, without further cuts. If the IMF persisted, they should threaten a siege economy, or pull troops out of Germany, or leave the EEC, to get the IMF to give way (Beckett, p. 352). In essence, if they were just insistent on not cutting spending further, the IMF would somehow give them the money anyway. Healey eviscerated both arguments. Ultimately, 18 of 23 Cabinet colleagues agreed. When the measure was brought to the House, 27 Labour MPs voted against it and another 30 abstained, despite a three-line whip. In many ways, the IMF loan changed relatively little. Healey had already been pursuing spending cuts and cash limits prior to these conditions; they simply continued a trend already in place (Sandbrook, 2012, p. 502). Plus the Treasury’s forecasts for borrowing turned out to be horribly wrong: £5.6 billion for 1977-78 rather than the £10.5 billion the Treasury had predicted (Beckett, p. 355). The loan was paid back early. Politically, nevertheless, it was viewed as a national humiliation. That said, Jim Callaghan had weathered the storm and kept a fractious party intact.

Entering into 1977, things started to look up. Unemployment still remained depressingly high at 1.5 million, but inflation was back down to single digits. The sterling crisis now over, the value of the pound back up to $1.93 by the end of 1977 (Sandbrook, 2012, p. 650). The budget was also improved, with government borrowing down from 10% of GDP to 5% and overall spending down from 46% of GDP to 40% (Sandbrook, p. 690). After the sharp recession of 1974-75, GDP growth had rebounded to a respectable 3.3%. And North Sea oil finally started to flow, as did the revenues to the Treasury. The political picture was also improving. His minority government made life in the Commons interesting, but a pact with the Liberals from March 1977 provided some stability. Nor were the Conservatives landing many punches, having not yet developed an effective counterargument. Callaghan consistently outdueled Mrs. Thatcher in the Commons, and the polls showed him the more popular leader (Sandbrook, 2012, p. 653). All told, 1977 and 1978 looked distinctly sunnier for Jim.

Under the surface, though, pressures were building. Manufacturing output and productivity remained quite poor compared to other countries. The recovery, moreover, was built on the fragile acquiescence of the unions. The first three phases of Labour’s incomes policy had reduced inflation by nearly 19%, but at a cost to the average workers standard of living. During Phase 2, earnings rose by 9%, but prices by 18% (Beckett, p. 436). Typical family net earnings fell by 18.1% from 1975-77 (Sandbrook, 2012, p. 655). The picture was improving; average earnings rose 14% from August 1977 to August 1978, inflation only 8% (Beckett, p. 438). Still, whatever the macroeconomic benefits of the Social Contract, many people felt that they were worse off. For many skilled workers, their highly guarded differentials were eroded by a flat-rate pay policy (Shepherd, p. 36). Discontent was welling. Whatever union leaders
might accept, the rank and file wanted out of the Social Contract, especially as many of the wider social and economic programs promised had long since fallen to Healey’s budget axe (Shepherd, p. 13). An attempt to get the union leaders to agree to a 10% wage norm in the summer of 1977 failed. The government, of course, did not contemplate resorting to statutory controls as under Heath, but they could try to set the example by sticking to the 10% norm for the public sector (Sandbrook, 2012, p. 658). In early 1978, Callaghan announced that the target for Phase 4 would be 5%, a position formalized in a White Paper that July. With inflation hovering around 8%, this implied a significant belt tightening and the unions would have none of it. The TUC conference overwhelmingly rejected this in September 1978, calling for free collective bargaining, as did the Labour Party Conference in October (Shepherd, p. 15). The 5% pay policy was highly unpopular among the Government’s key allies.

