CAPITALIST CRISIS AND THE RISE OF MONETARISM

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What is the significance of 'monetarism' for an understanding of the relationship between the economy and the capitalist state? Before we can address the question we have to try to define 'monetarism'.

In the strictest sense 'monetarism' refers to the advocacy of the quantity theory of money and a policy preoccupation with the growth of the money supply. In this sense monetarism expresses a pre-Keynesian orthodoxy, that has been perpetuated by a few cranks and that inexplicably grabbed the hearts and minds of economists and politicians for the best part of a decade, between 1975 and 1985. This is the view that has tended to be taken by economists who remain committed to a Keynesian analysis. For these economists monetarism was a combination of huckstering and collective madness that led to mistaken economic policies. The response to monetarism was to keep faith and wait until normal sanity was resumed. Such a view has apparently now been vindicated by the almost universal abandonment of this kind of monetarist orthodoxy, although elements of its rhetoric remain.

This is to take much too narrow a view of monetarism. Although this narrow monetarism has been utterly discredited, and the money supply no longer has the fetishistic significance that it briefly enjoyed, the broader contours of the politics and ideology of monetarism remain with us, and have been assimilated by many of those of a Keynesian persuasion. This politics and ideology relates not so much to the narrow technical issues of monetary policy and the control of the money supply as to the broader questions of the relations between the state and the economy. The distinctiveness of the monetarist approach to these questions is the rejection of the conception of the interventionist state in favour of a microeconomic view of the desirability, and a macroeconomic view of the necessity, of subordinating political discretion to the dictates of the market. Within this broader context monetarism is far from dead, and monetarism is not simply the preserve of a few monetary cranks, but has rapidly established itself as the orthodox theoretical articulation of the limits of state intervention, defining the contours of political reality that have increasingly been accepted by the Left as well as the Right. Many on the Left have incorporated a 'monetarist' conception of the relation between the economy and the state into a social democratic politics in the form of a 'new realism', a 'politics of austerity' or a conception of the 'social market economy' or of 'market' or 'decentralised' socialism.

There can be no doubt that the theory of 'monetarism' is fundamentally and irremediably ideological, even in its most abstract and theoretical forms. However monetarism conceals within it a partial truth. The theoretical and political crises, out of which monetarism has emerged, are real crises to which monetarism is a real response, even if it is a one-sided response that is presented in a mystified form. In this paper I intend to approach the problem of the relation between capital and the state by looking for monetarism's rational kernel. Although the paper is concerned with Britain, I hope the argument will have a wider resonance.

One approach to the analysis of ideology is to try to locate the interests served by that ideology. Whose interests does monetarism serve? One view, that has been prominent on the British left, sees monetarism as representative of one particular 'fraction' of capital, usually identified as 'finance' or 'financial' capital. This view fits within the framework of an analysis of the historical development of British capitalism in terms of the long-standing division between financial and productive capital, a division that has strong social and cultural, as well as economic, aspects. Because of its 'hegemonic' domination of the capitalist 'power bloc', British financial capital has always managed in times of crisis to reassert its fractional interests even to the detriment of the development of the domestic productive economy and correspondingly of domestic employment and living standards.' Within this framework the rise of monetarism expresses this same antagonism between the interests of different fractions of capital. Whereas Keynesian-welfare-corporatism represents the interests of productive capital, monetarism represents the interests of financial capital. In Britain, Thatcherite policies of tight money and market liberalisation led to high interest rates and massive capital outflows while destroying the manufacturing base of the productive economy. While Thatcherism received the enthusiastic support of the City of London and the financial press, industrialists were rather more luke-warm in their praises, and repeatedly drew attention to the burdens imposed on manufacturing industry.

This interpretation has the merit of locating monetarism historically, and of providing a plausible account of the contrast between Keynesianism and monetarism. However it suffers from two major weaknesses. Firstly, it provides a specifically national explanation for what is an international phenomenon. Secondly, it is very doubtful whether it is possible to make any clear distinction between the supposedly antagonistic fractions of capital in the era of late capitalism, dominated by multinational corporations that have reintegrated the different moments of the circulation of capital on a world scale. Although plenty of individual capitalists, and particularly industrial managers, who have been the victims of the crisis have complained bitterly about contradictionary policies, and although there has been debate about the appropriate degree of state intervention in the direction of investment, there is no evidence of any significant capitalist 'fractional' interest proposing any alternative strategy to that offered by monetarism, let alone espousing a 'corporatist' alliance with the working class.

More generally, this kind of interpretation suffers from the usual problems of reductionism, in seeking to explain a political ideology by reference to a particular economic interest. While such reference certainly illuminates the political significance of the ideology in question, such a narrowly instrumental view is not sufficient to explain the rise and fall of particular ideologies. The alternative view, adopted in this paper, is that monetarism does indeed serve a capitalist interest, but that it serves the general capitalist interest, rather than the interests of particular 'fractions' of capital. The conflict of interests identified by the 'fractionalist' approach, between the needs of the domestic economy and the interests of multinational capital, is not a conflict between the interests of different fractions of capital, but rather a conflict between the interests of multinational capital and the needs of the mass of the population.

Although it is clear that monetarism does serve the capitalist class interest, to refer monetarism to the interests of capital is not to provide an explanation for the rise of monetarism. The politics and ideology of monetarism are appropriate to capital at a particular historical phase in its development and have to be located historically in the crises from which monetarism emerged. Moreover monetarism cannot be reduced to the interests it can be said to represent. Monetarism was not invented or propounded by the ideological hacks of the multinational corporations, but by cloistered academics and ascetic politicians. In this sense monetarism is a response not to an economic crisis of capital, but to a political crisis of the capitalist state and of its legitimating ideology. Monetarism's relation to capital is inscribed in the fact that the crisis of the state is an aspect of a crisis of capitalist reproduction and the response is to propose the resolution of that crisis on the basis of capital.

The rise of monetarism has to be set against the background of the previously dominant Keynesianism, which had served to justify the post-war policies of economic stabilisation and full employment. In the first section of this paper I want to look at the theoretical issues in play in the economic policy debate between Keynesians and monetarists. The conclusion is that during the 1970s orthodox Keynesians came largely to accept the monetarist assertion of the effectiveness of monetary policy, and to a considerable extent also to accept the monetarist use of the growth of the money supply as an indicator of the stance of monetary policy. Moreover Keynesians were also forced to accept the need to contain inflation as a first priority of economic policy, and came to recognise the need to maintain a restrictive monetary policy as a condition for the success of a counter-inflation strategy. Although Keynesians were forced to accept much of the monetarist critique of demand-management policies, the gulf between monetarists and Keynesians over the proper role of the state remained as wide as ever. I conclude the first section by contrasting monetarist and Keynesian conceptions of the proper role of the state in the regulation of capitalist reproduction. It is these differences that underlie the differences between monetarists and Keynesians in the realm of economic policy, and that determine their very different political strategies.

The debate between Keynesians and monetarists was not simply an intellectual debate. Indeed in the intellectual debate monetarism was the loser. The triumph of monetarism was rather a political triumph, the result of the political failure of the ideology and politics of Keynesianism. Although Keynesians and monetarists continued to disagree vehemently about the role of the state and the causes of inflation, in practice the failure of the Keynesian strategy forced avowedly Keynesian strategies that established both the practical falsehood of Keynesianism and the practical truth of monetarism. But monetarism ing for the Right, whose purist monetarism and supply-side economics provided a theoretical justification for policies which had previously been imposed by circumstances on reluctant governments.

Monetarism triumped not because of its own merits, whether as an economic theory or as a political ideology, but because of the failures of Keynesianism. The ideological power of monetarism derived from the fact that it could explain and legitimate economic policies that had been forced on Keynesian governments. It was therefore the failure of Keynesian strategies that established both the practical false hood of Keynesianism and the practical truth of monetarism. But monetarism was not the only alternative available. In the second section of the paper I will survey the breakdown of the Keynesian consensus in Britain. In general the orthodox Keynesian strategy failed essentially because demand-management policies neglected the supply-side constraints that ultimately reflected the uneven development of capital on a world scale. These economic dislocations imposed themselves on the state in the form of financial crises involving a combination of domestic inflation and international payments imbalances.

While orthodox Keynesians tended to look for solutions, such as managed exchange rates and prices and incomes policies, that would alleviate the symptoms of imbalance, more radical Keynesians, on the one hand, and the monetarists, on the other, agreed in seeing the roots of these crises as lying in an essential contradiction between the conditions for the unfettered accumulation of capital and the political priorities of the Keynesian welfare state. Whereas for monetarists the solution was to contain the welfare state, and to subordinate political decision-making to financial restraint, for the radical Keynesians the solution was to bring capital more directly under state control. In the third section of the paper I will look at the confrontation of these two radical perspectives in the General Election of 1979, in which Margaret Thatcher persuaded the electorate that the Alternative Economic Strategy was no alternative. The AES *was* an alternative, but only as a socialist strategy. The political failure of the AES was already implicit in the Labour government's rejection of a socialist solution to the crisis.

In the conclusion of the paper we will see that the failures of monetarism have in turn led to the emergence of a new consensus which retains the financial conservatism of monetarism, expressing the subordination of the state to the financial requirements of sustained capital accumulation, while adopting a more flexible and pragmatic approach to state intervention in capitalist production.