With this background, Callaghan retreated to his farm in Sussex in August to contemplate a General Election, armed with mountains of polling data. What it told him was, at best, Labour was level with the Tories; at worst, slightly behind (Beckett, p. 460). From his own amateur calculations, he predicted a hung parliament (Shepherd, p. 21). Council from the Cabinet was mixed. A slight majority favored a fall election, but those opposed included his deputy, Michael Foot, and Chief Whip Michael Cocks (Sandbrook, 2012, p. 707). Trade union leaders, whom Callaghan invited to a secret dinner at his farm, advised him to go to the people sooner rather than later, as they could not guarantee industrial peace through the winter (Shepherd, p. 29). In Callaghan’s assessment, Labour’s economic policy was bearing fruit and another year would produce an even better record. A fall election might provide very a narrow majority, an uncomfortable situation with which he had been dealing for years. Callaghan decided it would be better to hang on for an outright victory than risk an unclear result in the fall. When he announced his decision before the TUC Conference on 5 September 1978, using the somewhat odd vehicle of an old music-hall song, many of his colleagues were stunned. Tom McNally, Callaghan’s political advisor, said, “He is either a great political genius or he has just missed the boat” (quoted in Shepherd, p. 19).

Endgame: The Winter of Discontent

The Winter of Discontent was the culminating event of the political and economic crises that afflicted Britain in the seventies. We need not concern ourselves here with a detailed summation of the

---

66 According to Moore (p. 386) the introduction of the famous Saatchi and Saatchi “Labour Isn’t Working” posters also spooked him.

67 Shephard (p. 23) notes that most of the Labour whips were opposed to a fall election in 1978.
events of that tumultuous winter; Shepherd (2013) and Sandbrook (2012, Chapters 30-31) Offer excellent overviews. Of issue are the underlying causes of these events and their impact on the Conservative Party. The core cause of the Winter of Discontent was the continuation of an incomes policy into a fourth year. For some, notably Barbara Castle, the problem was not the policy but the target -- the rigidity of Callaghan’s 5% norm (Shepherd, p. 96). There is nothing to indicate, however, that a norm 8% or 10% or 15% norm would have been any more successful. Some union leaders, including Moss Evans of the TGWU, and rank and file members of the unions were no longer interested in managing the Government’s anti-inflation policy for them (Shepherd, p. 75). The percentage did not matter; the unions wanted a return to free collective bargaining. (Shepherd, p. 101). After years of restraint (and sensing opportunity), those demands were quite high – 20%, 40%, even 60% (the amount demanded by oil tanker and lorry drivers in November 1978; Sandbrook, p.720). For the Government to concede such settlements would have made a mockery of having any anti-inflation policy at all. The Winter of Discontent made clear the fundamental flaw of an incomes policy: at some point, the restrictions have to be lifted and pent up wage demands released.

The Winter of Discontent manifest most memorably as public sector strikes, yet it began in the private sector, with a strike at Ford. After nine weeks off the job, Ford workers settled for a 17% increase, well beyond the 5% norm. Keen to enforce the 5% norm, Callaghan moved sanctions against Ford, such as withdrawing government contracts, as a penalty for the excessive settlement. A rebellion by the Tribune Group of left wing Labour MPs saw the measure defeated in the Commons (Shepherd, p. 57). The Government’s ability to enforce the 5% norm was now gutted and the scramble for higher wages was on (Sandbrook, 2012, p. 720). With the floodgates open in the private sector, public sector employees, having borne the greater brunt of wage restraint, were no longer willing to go along. Callaghan had only exhortation on his side. He begged the trade union leaders for solidarity and constraint, never quite grasping that they no longer had an ability to constrain the shop stewards even if they were willing to make the attempt (Sandbrook, 2012, p. 720). “The 5 per cent pay norm was undeliverable by the unions and unenforceable by the government” (Shepherd, p. 141). That Callaghan’s credibility and competence had been undermined by his disastrous “Crisis? What Crisis?” interview after returning from an international summit in Guadalupe in early January made this an even less tenable strategy. Thus through January and February – overlaying already disruptive strikes by oil tanker and lorry drivers – began the series of public sector strikes that created the indelible image of the Winter of Discontent. Here were the trains not running, here were the schools shut down, here were the

---

68 David Owen stated that this was the moment Labour lost the 1979 election. Callaghan aid Bernard Donohue told them the Tribune members that they would be the first ones that Mrs. Thatcher put on the honor’s list.