I. KEYNESIAN, MONETARISM AND THE STATE

a) Keynesianism, Monetarism and Economic Policy

'Keynesianism', like 'monetarism', is a very loose term. In the narrow sense it refers to macroeconomic regulation of the economy on the basis of demand-management, using fiscal policy as its primary instrument. However, Keynesian governments have not restricted themselves to demand-management and fiscal regulation, but have progressively developed a much wider range of interventionist instruments in the attempt to coax the economy towards stable full-employment growth. Differences between monetarism and Keynesianism are manifest at various different levels of analysis, from the favoured policy instruments and indicators to the role of the state. The experience of the last two decades has been one of a steady erosion of confidence in demand-management and the primary of fiscal policy, in the possibility of the government sustaining full employment, and ultimately in the desirability of direct state intervention in the regulation of capitalist reproduction. In this section I will outline the differences between Keynesianism and monetarism at these different levels.

In relation to the instruments of economic policy, monetarism is marked by an emphasis on the use of monetary policy (that is, control of the terms on which the government supplies money and borrows from the private sector), rather than fiscal policy (the control of state taxation and expenditure), as the essential means of stabilising the capitalist economy. The two cannot be sharply separated, for the budget deficit, that is the primary means of fiscal stabilisation, has to be financed and so establishes a constraint within which monetary policy has to operate. Thus every government has to make decisions about both monetary and fiscal policy. The difference between monetarists and Keynesians concerns which of these policies the government should make active use of, and which should play a merely passive role.

Keynesians had argued through the 1950s and early 1960s that monetary policy was relatively ineffective and slow as a means of economic stabilisation. The main impact of changes in the money supply would be on interest rates, and changes in interest rates would have only a small, and slow-acting, impact on real economic activity (the most significant exception to this being consumer credit, the manipulation of hire purchase conditions, for example, having an immediate and substantial impact on consumer spending). Keynesians therefore rejected an active monetary policy as an instrument of economic stabilisation, and argued that the state should engage instead in a counter-cyclical fiscal policy that would 'fine-tune' the economy, feeding in expenditure in a recession and cutting it back in a boom, by running a budget deficit or surplus, so smoothing out economic fluctuations and maintaining full employment. Monetary policy, by contrast, should be passive, and guided not by concern with the money supply but by the level of interest rates, low interest rates stimulating investment. The classic statement of this position in Britain was the 1959 Radcliffe Report.

Demand-management based on this kind of fiscal policy was extensively practised in Britain through the 1950s and 1960s. However doubts about its effectiveness as a stabilisation measure soon began to emerge as the economy experienced the notorious 'stop–go' cycle, rather than settling into a smooth pattern of sustained growth. Typically a fiscal stimulus would lift the economy, but rising demand would lead to rising imports which would precipitate balance of payments difficulties and a run on sterling. Growth would then have to be checked in order to rectify the payments imbalance and restore confidence in sterling, checking in turn investment and the opportunities for further growth. Various measures were successively tried to break through the balance of payments constraint, which was generally felt to be a transitional problem. If sustained growth could be maintained, so that domestic investment and production could be expanded to meet the increased demand, the balance of payments problem could be overcome. Thus Maudling in 1963 and Barber ten years later tried to 'dash for growth' which in both cases rested on the vain hope that a determined effort would break through the balance of payments constraint. The 1964 Labour government briefly pinned its hopes on the National Plan, which was supposed to give capital the confidence to expand capacity in anticipation of increasing demand. Subsequently it fell back on a devaluation, which most commentators thought came too late and was too small, which proved equally ineffective. During the early 1970s the pound was similarly allowed to float downwards, without producing the desired effects.

Monetarists argued that fiscal intervention, far from smoothing out the economic fluctuations, actually intensified them. This was partly because the government did not have sufficient information to intervene effectively, thus interventions tended to be seriously misjudged, both as to size and timing. However they argued that it was also because the Keynesian belief that unemployment is the result of deficient demand was, in general, false. Unemployment is an aspect of the nexus of incentives through which the market regulates the level of economic activity, a regulation that necessarily involves economic fluctuations, but fluctuations which are self-correcting. In attempting to smooth out these fluctuations demand-management policies served to intensify them, by mistiming interventions, and to undermine the regulative role of the market by generating inflation.

The monetarists also argued that the Keynesians were quite wrong to play down the importance of monetary policy. Thus, the monetarists argued, a counter-cyclical fiscal policy was associated with an unpredictable, and increasingly expansionary, monetary policy whose effect was further to increase economic instability and to fuel inflation. The uncertainty associated with domestic and external monetary instability in turn discouraged investment and intensified the supply-side bottlenecks that were the stumbling block of demand-management policies. The balance of payments constraint, indeed, had a positive function in imposing some monetary discipline on profligate governments as holders of sterling responded to monetary irresponsibility by selling sterling for other currencies, compelling the government to act to restore confidence in the national currency. The conclusion drawn by the monetarists was that the government's taxation and expenditure policies should be subordinated to the need to have a stable and predictable monetary policy, the effect of which would be sharply to reduce the scope for the discretionary intervention of the government in regulating the economy. Since the inadequacy of the information and of the policy instruments at the disposal of the government meant that such intervention could not be effective in any case, such a reduction would be no bad thing.

Keynesians were not insensitive to the deficiencies of their programme. Keynesians could agree that demand-management was not sufficient to sustain full employment, but they resisted the monetarist conclusion that growth should be checked by restrictive monetary policies as soon as inflationary pressures appeared. According to the Keynesian analysis, without buoyant demand the investment required to increase supply would not be forthcoming. The deficiencies of demand-management therefore required not less state intervention, as the monetarists argued, but more. Thus Keynesianism became associated with the use of incomes policies, to contain inflation, and extensive fiscal incentives to encourage investment.

It also became clear that Keynesians had been wrong to underestimate the impact of monetary policy on the economy. Although productive investment might be relatively insensitive to interest rates, credit-financed consumer expenditure, and speculative investment in stocks and property was much more volatile. Credit policy had tried repeatedly to use direct controls to distinguish between borrowing for productive as against unproductive purposes, but such direct controls were never very effective, and so gradually monetary policy came to play an increasingly important role in the Keynesian strategy. After all, if productive investment was relatively insensitive to credit terms a restrictive monetary policy should discriminate in favour of productive investment by curbing the more volatile elements of consumer demand and speculation. Thus Keynesians could accord an increasing role to monetary policy without thereby adopting a monetarist analysis.

Similarly, Keynesians came to realise that the interest rate, which was their favoured indicator of the stance of monetary policy, was unreliable in a period of inflation where 'real' interest rates, allowing for inflation, diverged from nominal rates. Thus Keynesians eventually came to accept the use of measures of the money supply or of credit expansion as indicators of the monetary stance, without thereby accepting the monetarist hypothesis of a close and direct relation between the growth of the money supply and price inflation.

However, the issue between monetarists and Keynesians was not simply that of the effectiveness of monetary policy and the appropriateness of monetary targets. The main policy issue was that of the viability of a demand-management strategy, and the focus of debate centred on the causes and consequences of the inflation that increasingly accompanied Keynesian expansionism. For the monetarists inflation arose because of the inflationary financing of excessive government expenditure. The growth of the welfare state and of increasingly costly industrial policies lay behind the rise of state expenditure, which governments had increasing difficulty in financing either through taxation or borrowing, the result being inflationary financing through monetary expansion, a policy which Keynesians justified in the name of demand-management. However increasing demand, far from stimulating investment, merely fuelled inflation, and the uncertainty associated with inflation had the perverse effect of discouraging investment and so further reducing the sustainable level of output and employment. The solution was to restore financial stability by cutting government expenditure and pursuing a conservative monetary policy. With confidence restored, investment would recover and the economy would spontaneously approach full employment growth.

For Keynesians, by contrast, inflation was not the result of an expansionary monetary policy funding excessive government expenditure. Indeed demand management implied a degree of inflation to provide the stimulus to increase supply. An expansionary monetary policy was merely a symptom of inflationary pressures in the real economy, as the government accommodated inflation that was generated by factors largely outside its control, most particularly the cost-push inflation that arose out of institutionalised pay-bargaining. For the Keynesians a restrictive monetary policy could only act on inflation by reducing inflationary pressures in the real economy, reducing the level of economic activity and sufficiently increasing the level of unemployment to eradicate the pressure, particularly, of wage inflation. But such a policy would be self-defeating, in removing the demand stimulus to increase investment and so levels of income and employment. If the government could act directly on the inflationary pressures, for example with a prices and incomes policy and with policies to stimulate investment and exports, economic stability could be restored without imposing the heavy economic costs of unemployment and recession, and monetary growth would automatically fall to accommodate lower inflation. Certainly, as Keynesians made increasingly explicit, if a prices and incomes policy could not contain inflation, deflationary monetary policies, rising unemployment and economic stagnation might become necessary. But such monetarist expediencies would have been imposed by the political failure of an alternative, and more rational, approach.

b) Money, the Market and the State

Behind the monetarist and Keynesian analyses of the causes and consequences of inflation, lie very different conceptions of the relationship between capital and the state, and particularly of the role of money and the state in the regulation of capitalist reproduction. Monetarism is based on a belief in the preeminence of money as the means of economic regulation. As long as the value of money is stable, or at least predictable, then it can serve as the means of calculation, the basis of economic decision-making and the mechanism for economic co-ordination. In the absence of political or institutional barriers to exchange involuntary unemployment will be impossible, while the link established by money between effort and reward will provide sufficient incentives to maintain economic dynamism. By contrast political intervention in the operation of the economy is undesirable and undemocratic.