69 It is perhaps significant that the old guard of Jack Jones and Hugh Scanlon both retired early that year.
sick unattended, here were the bodies unburied, the latter offering endless returns for Tory campaign rhetoric for years to come. Throughout it all, Callaghan and his Cabinet seemed powerless to respond effectively, drawing back from declaring their own state of emergency, resigned to the disaster unfolding before their eyes. The entire rationale of the Social Contract was that Labour could work with and control the unions. “The only difference between Heath and Callaghan,” writes Dominic Sandbrook (p. 760), “was that while Heath fought and lost, Callaghan did not fight at all.”

For the Conservatives, the Winter of Discontent completely transformed their fortunes and focus. Languishing in the polls in the fall, the Tories shot ahead by 19% by February. As Callaghan waffled, Mrs. Thatcher found her voice, breaking from the default “softly-softly’ line on the unions. In a television interview on 7 January she stated, “I am not in parliament to enable them to have a licence to inflict harm, damage and injury on others and be immune from the law...” (Thatcher, p. 424). In a Commons debate on the industrial situation, she offered support for the Government if they were prepared to introduce appropriate new legislation to control the unions, such as outlawing secondary picketing (Thatcher, 427). (They were not). Of the 16 January Commons debate, The Guardian stated, “On this occasion it was Mrs. Thatcher, waxing furiously indignant, who spoke for the country while Mr. Callaghan was the prisoner of the Labour Movement.” (quoted in Sandbrook, 2012, p. 738). Thatcher’s real success came in a party political broadcast (Conservative Party, 1979a) the next day. Speaking from her Commons room and speaking in very measured tone, she started off by stating, “This is no time to put party before country...None of us wants to see the country torn apart” However, “Some of the things I’ve seen...make me wonder what has happened to our sense of common nationhood and even our common humanity....We’ve seen industrial action directed straight at the public to make you suffer – directed even at the sick and disabled. That sort of action damages the reputation of all trade unionists. Most of whom don’t agree with it.” This was only one of many industrial disruptions this decade and might continue year after year. “What we face is a threat to our whole way of life.” She then laid out the main policies of reform: amended laws on secondary picketing, postal ballots for strikes and union elections; limits on strikes in vital services. She said she knew that this was hard on the Labour Party given their close connections to the unions, but simply had to be done to avoid anarchy. Appealing to the wider labor movement, she placed the blame on a few “wreckers”. It was a powerful and direct message that spoke to the spreading popular revulsion against, as it was seen, the selfishness and shortsightedness of the unions (Moore, p. 399). It was a great success; momentum was now on the Tories side.

---

70 Callaghan offered instead some relaxation of the 5% norm, focusing instead on “comparabilities”. Indeed, when the St. Valentine’s Day Concordat between the Government and TUC called for some limitations on secondary picketing, many left wing Labour MPs were infuriated. (Moore, p. 399)
More importantly, it unified the Tories after years of internal division, particularly on the question of industrial relations. In many respects that argument was more political than ideological. Whose instincts toward the unions was more likely to leads to electoral success: Jim Prior’s or Margaret Thatcher’s? The Winter of Discontent decided that question in favor of a harder line and a more direct industrial relations policy (Shephard, p. 142). The first draft of the manifesto in August 1978, intended for an October election, bore the heavy hand of Chris Patten and the CRD: “We will be even-handed in our approach to industrial problems....What we propose is neither evolutionary nor reactionary” (quoted in Moore, p. 392). This was hardly representative of the ideas embodied in Stepping Stones. The August draft required a substantial rewrite in February in light of events. Even then, Thatcher did not like the moderation imbuing the sections on pay bargaining (Moore, p. 404). The final draft (Conservative party, 1979b) contained three very specific reforms: no secondary picketing, limitations on the closed shop, and funded secret ballots for strikes and union elections. Overall, the 1979 Conservative manifesto was hardly radical, representative of Thatcher’s mix of prudence and conviction (Moore, p. 390). On some key areas of policy, particularly monetary control, their policies remained quite intentionally vague. But their position toward the trade unions was much firmer and more specific than it would have been. Thatcher states unequivocally in her autobiography that no amount of discussion would have sufficed to have gotten the Shadow Cabinet to adopting elements of the Stepping Stones program had it not been for the Winter of Discontent (Thatcher, p. 423).