Against the Keynesian conception of the state as a neutral institution that translates the democratic expression of preferences into a set of economic policies, monetarism rests on a much more cynical view of democratic politics. The state offers an alternative system of allocation of goods and services to that provided by money, the primary difference being that the state form of regulation dissociates effort and reward, payment and benefit, and so necessarily undermines the incentives on which the efficiency and dynamism of capitalism depends. Instead of rewarding success and penalising failure, as monetary regulation does, the state will always tend to penalise success and reward failure as the state takes away from the minority who have been successful in order to compensate those who have fallen by the wayside. Whether through taxation, public borrowing or inflation, the state appropriates and re-distributes resources according to its own political priorities, and the more it spends the more it undermines the incentives and the individual freedom of the market.

This gives rise to the paradox of the fundamentally undemocratic character of the democratic state. It is undemocratic because it tries to overrule the judgements of individuals of their own best interests, seeking to restrict individual freedom by imposing the ill-informed, opportunistic and dogmatic judgements of vote-seeking politicians on the free choices of sovereign individuals. However desirable may be the goods and services provided by the government the beneficiaries of government largesse are not those who have to pay for it. Thus there is a tendency for public spending to increase without regard to the damage inflicted on the private sector by the increasing drain on its resources. This damage is all the greater if the state resorts to inflationary financing which undermines the integrity of the currency and so the regulative role of money.

The monetarist premise is the naive and implausible belief that money is an adequate means of regulation of capitalist reproduction. This leads directly to the conclusion that any failures in the operation of the market economy can only be attributed to institutional or political barriers to the unfettered operation of market forces, and the solution is not to impose new barriers, but to remove those that exist. The political ideology of monetarism simply inverts the Keynesian belief that the state has to compensate for the inadequacy of money as the means of regulation. For monetarism the roots of the crisis do not lie in any failings of the market economy, but rather lie in the massive intervention of the state that has undermined the operation of the market and the role of money as the means of economic co-ordination and regulation.

The significance of monetary policy within monetarism follows from the central role of money as the means of regulation. The prime task of a government's economic policy is to preserve the integrity of the currency by so directing its monetary policy as to maintain a stable price level so that money can serve its proper function as means of calculation and means of exchange. This implies that the supply of money must be adjusted to the demand for money. If, as Friedman argued, the demand for money is stable in relation to income, this requires simply that the government keeps the growth of the money supply in line with the growth of income.

However if, as has proved to be the case, the demand for money is not stable, at least with respect to the targetted monetary aggregate, then monetarists can perfectly well accept the adoption of more flexible monetary targets and the use of complementary indicators without this recognition in any way undermining their faith in the effectiveness of money as the means of regulation of capitalist reproduction.

It is not only the intervention of the state that undermines the operation of the market, but the existence of any barriers to free competition. For most monetarists trades unions represent a barrier to competition, an imposition on individual freedom, and a means of eroding incentives as pernicious as the state. The monopoly power of the trade unions in the labour market has been built up with the collusion of the state which has granted the trade unions immunity from the sanctions of the law of contract. This ability of unions to restrict competition in the labour market and so prevent people from taking jobs at wages below those dictated by the unions, or on conditions unacceptable to the unions, is for many monetarists the main cause of unemployment. Thus Hayek claimed, without any evidence, that 'these legalised powers of the unions have become the biggest obstacle to raising the living-standards of the working class as a whole. They are the chief cause of the unnecessarily big differences between the best- and worst-paid workers. They are the prime source of unemployment. They are the main reason for the decline of the British economy in general'.[3] This too is the significance of Keynes's analysis of unemployment for monetarists. According to what had become the orthodox interpretation of Keynes represented by the 'neoclassical synthesis' Keynesian economics is a special case of the more general neoclassical system that pertains when there are price rigidities preventing the achievement of full employment equilibrium, the most significant of such rigidity being the rigidity of wages. For monetarists the apparatus of Keynesian intervention simply increased the power of the unions, while incomes policies reproduced and intensified wage rigidities, so making the problem of unemployment worse. Not surprisingly the 'reform' of the trade unions was a major theme of the Thatcherite strategy in Britain.

In the 1950s monetarists were old-fashioned financial conservatives. In the 1960s they were academic cranks and backwoods politicians. In the early 1970s they drew strength from Keynesian failures, and began their political advance. But still the Keynesians had the political advantage in promising full employment and planned growth, if they could only deliver. Monetarism could make no such extravagant promises, having to appeal instead to the rather less attractive moral virtues of austerity, responsibility and restraint. Both ideologically and politically the Keynesians had the initiative. However over the 1960s and 1970s their self-confidence was progressively eroded as Keynesian policies were tested to destruction. Fiscal expansion generated inflation without stimulating investment, incomes policies repeatedly broke down and unemployment steadily rose. In the face of successive financial crises Keynesian governments were forced to introduce restrictive monetary politics to curb inflation and maintain the exchange rate, abandoning the commitment to full employment and relying increasingly on the growth of the money supply, rather than the rate of unemployment, to determine budgetary policy.

The failure of Keynesian demand-management over the 1960s and 1970s dictated the adoption of monetarist policies. Such policies were dictated by circumstances, rather than out of conviction, imposed by the practical failure of Keynesian measures, not adopted as the result of the theoretical or political advance of monetarism. Rather, monetarism advanced in the wake of the adoption of monetarist economic policies, providing as it did an ideology that could legitimate policies that had been imposed by force of circumstance. Monetarism came to the fore not because of its own virtues but because the failure of Keynesianism gave conviction to Thatcher's claim that 'there is no alternative'. The success of monetarism is testimony to its practical truth, but what are the limits of this truth? How did the failure of Keynesianism legitimate the monetarist critique and enable monetarism to represent itself as the only alternative? To answer this question we need to look more closely at the decline of Keynesianism in Britain.

II. THE CRISIS OF KEYNESIANISM AND THE RISE OF MONETARISM

The high point of confidence in Keynesian interventionism was marked by the election of the 1964 Labour government. However this government soon found its ambitious programme coming up against serious obstacles in the form of inflation and balance of payments difficulties. Although these were both monetary barriers, expressing the instability of the currency domestically and internationally, they were interpreted as reflections of real distortions that could be removed by state intervention. Thus the government sought to correct these real distortions by its programme of industrial restructuring and fiscal incentives to promote investment, productivity and exports, and an incomes policy, and later trade union reform, to prevent wage rises from inducing inflation at low levels of unemployment. However these policies had only limited success in stemming the tendencies to increasing inflation and unemployment and a deteriorating balance of payments.

The government sought to contain increasing financial pressure by pursuing a restrictive monetary policy, which was further tightened when the government finally had to abandon the attempt to maintain an overvalued pound by devaluing.

Concern at the implications of an excessive growth of the money supply was officially expressed as early as 1966, when the Bank of England declared that control of the stock of money should be the 'dominant consideration in debt management'.[3] However the crucial change in policy emphasis came with the devaluation crisis and the visit of the IMF. Recognition of the need to restrain the expansion of credit to prevent increasing monetary instability was reflected in the Letter of Intent to the IMF following the devaluation of November 1967, in which a limit on bank credit expansion was set for 1968, and in the second Letter of Intent of May 1969 which again set a target for Domestic Credit Expansion. The effect of such a limit was to impose increasingly restrictive monetary policies the more the balance of payments went into deficit. Although dictated by the IMF, there is no evidence that the Bank of England or the government did not agree on the need for monetary restraint, although it served the government's purposes to blame its failures on the 'gnomes of Zurich' and the IMF. Roy Jenkins, in his budget speech of April 1969, expressed concern at the growth of credit in the previous year, and stressed his determination to restrict its growth in 1969. Thus the rate of growth was cut to 3 per cent in the year 1969/70, a squeeze which helped to force up unemployment in the following years, rather than moderating inflation. Although monetary policy was still considered subordinate to fiscal policy in seeking to determine the level of demand, the writing was already on the wall.

The Labour government gradually abandoned a commitment to maintaining full employment by means of fiscal expansion in favour of policies of monetary restraint to maintain financial stability. This erosion of a Keynesian strategy was not so much a matter of choice, as forced on the government by a series of financial crises. In place of fiscal expansionism the Wilson government developed an apparatus of direct intervention to stimulate investment and employment and to restrain the growth of pay, backed up by an increasingly restrictive budgetary policy. The social costs of the consequent rising unemployment were dealt with by an expansion in the welfare apparatus. This 'corporatist' strategy was presented as an ambitious strategy of Keynesian intervention to maintain full employment, with incomes policy to curb inflation and direct intervention to restructure industry in the interests of international competitiveness. However, by 1970 the strategy was looking a bit tattered around the edges. While trade unions were becoming increasingly frustrated by the restrictions of incomes policy, there were few signs of the promised new dawn, with both unemployment and inflation rising. Rather than superintending the regeneration of the British economy, Labour seemed to be overseeing its decline.

The relationship between the Labour government and the working class was a complex one. The trades unions had made considerable advances, in recruitment and in the admission of the leadership to the corridors of power. There had been a considerable expansion in the welfare state, with rising expenditure on health, education, housing and welfare. On the other hand, unemployment had increased and showed little sign of falling back, living standards were stagnant or in decline, taxation and inflation were rising, while the government's industrial strategy showed scant regard for the jobs, welfare or working conditions of the workers involved and the highly bureaucratic welfare state made no concessions to demands for popular participation and democratic accountability. The attempt of the Labour government to manage a capitalist economy in decline, while retaining its popular support, had led it to exploit and develop divisions within the working class, and particularly to seek, not always successfully, to demobilise and isolate the more militant and better organised elements of the working class who could provide a challenge to its strategy for capitalist reconstruction. The basis was already being laid for the political divisions within the working class that would be progressively opened up as the crisis unfolded through the 1970s, divisions between those who were the beneficiaries of state support and those who were bearing the costs, between public sector workers and private sector workers, between the North and the South, the skilled and the unskilled, between men and women and between black and white. Already by 1970 there was apopular constituency for the anti-statist and anti-trades union free market ideology that would emerge as monetarism, and it was this constituency that Heath tapped in the 1970 election.

The Tory government that was elected in 1970 proposed an alternative strategy that anticipated the monetarist offensive to come, but lacked both the coherence and the determination of the latter. In the face of rising inflation and unemployment the Tories chose to make the curing of the former their major priority, while their remedy for continuing economic decline was to reject the blunt instrument of state intervention to restructure the economy in favour of an emphasis on the strengthening of market forces that would have a more selective impact, including entry into the EEC and a relaxation of taxation. This emphasis on market forces was to apply to the labour market as well, where trade union reform and increased levels of unemployment would restrict the ability of the working class to secure 'inflationary' wage increases.

In line with this strategy the Tories sought to make a more active use of monetary policy in the regulation of the economy and to use the financial sector, rather than state agencies, as the means of allocating funds for investment. Thus the new regime of 'Competition and Credit Control' was introduced, within which control of the money supply would play a central role in government economic policy, while interest rates and the allocation of funds would be determined by competitive market forces. However neither the Treasury nor the Bank of England were yet committed to the monetarist belief in a direct relation between the money supply and the rate of inflation, so monetary policy was not yet seen as having a central role to play in the counter-inflation strategy, but was rather seen as a more sensitive instrument of demand-management.

The Tory strategy was an unmitigated disaster. Continuing wage inflation meant that pay restraint for the public sector was imposed almost immediately. However the manifest arbitrariness and unfairness of the policy, the lack of effective means of enforcement, and the failure to offer any quid pro quo for union co-operation, meant that the policy was counterproductive, leading to increasing confrontation with the public sector trade unions, whose new-found militancy enabled them to break through the policy time and again. The attempt to replace state intervention by market forces in the midst of a world economic recession intensified the growth of unemployment and led to a sharp decline in investment, while leading companies found themselves in financial difficulties and had to be bailed out by the government. Moreover the chosen instruments of monetary control proved ineffective. The essential problem was that the government had taken its own free market rhetoric too literally. In abandoning the economy to the judgement of the market the government quite simply lost control. The political consequences of such an abdication of responsibility were even more disastrous than the immediate economic consequences.

The first attempt to break with an orthodox Keynesian interventionist strategy was soon abandoned in the face of these setbacks and of overwhelming political and trade union opposition. The new strategy, introduced from the end of 1971, was as radical as that which it replaced in proposing a massive easing of credit and expansion of state expenditure in the hope that an unqualified commitment to expansionism would stimulate investment and enable the barriers that had appeared in the past to be burst through. The problem of inflation was to be countered not by a restrictive monetary policy, but by a rigorous incomes policy.

Credit restrictions, which had been ineffective in any case, were eased from October 1971, and the new strategy endorsed in Barber's expansionist budget of April 1972. However the second strategy soon ran into difficulties as serious as those which had stopped the first strategy in its tracks. The Barber boom was a boom in consumption, much of which was supplied by imports, and a boom in speculative investment in stocks and in property. Increases in real wages, as money wage increases moved ahead of price increases, more than neutralised any tendency for reflation to increase profits and so to stimulate manufacturing investment, while the decline in competitiveness and the flood of imports more than offset the positive impact of the recovery of world trade on the balance of payments. The result was a renewed inflationary surge and deterioration of the balance of payments, while productive investment continued to stagnate.

The problem of wage inflation was tackled by a statutory incomes policy, beginning with a five-month freeze on pay, prices and dividends and then moving through Phases II and III which offered a gradual relaxation. However the incomes policy was no more effective than the earlier attempts to control public sector pay, failing to prevent wages from continuing to rise faster than prices, while setting up escalating confrontations between the government and the trade unions, culminating in the miners' strike of 1974 that brought the government down.

The problem of the balance of payments proved equally intractable. A sterling crisis as early as June 1972 indicated what was to come. Increasing commodity prices, and then the massive increase in the price of oil in late 1973, in response to the world-wide increase in demand, only served to intensify the difficulties. It soon became clear that the attempt to abandon monetary restraint in the dash for growth had failed and that restraint would have to be imposed to restore monetary stability that was threatened domestically by inflation and internationally by the deterioration in the balance of payments. The Keynesian hope that a loose monetary policy would stimulate investment by keeping down interest rates had been shown to be a vain one as the investment that was stimulated proved speculative and inflationary. Thus the restriction of the money supply came to the fore again towards the end of 1972, although it was not until late in 1973 that attempts to control the growth of the money supply were effective when intervention in the market was abandoned in favour of direct controls.

Heath went to the country in 1974 in the middle of the miners' strike on the issue of 'who rules?', and lost. Although the free market policies of the Tory government had brought benefits to sections of the working class, on the whole the Tories had managed to unite and radicalise large sections of the working class. Public sector workers in particular, including large numbers of women workers, had engaged in industrial action for the first time. Not only the organised working class, but tenants' groups, community groups, welfare rights groups, black and women's groups had been increasingly united in their opposition to the government. Heath's attempt to isolate the miners in 1974 by politicising the strike backfired, the miners coming instead to symbolise a united class confrontation with the government. The extent and significance of this class unity should not be overemphasised. The symbolic unity and militant class consciousness of 1974 had no organisational form. The trade unions remained bureaucratic, sectional and economistic, the Labour Party, far from being a mass socialist Party, was essentially an electoral apparatus dominated by a right-wing Parliamentary leadership and trade unions concerned to defend their corporate interests, rather than the class interests of their members. Perhaps the Labour Party could have harnessed the energy, enthusiasm and imagination of the wave of grass-roots militancy that had emerged over the previous five years, but to do so it would have had to be a very different kind of Party.

The experience of the 1964 Labour government, and of the Heath experience, was reflected in the Manifesto on which Labour fought the 1974 election. The Manifesto contained a radical Keynesian programme, promising both a major redistribution of wealth and power and an ambitious plan for state intervention in industry, centred on planning agreements and large-scale nationalisation. Incomes policy was to be replaced by the 'social contract' with the trade unions by which the trade unions would practise wage restraint in exchange for agovernment commitment to expansionism and redistribution. Planning agreements, nationalisation and incomes policy would make it possible to secure working class support for an investment-led reflation that would not run into the inflationary problems that had beset previous demand-led reflations.

The core of the industrial strategy was not especially radical, but merely represented an extension of the apparatus of state intervention in industry in order to secure a framework for sustained and co-ordinated economic growth, something that was commonplace in many other capitalist countries, and indeed was reminiscent of the 'politics of austerity' practised by the 1945 Labour government in Britain. It is impossible to know whether any such strategy could have succeeded in 1974, since the strategy was never implemented. It would certainly have faced major technical problems since the state lacked the policy instruments and powers and the range of expertise that would be needed to carry the strategy into effect, while the strategy itself was little more than a sheet of paper carrying a few resolutions.

However the major problems were not technical but political. The political situation in 1974 was very different from that in 1945. The industrial strategy had been pressed on the Labour Party by the Left, and included potentially socialist demands for nationalisation and workers' democracy. The fear that any extension of state intervention would be only a prelude to more radical demands led capitalists to wage a virulent political campaign against it, and even to threaten an investment strike. Faced with such opposition, and backed by the expectations aroused in 1974, the programme could only be implemented as a radical socialist programme against the concerted opposition of capital, and Labour was not the kind of radical socialist Party to carry through such a programme.

In fact the Labour government didn't even begin to implement its industrial strategy. The government took power in the face of a major economic crisis: the balance of trade had deteriorated, despite the depreciation of sterling, investment and profits were declining and inflation was accelerating. In addition the world economy was entering a co-ordinated recession as governments in all the major capitalist countries sought to respond to the inflationary pressures of the previous boom and, in particular, the rise in oil prices. Moreover the first election of 1974 left the government short of an overall majority. The government's priority therefore, was to tackle the immediate crisis and to build up support for another election. The industrial strategy would have to wait.