Callaghan’s Government, although mortally wounded by the unions, was actually felled by the Scottish nationalists. Their (informal) support withdrawn from the Government following the failure of the devolution referendum in Scotland (certainly not helped by the industrial unrest), the government lost a no confidence motion by one vote on the 28 March 1979, leading to an election on 4 May. The Labour manifesto was fairly moderate; Callaghan was running as the candidate of the status quo. Thatcher was the radical (Sandbrook, 2012, p. 786). She partially embraced this. Speaking to a rally at Cardiff, she noted that the Old Testament prophets never proclaimed, “Brothers, I want consensus...[they said] This is my faith and my vision!” (Quoted in Moore, p. 408). Tony Benn described her approach as “long-range shelling deep behind our lines, attacking things we assumed were already part of the consensus.” (Turner, p. 268). A Conservative victory seemed inevitable, but Mrs. Thatcher did not have an especially strong campaign, as usual being bested personally by Jim Callaghan. The huge lead of February melted into May. On 25 April Thorneycroft even suggested that Thatcher appear with Heath. “I exploded,” wrote Thatcher later, “If Peter Thorneycroft and Central Office had not understood that what we were fighting was not just a reversal of the Wilson-Callaghan approach but of the Heath Government’s approach they had understood nothing” (Thatcher, p. 456). In the end, Thatcher was right, and Callaghan recognized it. In the midst of the campaign he said to
Bernard Donohue, “It does not matter what you say or do. There is a shift in what the public wants and what it approves. I suspect that there is now such a sea-change – and it is for Mrs. Thatcher” (Moore, p. 413). On 4 May, on a 5.1% swing (the biggest since 1945), the Conservatives managed 339 seats to Labour’s 269, with a comfortable majority of 43. The Thatcher era had begun.

How and When Crisis Leads to Change (Or Not): The Six P’s

The Thatcher years are one of the most periods of British political history. Of little dispute is that it is the beginning of the period of neoliberal political economy that is still in place today. This was, then, the last great transformation in Britain’s political economy. There has been far less analysis as to the actual process by which this change came about – the rise of Thatcher as Conservative Party leader and the transformation of the Conservative Party in response to the crises of the 1970s. This paper has sought to fill that lacuna, in order to draw lessons for understanding the potential for major political economic change in the present day.

The argument here is that the rise of neoliberalism in Britain in the 1970s can be explained by the confluence of six “Ps”: poor economic performance; a widespread recognition of policy failure; well-developed alternative possibilities for reform; key personalities to push these ideas to the forefront; control of a major party; and favorable political conditions. These constituted the necessary and sufficient conditions for Thatcherism to arise. Transformation begins with the relative economic decline of the British economy in the postwar era. Britain is suffering from problems of low productivity, subpar growth, erratic (“stop-go”) government policies, poor management, and contentious and disruptive industrial relations. Much of this is masked (or at least easily downplayed) by the long postwar boom. The more challenging environment of the seventies exposes them, however, adding substantial inflation into the mix. The Heath Government tried to resolve these using the tried and true nostrums of the postwar consensus: fiscal reflation (the Barber Boom) and incomes policy to counter potential price rises. Stagflation was all that followed and a showdown with the unions over Heath’s statutory incomes policy spelled political disaster for the Tories. Harold Wilson returned, promising a Social Contract that would stabilize industrial relations. Initially the unions were placated with large wage increases, coupled with a substantial increase in spending. The result of this largess was inflation peaking at 27% in 1975, a run on the value of the pound due to widening deficits in both the balance of payments and the budget, and, ultimately, the resort to a conditional loan from the IMF. Dennis Healey’s budget constraints (which actually preceded the IMF conditions) and the stabilization of wages via Phases 1, 2, and 3 of the Social Contract under Jim Callaghan saw a brief economic revival.
in 1977-78. However, the unwillingness of the unions to eschew free collective bargaining for a fourth year with inflation still high, coupled with the Callaghan Government’s unwillingness to abandon its pay policy, created the conditions for the Winter of Discontent. Governments of both parties tried to resolve the new challenges of the 1970s with the traditional tools of the postwar consensus, specifically, Keynesianism and incomes policy. Both failed to correct the economy’s poor performance.