In place of the industrial strategy, the government sought to buy votes, and buy off the militancy of its supporters, by introducing expansionary budgets in July and November **1974** which enabled it to fulfil some of its promises of income redistribution. However the massive increase in demand stimulated by the budget measures and by substantial wage increases did not lead to any significant increases in output, but only to sharply accelerating inflation and to further deterioration in the balance of payments, while profits were further squeezed. Following the second election tax concessions and relaxation of price controls aimed to give a boost to profits to give capitalists the resources and incentive to invest, but nothing significant was done to implement Labour's industrial strategy which would have replaced the need for such monetary stimuli by state intervention. This was partly because the Labour leadership was not committed to the more radical elements of the industrial strategy in any case, and partly because the strategy faced considerable and concerted opposition from capitalists at home and abroad. Even had the government been committed to the strategy, and even had the Labour Party mobilised a mass movement in its support, the deepening crisis would have made it almost impossible to implement because to deal with the crisis, short of declaring national bankruptcy, the government had to secure the confidence of capitalists and of financial markets in order to deal with the immediate problems. Thus, far from trying to mobilise its support, the Wilson government sought to defeat and demobilise the Left. This was made easier for Wilson by the decision of the Labour Left to commit political suicide by being drawn into the EEC referendum campaign, where it was driven to defend its industrial strategy not on socialist grounds but on the grounds of a narrow chauvinism, and suffered a crushing defeat.

The burst of reflation in **1974–5** was just sufficient to secure the election of a majority government, and satisfied some of the expectations of its own supporters. However, as on previous occasions, the reflationary policy had no impact on output and investment, and the government soon came under severe pressure in financial markets. Inflation was escalating, profits had fallen sharply, the stock market was falling, investment was in decline, the balance of payments was deteriorating rapidly, government expenditure was rising fast and the government found it increasingly difficult to finance both its borrowing requirement and the balance of payments deficit. The growing borrowing needs meant that both interest rates and the money supply rose, while the pound was under increasing pressure in foreign exchange markets and inflation was out of control. An immediate incomes policy was imposed, with the agreement of the TUC, at the end of **1975,** while the pound was allowed to draft downwards in early **1976,** and the budget of April 1976 brought control of the money supply back to the centre of the stage. However the pound continued to slide, despite a massive IMF loan, so that further IMF support had to be sought in the Autumn. In exchange for a renewed loan the Labour government had to agree to a package of spending cuts and monetary restraint, itemised in the Letter of Intent of 1976. The final abdication of the Labour government was expressed in Callaghan's famous 'party's over' speech to the 1976 Labour Party Conference, a speech no doubt partly inspired by Callaghan's monetarist son-in-law Peter Jay.

Although the IMF loan has entered the mythology of the Labour Party as the crucial turning point in the strategy of the Labour government of 1974–79, it rather marks the culmination of a series of measures progressively imposed on the government by its deteriorating domestic and international financial position. Thus fears about the growth of public expenditure were voiced as early as November 1974, while the system of cash limits was introduced to bring public expenditure, and particularly public sector wage increases, under more effective control in February 1976. The Chancellor had expressed concern about monetary growth in the budget of April 1976, while cuts in public expenditure to reduce the Public Sector Borrowing Requirement were imposed in July 1976, and direct controls on credit expansion were imposed in November. Although the crisis to which the government had to respond was a financial crisis, it was no less real, even if its ultimate foundations lay elsewhere. Thus the government could not simply ignore the growing financial crisis. In the end it had no choice but to respond to the crisis in ways dictated by capital through the financial markets. Since it was unable to convince the financial markets to continue lending on a large scale on the basis of their confidence that the government would resolve the underlying problems to capital's satisfaction in the foreseeable future, the government had no choice but to take the measures embodied in the agreement with the IMF. Indeed the IMF loan, far from imposing those measures, provided a breathing space for the government. In the absence of IMF support the government would have had to take even more severe measures to meet the stricter demands of the market.

The episode of 1974–6 marked the death-throes of Keynesian demand-management. The reflation of 1974–5 was determined essentially by political motives rather than by any expectation that it could lead to self-sustained growth. However it finally and conclusively undermined the idea that the level of investment is determined by the level of domestic demand, so that demand-management policies can regulate the levels of income and employment. The growing internationalisation of capital meant that by the mid-1970s domestic demand was a much less significant determinant of the prospective profitability of manufacturing capital than it had been twenty years earlier, and it is the expectation of profit that determines the form and location of private capitalist investment. Having abandoned its industrial strategy, which would have made investment subject to political priorities through democratic control, the only alternative open to the government was to secure the conditions increasing the profitability of domestic manufacturing investment, and this could only be achieved by restraining the growth of living standards, curbing government expenditure and establishing financial stability, policies that were imposed on the government both through the difficulties it encountered in financing its own expenditure and the balance of payments deficit and politically by capitalists, bankers, civil servants and international institutions.

The crisis of 1975–6 determined the path of the Labour government over the following three years. The priority was to restore the confidence of the financial markets by bringing down inflation, rectifying the imbalance of foreign trade, and by reducing government expenditure. The principal means of achieving this was incomes policy and public expenditure cuts, the latter achieved particularly through cuts in capital spending. The government also maintained a programme of massive state support for industry, particularly sponsoring 'rationalisation' programmes that involved substantial job losses as resources were concentrated in more up-to-date and capital-intensive sectors and enterprises.

In its own terms this strategy was not entirely unsuccessful. Although a large part of the support given to industry was to subsidise the losses of those sectors hardest hit by the crisis, this support was accompanied by a considerable amount of 'rationalisation' and 'restructuring' that resulted in productivity gains for the plants remaining, at the expense of substantial job losses for those declared redundant. Although public expenditure continued to grow, despite the increasingly severe cuts in planned expenditure, the restrictions of cash limits, and underspending, the increase was more than accounted for by increased interest that had to be paid to finance public sector borrowing, and by increased payments on social security, unemployment benefit and employment schemes that arose out of the increasing unemployment. The pattern of cuts in public expenditure was such that their impact on public sector employment levels was limited, but they had a major impact on employment in the private sector, and particularly on the construction industry that was hardest hit by the abandonment of capital spending projects.

The attempt to reduce inflation through a rigorous incomes policy was also largely successful in the short-term. The rate of increase of earnings was halved between 1975 and 1976 and the rate of inflation more than halved, being cut from over 25 per cent per annum in mid 1975 to less than 8 per cent in mid 1978. However the success could not be sustained. An incomes policy that was originally imposed with TUC agreement eventually developed into a statutory incomes policy imposed against the wishes of the vast majority of the trade union movement, not least because of the substantial cut in living standards experienced between **1975** and **1978** and because of the increasing sense of unfairness as incomes policy distorted differentials, particularly in its impact on public sector wages. The last straw was the 5 per cent ceiling imposed in August **1978** that provoked the 'winter of discontent' in which an unprecedented wave of militancy greeted the government's attempt to hold down wages in the face of inflation that was rising again.

Despite the massive cuts in public expenditure plans, public expenditure continued to increase as unemployment rose. With a low rate of economic growth the government was unable to finance these increases out of taxation, so the public sector borrowing requirement continued to increase between **1977** and **1979** after falling between **1975** and **1977.** Interest rates also fell, although falling inflation meant that the real rate of interest was rising. However the easing of financial markets as capitalists' confidence was restored meant that the government did not have difficulty in financing its borrowing requirement and so was able to keep the money supply under control.

Targets for the growth of the money supply, in addition to credit expansion, were first set in the April **1976** budget. The Bank of England officially recognised a connection between the rate of growth of the money supply and inflation in the longer term in March **1978.** Although the rate of growth of the money supply, according to the government's chosen measure (M3), fluctuated wildly from month to month the heavy use of a wide range of direct controls and intervention in financial markets enabled the government to keep the growth of M3 more or less in line with its annual targets. Although such an achievement has no economic significance, it did have considerable significance for the confidence of the financial markets. The acceptance by the Labour government of the importance of money supply targets was seen as a symbol of its submission to the dictates of capital as expressed through the financial markets. Thus the whole range of measures taken to achieve cosmetic adjustments of M3 were a kind of ritual by which the government constantly reaffirmed its subordination. Nevertheless it was a ritual that had to be gone through if the confidence of financial markets was to be retained.

In addition to its success in bringing down inflation and interest rates, and in bringing the money supply and, to a lesser extent, public expenditure, under control the Labour government saw a steady strengthening of sterling over its last two years in office. This was partly an expression of the confidence of international financial markets in the Labour government's strategy, but its fundamental reason was simply the growing contribution made to the balance of payments by Britain's own oil production. It certainly didn't reflect any significant improvement in the international competitiveness of Britain's domestic economy. Indeed the appreciation of sterling further weakened this international competitiveness.

Although the Labour government had successfully overcome the short-term crisis, there were few signs that it had made much headway in tackling the more fundamental and longer-term problems of the British economy. Unemployment trebled, while investment, profits and productivity stagnated, thus 'rationalisation' had so far simply involved the closure of plants that could no longer find markets for their products in 'the domestic and world recession. This is hardly surprising, for the Labour government had been entirely preoccupied with getting through the short-term crisis, and had abandoned the measures that had promised solutions to the underlying problems of the British economy.

III. THE ELECTION OF 1979: MONETARISM AND THE AES

During the crisis of 1975–7 there had been no alternative but to adopt essentially monetarist policies of cutting public expenditure and pursuing a restrictive monetary policy in order to bring down inflation and restore financial stability, even at the cost of rising unemployment. However the adoption of such policies did not mean that the Labour Party had been converted to the politics and ideology of monetarism. It was certainly true that the government was compelled to cut public expenditure and to control the growth of the money supply, and so was conforming to the monetarist prescription. However this was not, by and large, because the Labour leadership had been converted to monetarism, but because such policies had been forced on the government by financial crises. Monetarist policies were not implemented through conviction, but through necessity, and they continued to be thought of within an essentially Keynesian framework. It was not through monetary policy, but through its incomes policy, that the government sought to control inflation and it was not through a reduction, but through an increase, in state intervention that the government eventually hoped to restore the fortunes of capital. Thus the Labour Party fought the 1979 election on a programme that included a diluted version of the Alternative Economic Strategy (AES).