It was the recognition of that policy failure that led to the search for alternatives. Keith Joseph and Margaret Thatcher had been part of the rather One Nation Heath Government, but saw that experience as a (negative) cautionary tale. For Heath and his supporters the problem was not their policies, cradled comfortably within the postwar consensus, it was the radicalism of the unions. For the Heathites only the Labour version of the postwar consensus was flawed; the Tory version would work if moderate opinion could just be mobilized. It was Joseph’s very conservative conversion on the road to serfdom that called this into question. His speeches in 1974-75 represented as very public and successful assault on the collectivist views dominating both the Conservative and Labour parties at the time. His sense of the failure of the postwar consensus this led him to embrace monetarism to fight inflation, a smaller state, freeing up markets through deregulation, and rejecting conciliation and corporatism in industrial relations. His own failings as a politician rendered him John the Baptist to Thatcher’s Neoliberal Messiah, but without him effectively making the case against collectivism, Thatcherism would never be. The Labour Party, it should be noted, also recognized that the policies of the past were failing. Callaghan effectively jettisoned Keynesianism with his “in all candor” speech to the 1976 Party Conference. Healey was already trimming spending before the IMF imposed its conditions, and he was pursuing monetary targets (albeit not tight ones) while the Tories were still in opposition.

Indeed, the internecine battles of the 1980s have their roots in the recognition of policy failure by Callaghan and Healey in the 1970s.71 Unlike Joseph, though, their conversion was pragmatic rather than ideological, and only partial. Jim Callaghan, so long the friend of the unions, could not abandon an incomes policy. It led to a bitter end.

Identifying problems was one thing; developing coherent alternative possibilities something else. Political programs, particularly those capable of producing major shifts in the organization of a nation’s political economy, do not simply “emerge” into the political arena. They need to be carried by individuals, the key personalities driving change. Margaret Thatcher would never have gotten the chance to be Conservative leader if Ted Heath did not have such terrible interpersonal relations with so many Conservative MPs. Nor would she have gotten the chance if some of the other big beasts in

---

71 In a sense, the Labour left also recognized failure. The intellectual premise of Tony Benn’s alternative economic strategy is that proper socialism as he saw it could no longer be pursued within the existing policy framework.
Heath’s Cabinet, especially Whitelaw, been willing to take him on directly. Nor would she if Keith Joseph had better political temperament. Only through this intermixing of characters, among the many others in our story, does Thatcher emerge as the leader of a major political party, someone who will advocate a radical alternative to existing policies. That said, one of the key points to emerge from this narrative is just what a long, hard slog it was for the Thatcherites to win over the Conservative Party to their viewpoints. Margaret Thatcher faced a Shadow Cabinet and a party organization that was distinctly hostile to the ideas she was proposing. Partially this was a function of her leadership. Given her position, she was cautious and pragmatic in her approach, ever conscious that, if she lost an election, she would not be given a second chance.

Monetarism was already established and articulated policy alternative before Thatcher ever came to power and she had Joseph and Howe in the Shadow Cabinet as enthusiastic advocates. While monetarism was put forward as a component of Conservative economic management by 1979, Thatcher never won a full or complete endorsement of the policy from the Shadow Cabinet. Even though the Stepping Stones program was widely discussed and, as a general principle, accepted by the party leaders, its application to policy was blunted until the Winter of Discontent. It really took Thatcher’s entire tenure as Opposition Leader, and really well beyond that, in order to convert the Conservative Party to her preferred policies.