The AES grew out of a radical Keynesian analysis of the crisis of British capitalism and of the failure of previous Keynesian strategies to resolve the crisis. Although Keynesian expansionism had repeatedly ended in an inflationary crisis, the essential problem was not that wages tended to grow too fast, but that investment was too small and productivity grew too slowly. While incomes policy might be able to restrain the growth of wages, and so might be necessary as a crisis measure, there was no evidence that, even if it managed to secure a considerable increase in the rate of profit at the expense of working class living standards, it would do anything to solve the problem of low investment and productivity. In relation to other OECD countries Britain was already fast becoming a low-wage economy. Industrial militancy was not the cause of high wages, but the result of low ones. Thus the essential problem was not high wages but low productivity, and low productivity was the result of the capitalist failure to invest in domestic manufacturing.

The proponents of the AES shared with the monetarists an analysis that saw the roots of inflation lying not in the institutions of free collective bargaining but rather in the supply-side of the economy. Correspondingly the AES, like the monetarists, rejected an incomes policy as irrelevant to the central task of stimulating investment. This analysis also made it possible to comprehend the adoption of monetarist policies under force of circumstance. If capital was not prepared to increase investment and output in response to a demand stimulus, an attempt to expand the economy could only lead to inflation and the 'fiscal crisis', which could in turn only be remedied by restrictive monetary and fiscal policies. However, the roots of the crisis do not lie in excessive wage demands of the working class, or excessive government expenditure, but the investment strike of capitalists and the blackmail of financial markets. The solution is not to capitulate to capital by persisting with monetarist policies, but rather to compel capital to invest by a massively interventionist programme.

The Alternative Economic Strategy was a development of the industrial strategy of 1974, involving some or all of economic planning, to provide a long-term framework within which investment could increase in anticipation of increases in demand; the control of foreign trade, to prevent a balance of payments crisis from undermining reflation; an incomes policy, to prevent inflation from reemerging at full employment levels, and perhaps to allow profits to rise if necessary so as to call forth and finance the increased investment. The place of monetary policy within this framework was recognised, but it was expected to play a subordinate role, directed at satisfying the credit needs of a growing economy so as to maintain monetary stability, preferably with low rates of interest. Some believed that this strategy would also require more active state intervention in the financial system to curb speculative investment and direct investment funds in more productive directions, particularly in view of the rapid internationalisation of productive capital that was divorcing capital from the domestic economy. In addition a low interest-rate policy would probably imply the City of London abandoning its international financial role as the government would have to impose controls on international financial transactions.

Like the industrial strategy of 1974, the AES was proposed by the Labour Left and for many was an essentially socialist strategy. However the political context of 1979 was very different from that of 1974, where Labour came to power on the crest of a wave of militancy and class consciousness. The experience of Labour in power from 1974–79 had been very similar to that of 1964–70. The policies of the Labour government had served to divide, demobilise and demoralise the working class.

The differential incidence of unemployment, hitting particularly the young, the old, the North and the unskilled, increased its divisive impact. The 'fiscal crisis' of the state opened up divisions between private and public sector workers, the former suffering an increased burden of taxation, the latter confronting job losses and rigid pay restraint. The differential impact of cuts and job losses, taxation and pay restraint opened up divisions between home owners and council tenants, welfare claimants and tax payers, private and public sector workers, skilled and unskilled, men and women, black and white.

These divisions were opened up by the policies of the Labour government, but they were not articulated within the Labour movement. The trades union leaders were determined to preserve a semblance of unity and to minimise opposition to the government in order to keep Labour in power for their own corporate interests as much as the interests of their members. This meant that resentment and opposition to, capital and the state could not be effectively harnessed and expressed through the labour movement, but was rather fragmented, isolated and largely demobilised, until it burst out in the powerful, but largely negative, upsurge of the 'winter of discontent'. The failure of the Labour government to implement any of the more progressive elements of its programme, and its consistent and sustained attack on working class jobs and living standards and on the hard-won benefits of the welfare state served to intensify the feelings of helplessness and demoralisation that beset the labour movement. While the Left in the Labour Party continued to construct its Alternative Economic Strategy, it fell to other groups to tap the frustration and resentment of the working class. Some such groups were on the Left: the 'fragments' of the women's movement, the black movement, cultural politics and the various 'new social movements', as well as the traditional left sects, but the Right also had its appeal. Skilled workers in particular, their incomes hit by inflation, pay policy and rising taxation, were easily seduced by the Tory image of a parasitic state draining the life-blood from a dynamic private sector, and the Tory promise of free collective bargaining.

Although many of the proponents of the AES saw it as a socialist strategy, there was little class unity or class conscious mobilisation behind it. The significance of the AES within the Labour movement was rather that it provided a programme around which a paper unity could be constructed since the strategy served to reconcile, at least on paper, the interests of different sections of the working class. The AES offered an ideology that could blame international financiers for the abandonment of the 1974 programme and the difficulties of the Labour government, it could find support among public sector workers in promising a growth of state expenditure, among the unemployed in promising jobs, and among private sector workers in promising a return to free collective bargaining. Although many of its proponents were socialists, the AES was increasingly presented as a strategy for national regeneration behind a protectionist wall that would keep out the products of cheap foreign labour and multinational capital. The AES certainly offered an alternative strategy to that presented by monetarism. Despite all its failures, had Labour called an election in **1978** it might well have won. However the experience of the 'winter of discontent' seriously marred Labour's record by destroying the 'social contract' that was the central plank of the government's anti-inflation policy and, in the longer term, of the AES. By the time the election was called in **1979** inflation was unmistakeably rising again, while strikes and unrest among industrial and public-sector workers were rife. Attempts to patch up an agreement with the TUC before the election carried no conviction. Moreover, it became clear in the course of the election campaign, if it had not been evident before, that a large section of the Labour leadership was quite unconvinced by the AES.

The right-wing Labour leadership remained essentially orthodox Keynesians who believed that the essence of the government's failure lay in the failure of its incomes policy. Yet again an incomes policy had proved successful in the short-term, only to break down in the face of concerted opposition from the trade unions. The priority was to develop an incomes policy that could be enforced in order to remove inflation and allow profits to recover, so providing the basis for future investment and sustained growth. Some still retained the pious hope that such an incomes policy could be based on a renewal of the social contract within a diluted version of the AES, but most felt that the power of the unions prevented any such possibility. For the latter, therefore, the success of any future incomes policy depended on a government being willing to confront the unions. This could not be simply a matter of willpower and determination, which the Heath government had so manifestly lacked, but must also involve more fundamental reforms to reduce the power of the unions. Clearly these elements could not expect the Labour Party to commit itself to such a programme, so they lay low through the election before engineering the split that led to the formation of the SDP after the **1979** defeat. The presence of such public doubters on the election platform in **1979** certainly did not help Labour in the election.

There has been a great deal of debate as to whether the Alternative Economic Strategy might have provided an alternative to monetarism in **1979.** The main economic arguments against the strategy concerned the appropriateness of a nationalistic protectionist strategy in the context of the very highly developed internationalisation of British financial, productive and commodity capital. By **1983** these arguments had been largely conceded, but in **1979** it was not such technicai issues that settled the debate, but rather the political and ideological context within which the AES was proposed. A large section of the Labour leadership, and the practice of the Labour government over the previous four years, had been propagating and reinforcing an ideology that was completely at variance with the ideology that informed the AES, and had been implementing policies that destroyed such a mass political base as may have existed for a radical socialist programme.

The Labour government, far from blaming capital for its failure to invest 'in the domestic economy, had spent the previous four years pinning the blame on the trades unions and the working class whose excessive wage demands had led to inflation, growing public expenditure and the erosion of profits. The priority of the government had been to restrict the growth of incomes, to cut public expenditure and to increase profits. In order to achieve this the government had bought off the trades union leadership while dividing, demobilising and demoralising the mass of the working class. The ideological and political basis on which the Labour government had sought to restore British capitalism was implicit in its practice and explicit in its rhetoric. It sought to reconstruct the economy on the basis of capital, and the primary opposition to such a reconstruction was identified as the needs and aspirations of the working class, which had to be confined within the limits dictated by capital. Such a politics and ideology was in complete accord with the central tenets of monetarism, but was completely contradictory to the central thrust of the AES, which was a nationalistic and socialist strategy, that blamed a capitalist class that had no homeland for its failure of invest and that proposed that the restructuring of capital should be subordinated to popular needs and aspirations.

The 'winter of discontent' destroyed the last vestige of political credibility that the AES might have enjoyed, as it brought to the fore the paradox inherent in the ideological contradiction between the rhetoric of the AES and the practice of Labour in power. On the one hand stood a Labour government, denouncihg the organised Labour movement for abusing its power and privileges to break through the government's policies of pay restraint and public expenditure cuts. On the other hand, the Labour manifesto proposed a strategy for reconstruction that would abandon the very incomes policy the government was fighting tooth and nail to maintain, while placing power in the hands of a trade union movement whose irresponsible abuse of power the government was condemning. In its own political practice, and its own rhetoric, the Labour government had conceded to monetarism that there was no alternative. Moreover, in its impact on the working class, the Labour government had both dismantled the political base for any alternative, and had prepared the political conditions for the right.

Meanwhile the Tories were able to build on the divisions and frustrations that had been created by the Labour government. The attack on incomes policy and public expenditure appealed to skilled workers whose living standards had been squeezed by taxation and pay restraint. The attack on the bureaucratism and undemocratic character of the state and the trade unions struck a chord in popular experience. The critique of the standards of service and the efficiency of the public services and of nationalised industries carried conviction since the public sector had been starved of investment for years. What is surprising is not that the Tories won the **1979** election, but that they did not win more convincingly.

IV. CONCLUSION: THE LIMITS OF MONETARISM

The electorate was certainly convinced in **1979,** and again in **1983,** that there was no alternative to monetarism. Was this simply because of the ideological power of the New Right, or the political appeal of its right-wing populism? Or was there really no practical alternative? After all, had the **1979** election been six months earlier Labour might have won. Had it not been for the Malvinas war, Labour might have won in **1983.** It is even conceivable that Labour might win in **1987.** In this sense the triumph of monetarism was by no means inevitable.

The experience of other capitalist countries, or even the experience of particular sectors of the British economy, shows that state intervention is not necessarily debilitating or counterproductive. There is no evidence that civil servants or managers of public corporations are any less capable of making rational investment decisions than are private sector managers. There is no reason, in short, to believe that there is any basis for the monetarist critique of state intervention per se. The experience of seven years of monetarism in Britain would certainly cast doubt on the monetarist-led abdication to the market and private enterprise. However the British experience also shows that there is considerable substance to the political critique of interventionism offered by the monetarists. The rule of the market may be anarchic, but at least the rule of the market subordinates all actors to judgement of their worth to capital. The market is ruled by the circulation of money, and the circulation of money is dominated by the circulation of money capital. In short the market ensures the subordination of society to the reproduction of capital. By contrast, when the state takes on the task of economic regulation it makes it possible to plan social and economic reproduction rationally, within the limits of its powers, instruments and expertise. However, bringing economic regulation into the political domain also makes it subject to the imposition of political priorities, which may conflict with the requirements of the law of value.

The Keynesian dream was that the state could reconcile the contradiction between the dynamics of capitalist accumulation and popular needs and aspirations, harnessing the innovative dynamism of capitalism to socially and politically desirable objectives. However the state does not immediately reconcile such a contradiction, but rather politicises it, and in so doing does not abolish the crisis-ridden character of capital accumulation, but translates the potential for crisis from the market to the political institutions that have assumed responsibility for capitalist regulation. These political institutions can only serve successfully to regulate capitalist reproduction to the extent that capital is able politically to subordinate them to its needs. But at the same time the political institutions of the democratic state do not provide any means by which such a political subordination can be guaranteed. Consequently the viability of an interventionist strategy depends on the character of the political forces in play. A viable interventionism is not precluded by the representation of popular needs and aspirations, but it does require the political reconciliation of popular needs and aspirations with the requirements for sustained accumulation.

This political reconciliation is always problematic, but it is not simply a contingent matter. Indeed it is built into the form of the liberal democratic capitalist state. The reproduction needs of capital are not expressed directly, although they may be articulated in various ways by the political representatives of capital. Rather they are imposed on the state through the political mechanisms of the democratic process, on the one hand, and through the economic mechanism of the subordination of the state to the market, and in particular through its subordination to the financial market.

Within the electoral process of the liberal democratic state, parties can the more easily achieve and retain power, the better able they are to satisfy popular aspirations for rising living standards, which in a capitalist society can only be sustained if the reproduction needs of capital are met. Representative democracy and the party system constrain political parties that restrict themselves to this framework to seek a resolution of the political expression of the underlying contradiction between the reproduction of capital and popular need. However, electoral success does not necessarily require that this resolution is achieved in the short-run, and in conditions of economic crisis it may be impossible to achieve it. In such circumstances the economic mechanisms which secure the direct subordination of the state to capital come to the fore.

The state no more stands above society than does any other social institution. While it has the power and resources to intervene in markets in its attempt to regulate capitalist reproduction, it does not control those markets, but is itself subject to their vagaries. This is particularly true of financial markets, on which the state is particularly dependent, and for which it has a special responsibility. Financial markets are essentially markets within which capital is traded in its most abstract form, as money capital, and correspondingly are markets that are the most sensitive to the conditions for capitalist reproduction. At the same time they are markets on which the state is heavily dependent for its own reproduction, since it is on the domestic and international financial markets that the government has to fund its own debt, meet new borrowing requirements, and fund any imbalances in its international payments, while it is on those markets that the domestic and international value of the currency is determined.

This is the significance of the financial crises that have beset successive British governments, and particularly Labour governments, over the 1960s and 1970s. It is through financial crises, that require the state to restore the confidence of domestic and international capital as the condition for their resolution, that capital ultimately imposes itself on the state and requires the government to subordinate popular needs and aspirations to the requirements of sustained accumulation. The succession of financial crises did not so much express the underlying economic problems of British capitalism, as the political problem of subordinating the working class to the accumulation needs of capital. While the growing economic crisis dictated urgent and extensive state intervention in support of the restructuring of capital, it also fostered the strength and political representation of the working class, which meant that an increasingly interventionist strategy that might offer the potential for resolving the crisis at the same time represented a political advance for the working class that could further weaken capital. Consequently the existence of a mature and well-organised working class, with increasing access to state power, acted as a barrier to the establishment of the political conditions for a successful strategy of state intervention. Increasingly through the 1970s Keynesian intervention came to be identified, by both Left and Right, with socialism. The increasingly radical versions of the AES expressed the increasingly radical demands being made by the organised working class as the price of collaboration in a programme of capitalist restructuring, a price that was unacceptable to capital.

In the political context of Britain in the 1970s it was impossible to secure the collaboration of capital and labour in a programme of economic restructuring. Capital was not prepared to make the concessions demanded by the organised working class, yet the working class was not strong enough to challenge capital's rule. This was not, as it has sometimes been represented, because of the fine balance of class forces. Had there been such a balance, the 1979 election could not have had such a decisive effect. As we have seen, the working class by 1979 was divided, demoralised and demobilised. The strength of the working class was not in the rank and file, there was no unified class conscious movement. The strength of the class lay in the privileged access of the trades union leadership to the institutions of state power which they secured as the price of their collaboration with successive incomes-policies and of their support for the Labour Party. It was this same collaboration that had played its part in demobilising the rank and file, and in establishing a gulf between leadership and the members of the trades unions that was so successfully exploited by the Conservatives.

The monetarist critique of Keynesianism was particularly appropriate to the developing political crisis of the 1970s. Politically it marked a break with the consensus politics of the post-war decades, unashamedly articulating the divisions that had been increasingly opened up as Labour sought to contain the crisis. Ideologically it built on the practice and rhetoric that had already been forced on reluctant Keynesian regimes, making a virtue of what to a Keynesian was an undesirable necessity. Thus the Callaghan government had already committed itself to monetarist economic policies, had already identified inflation rather than unemployment as the prime evil, had already cut public expenditure, had already justified the over-bearing power of the trades unions as the source of inflation and the barrier to reconstruction. All these policies were adopted as crisis measures, as an index of the failure of the Keynesian strategy. Monetarism turned the diagnosis inside out, and made these same policies into a virtue, into the basis for the regeneration of the national economy, if only they were pursued with sufficient vigour and determination. In this sense the most important feature of monetarism was not that it offered a way out of the economic crisis, or even of the political crisis, but that it offered a way out of the ideological crisis of the Labour government, a government that was systematically pursuing policies that were indefensible within its own ideological framework, while proposing a political programme that it had already rejected in practice. Monetarism, in the first instance, proposed not a different programme from that already being practised, but a different ideology within which to represent that programme.

Keynesianism, as an eminently rational and liberal ideology, was unable to explain its own failure. Monetarism came equipped with a demonology that could explain not only the failure of Keynesianism, but also its own subsequent failings. The failure of Keynesianism was explained by the abuse of power by self-interested politicians and bureaucrats, above all in the state and the state-supported trades unions. Thus monetarism was able to harness popular discontent with the bureaucratic state and trade union leadership in support of its assault on the welfare state and the organised labour movement.

The ideological significance of monetarism was that it legitimated class politics not in the name of class interests, but of a universal law. Once inflation was identified as the primary public enemy, the supposed relationship between the rate of inflation and the rate of growth of the money supply made the pursuit of a restrictive monetary policy a moral duty. Whether the growth of the money supply was the cause of inflation, or whether it merely validated inflation whose causes lay elsewhere, the effect of a fixed target for the growth of the money supply would be the same: to the extent that inflation persisted the impact of monetary policy would be more restrictive and its impact more deflationary. Once the government had withdrawn from an interventionist role, and limited itself to pursuing a sound monetary policy, the ideology of monetarism shifts responsibility for the twin evils of unemployment and inflation from the governments to the evil force that impedes the operation of the free market and that prices workers out of jobs: the trades unions.