None of this would have happened, however, had not the political conditions been favorable. In the introduction I noted that the “Thatcherite myth of the 1970s” (a country on the edge of disaster, saved by Mrs. T) has been countered be a revisionist view that downplays the severity of the problems of the decade. To be sure, while some the more extreme predictions of doom rendered at the time were indeed hyperbolic, the argument that events of the decade have been mischaracterized excessively negatively, that things “just weren’t that bad” -- an argument embraced to greater or lesser extents by Tuner (2008), Shephard (2013), and Hay (2009) -- is an assertion that is very poorly supported by the facts (see Sandbrook, 2012, pp. 758-59). Andy Beckett’s history of the decade is not revisionist, but he is certainly sympathetic to their cause. One need only read his detailed recounting of the “Siege of Hull” during the Winter of Discontent – based largely upon interviews with the strikers themselves – to conclude that the idea of a “manufactured crisis” strains credulity (Beckett, pp. 484-91). Yet that assertion is employed to a purpose, to support a particular interpretation of the rise of neoliberalism. It was an issue of narrative and framing: the Thatcherites (and their allies in the right wing press) provided a narrative that allowed these events to be framed as “crisis”. Without such framing, the “inevitability” of Thatcherism vanishes; that is, there was alternatives. The logical inference, of course,

---

72 There was a radical alternative on the left in Tony Benn’s National Enterprise Board proposals and alternative economic strategy. The difference is that he was never able to carry the Labour Party with him.
73 She titles the chapter in her autobiography on the 1979 election “Just One Chance…”.
is that if we did not need neoliberalism then, why do we need it now? What this interpretation of the history misses, and what I hope the above analysis provides, is that the very development of that narrative was, in itself, dependent upon the chain of events during this decade. It was developed in response to these events, it was not simply an interpretation of those events. For sure, the intellectual foundation for neoliberal was already there, embodied in the works Hayek and Friedman and kept alive by the proselytizing of the IEA, among others. Yet these ideas were very much on the fringes of British politics in 1970. They work their way into the mainstream, into the program of a major political party, by 1979, because of the key actors’ reaction to the various crises. Without the failures of the Heath Government, you would not likely have had the shift to the right among key Conservatives. Without the problems of the Labour Government, culminating in the Winter of Discontent, the Conservative Party might never have actually accepted the key components of Thatcherism. It is only as events serve to provide the validity to the neoliberal narrative that it gains traction. The Winter of Discontent is such a devastating political event not just because of what happened in those few months, as bad as that was in itself, but because it had all happened so many times before. The Winter of Discontent provided confirmation for many that something significant needed to change in the way Britain was run. By then the Tories were (just) ready with an alternative. Thatcherism did not come about because the events of the 1970s were interpreted through a neoliberal narrative. That narrative developed, found a voice, gained acceptance, and ultimately become electorally beneficial, because of the events of that decade; narrative and crisis were mutually constituted. That is another way of saying that without the particular political conditions of the era, Thatcherism would have never come to be. The Iron Lady was truly forged in the cauldron of the seventies.

History does not repeat itself, but it does rhyme. What rhymes have been elaborated here that have relevance for our economic problems of the present? Some of the necessary conditions identified from the past are certainly available in the present. The financial crisis represented a clear failure of financial market deregulation. The subsequent crash produced the deepest recession since the 1930s (worse, one should note, than those of the 1970s) and recovery since has been sluggish. The Great Recession not only cost jobs, it saw a sharp decline in average incomes. Collectively these have since been recovered, but individually many are worse off than previously, feeding a growing mood of economic insecurity and a sense that standard of living for the average person has been stagnant for decades while those at the top have reap the benefits of the free market. That a dense academic tome like Thomas Piketty’s *Capital in the Twenty-First Century* (2014) could become a best seller indicates the extent and depth of these fears. For many analysts the financial crisis served to expose the pathologies of the neoliberal model, particularly its purported reliance upon private debt as a driver of
growth.\textsuperscript{74} So why has so little changed? Comparing the present with the seventies makes it easier to identify the missing links. The financial crisis has largely been interpreted as resulting from a failure of regulation within neoliberalism (and thus amenable to reform, such as Dodd-Frank), rather than as a fundamental failure of neoliberalism. As Mark Blyth has explained, what started as a crisis of private debt has largely been recast as a crisis of public debt (Blyth, 2014). Hence financial restructuring has been minimal while the dominant focus of politics, for the Coalition Government as well as elsewhere, has been implementing austerity. The ongoing Eurozone crisis, the most extensive collateral damage to the collapse of the US subprime mortgage market, is framed, mainly be Germany, as an issue of overspending by profligate southern European states. To be sure, there has been pushback from the Syriza-led government in Greece and others. But even here, the argument that radical, systemic reform of political economies is the answer has not gained acceptance because of another key difference from the past: there is no alternative. That is, there simply is not a ready-made alternative to the dominant model waiting to be implemented. David Cameron is certainly no Margaret Thatcher; neither is Ed Miliband. Thatcher articulated an alternative to the dominant postwar consensus. Miliband has not articulated any program that could reasonably constitute a counter to neoliberal hegemony.\textsuperscript{75} Nor is there any real indication of a “Labour Keith Joseph” waiting to convert the party to a new approach. And what would that approach be? The main problem for those wanting to counter neoliberalism is that there are a collection on inchoate ideas, but not a clearly developed plan that could indeed be adopted by a party like Labour. The biggest lesson from the past is that it took a whole series of crises to dislodge the postwar consensus. The individual crises of the 1970s do not explain that change. You have to understand them in their entirety. The 2008 financial crisis caused enormous political and economic damage. Was it bad enough to dislodge the hegemony of neoliberalism? So far, at least, the answer has been no. The 2008 crisis has certainly served to undermine the faith of a large number of people in the efficacy and fairness of our current political-economic arrangements. If the past is any indicator, it will likely take further significant crises to induce transformative change. For those seeking transformative change, they will likely need things get much worse before they might have an opportunity (from their perspective) to things better.

REFERENCES

\textsuperscript{74} Colin Crouch’s “privatized Keynesianism” best represents this idea, although there are many variations on this them. Whether it is an accurate characterization of neoliberalism is another question. See Casey (2015).

\textsuperscript{75} New Labour, after all, having embraced that hegemony.

Benn, Tony (1976) “The Real Choices Facing the Cabinet”. Memorandum by the Secretary of State for Energy, 29 November 1976 (Downloaded from the National Archives (http://www.nationalarchives.gov.uk/cabinetpapers/themes/imf-crisis.htm#The%20$3.9%20billion%20loan))


Conservative Party (1975a) “Notes Toward the Definition of Policy” Discussion Paper for the Leader’s Consultation Committee, 4 April 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

Conservative Party (1975b) Minutes of the 57th meeting of the Leaders Consultative Committee, 11 April 1975. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)


Conservative Party (1978), Minutes of the 51st meeting of the Leader’s Steering Committee, 30 January 1978. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)


Conservative Party (1979b), Conservative Manifesto.


Hailsham, Lord [Quintin Hogg] (1975). Excerpt from Lord Hailsham’s Diary for 11 April 1975. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)


Joseph, Keith (1974a) “Inflation”. Memo to the Shadow Cabinet. 1 May 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

Joseph, Keith (1974b) Speech at Upminster, 22 June 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

Joseph, Keith (1974c) Speech at Leith, 8 August 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

Joseph, Keith (1974d) Speech at Preston, 5 September 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

Joseph, Keith (1974d) Speech at Edgbaston, 19 October 1974. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)
Joseph, Keith (1976) Stockton Lecture 5 April 1976. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)


Thatcher, Margaret (1975) Speech to the Conservative Party Conference, 10 October 1975. Downloaded from the Margaret Thatcher Foundation (http://www.margaretthatcher.org/)