The ideological power of monetarism lies in its ability to transfer responsibility for its failures in this way. Successive Keynesian governments had fallen because in assuming responsibility for regulating capitalism they also had to take responsibility for its failures. By contrast the ideology of monetarism draws more strength the more its policies fail. Thus, in Britain, monetarism has not presided over the economic miracle that was promised. Indeed it has been even less successful than Keynesian regimes in combatting inflation and unemployment (indeed less successful even in controlling the money supply and the budget deficit), but the lesson drawn is simply that it has not gone far enough, it has to weaken the trades unions and cut back the state still further before it can succeed.

In place of the rule of the state, monetarism promised the rule of money, in place of the rule of a privileged political estate, it offered the neutral rationality of the market. Unlike Labour, it claimed to stand above the class interests of labour or capital, or the bureaucratic interest of the state. However the sins of the past could not be exorcised overnight, there was a legacy of power and of parasitism that had to be eliminated. There was a 'balance' that had to be 'redressed' between labour and capital, legal 'privileges' that had to be removed from trades unions, 'management's right to manage' to be restored, and 'incentives' to be enhanced. However even here the Tories posed as defenders of the working class, for the enemy was defined not as the working class, but as an obstructive and authoritarian trades union leadership, unaccountable to its members and negligent of their interests. The more unemployment rose, and the longer the recovery was delayed, the more the Tories sought to use the trades unions as their scapegoat until trades union power had been so reduced that it could not be plausibly blamed for anything. The defeat of the miners, that was Thatcher's triumph, also deprived her of her alibi.

Although the Tory government has pursued unashamedly class policies, within the cloak of its monetarist rhetoric, this does not mean that monetarism is necessarily any more adequate to the needs of capital than was Keynesianism. Monetarism was an ideological and political response to an ideological and political crisis, that expressed the underlying economic crisis at one remove. In the end the crisis had to be resolved in favour of one class or the other. The Labour government paved the way for its resolution in favour of capital, while monetarism provided the ideology to legitimate such a resolution, reducing the power of organised labour both in the state and in civil society. Although the stock market has gone from strength to strength, and British capital has increasingly detached itself from its base in the national economy, the Thatcher government has also presided over the deindustrialisation of Britain, rather than the regeneration of the British economy. In the short-term it has served capital's needs well, but there is no guarantee that monetarism, any more than Keynesianism, should prove wholly adequate to the needs of capital, nor be able to secure a stable political framework for capital accumulation. In the long term the prospects for British-based multinational capital cannot be entirely divorced from the fate of the British economy, while the government cannot continue indefinitely to deny responsibility for persistently rising unemployment and deteriorating public services, particularly once its scapegoat, the trades union movement, has been reduced to a state of impotent helplessness. The political danger for capital is that growing popular resistance to capital and to Thatcherism will give rise to new organisational forms and give new strength to the old organisations, based on mass mobilisation rather than political privilege and based on popular aspirations rather than corporate interests, a danger that the Labour leadership as much as the Tories is concerned to avert.

Monetarism is beginning to outlive its historical moment. At the same time it has in turn created the conditions for its own supersession. By destroying the power of the organised Labour movement it has created the conditions under which a more interventionist strategy of political and economic restructuring becomes possible, within which Keynesianism can be reborn. The contours of such a strategy are becoming increasingly clear, and the decline in oil revenues is making it increasingly urgent. The Labour Party, the SDP and a large section of the Tory Party are falling over themselves in the attempt to recapture the political 'middle ground'. Labour and the Tories have the advantage of traditional loyalties, but Labour has to distance itself from its past, to prove that it will be 'tough' with the trades unions and the left, while the Tories have to get rid of Thatcher. If neither succeeds, the SDP is waiting in the wings to seize the crown.

These developments do not really represent a Keynesian rebirth, for the political and ideological legacy of monetarism remains. The new Keynesianism recognises its limitations, it is constrained by the 'new realism' which recognises the subordination of the state to capital in recognising the need for financial and fiscal conservatism, the importance of profits as the basis of investment, and of a profitable private sector as the basis for expanding public provision. Gone is the commitment to full employment, while the growth of demand and of public expenditure is subordinate to the growth of exports and investment. Thus we have not so much a Keynesian rebirth, as a reintegration of Keynesianism and monetarism, a 'pragmatic realism', that recognises the limits of state intervention and of state expenditure. In place of the 'politics of welfare' we are promised the 'politics of austerity'.

What of socialism? Was the triumph of monetarism inevitable? Are socialist Parties inevitably condemned to accommodate their programmes to the constraints imposed on the state by capital? Is class collaboration the best we can expect from a Labour government? I think the answer is no. The Labour Party won the elections of 1974 on a radical, and potentially socialist, platform. However the leadership was not committed to that platform, the programme lying behind it was undeveloped, and the Labour Party proceeded to demobilise the social forces outside Parliament whose energy and enthusiasm could perhaps have pressed forward a socialist strategy. It would be a mistake to reduce this failure to a betrayal by the leadership, as many thought was implied in the Bennite programme of democratisation of the Labour Party. It is really a more fundamental matter of the character of the Labour Party and the forms of political representation embedded in it.

The dilemma that socialists confront is that the Labour Party, despite all its failures, remains the Party through which working class interests are represented. Certainly, these interests are represented in a distorted form. On the one hand, the collective interests of the working class are mediated through the form of bureaucratic trades unionism, and so are reduced to the corporate interests of the trades unions in securing a favourable legal, political and economic framework within which to pursue their sectional aims. On the other hand, the individual interests of workers are expressed through the electoral framework as the interests of individual citizens, consumers of public services, taxpayers and victims or beneficiaries of government policies. Although these alienated forms of representation reproduce, and often reinforce, divisions within the working class and the fragmentation of working class experience, they are at the same time the only *constitutional* channels through which working class interests can be expressed and defended. The Labour Party is both the party of the working class, and a barrier to the development of a mass working class movement.

Fortunately for socialists working class struggles constantly go beyond the boundaries laid down by these constitutional forms. Through the 1960s and 1970s popular struggles in and outside the workplace developed autonomous forms of resistance. Although such struggles lacked the resources of the trades union bureaucracy or of the state, they developed the strength, confidence and imagination of collective organisation. In the face of the Thatcherite onslaught the level of struggle has declined, and many militants have been drawn into the Labour Party, but the legacy remains and provides a base on which to build. There can be little doubt that a future Labour government would face an unleashing of pent-up aspirations that can be harnessed into a renewed upsurge of popular struggle.

The crucial question that socialists face is whether it is possible to transform the Labour Party into a mass socialist Party, or whether an orientation to the Labour Party will be more likely to dilute, divide and demobilise popular struggles. This is an open question that cannot be answered once and for all, but the experience of the last few years is not a happy one for those who would hope to transform the Labour Party. The Bennite Left was defeated in the Labour Party because it was not able to draw sufficiently on the strength of autonomous popular struggles in the trades unions and the community, and so was not able effectively to challenge the entrenched power of the Labour Party and trades union leadership.

The lesson to be learned is that the advance of socialism, whether inside or outside the Labour Party, depends on the growth of popular struggles that retain their autonomy, and that are not absorbed into the alienated forms of representation offered by electoralism, on the one hand, and bureaucratic trades unionism, on the other. The trades unions and the Labour Party can only be transformed on the basis of a growing socialist movement. The priority of socialists should be to develop and service the struggles on the basis of which such a movement can emerge. This may involve working 'in and against' the Labour Party, the trades unions, or even the State,[4] but in order to hijack their resources and to exploit their internal contradictions to build autonomous socialist struggles, not to see them as a substitute for a socialist movement. It is in this perspective that we should view the attempts of radical Labour local authorities to use the resources of the local state to support popular struggles which retain their autonomy. In the same way socialists in the trades union movement have been able to use the resources of the trades unions to sustain popular campaigns against privatisation and against declining standards of public service provision. It is the expectations and aspirations sustained and developed in such autonomous popular struggles that Kinnock will have to confront if he comes to power, and that can provide the basis for the movement that can take us beyond Kinnock on the rock-strewn road to socialism.

NOTES

This paper was originally presented to a conference on 'The Contemporary State' in Lennoxville, Quebec in June 1986. I am very grateful particularly to Louis Maheu and Arnaud Sales for the opportunity to present the paper, and to those with whom I have worked over the years in the CSE State group and in the Kapitalistate network for the collectively developed ideas that I have privatised in it. The paper is very much a part of work in progress and I hope that it will be read as such. I am needless to say responsible for all the errors and deviations that remain.

1. The best documented versions of this analysis are to be found in Sidney Pollard, *The Wasting of the British Economy* (London: Croom Helm, 1982) and Geoffrey Ingham, *Capitalism Divided* (Harmondsworth: Macmillan, 1984).

However it is pervasive on the left, and politically disastrous because it leads to the pipe dream of an alliance between the working class and 'progressive' industrial against reactionary finance capital on which Kinnock and Hattersley have built their economic strategy. I have criticised the approach more fully in Simon Clarke, 'Capital, Fractions of Capital and the State', ***Capital and Class,* 5, 1982,** pp. **32–77.**

2. F. Hayek, ***Unemployment and the Unions*** (London: IEA, **1980),** p. 52.
3. Bank of England, ***Quarterly Bulletin,*** June **1966,** p. 141.
4. ***In and Against the State*** (London: CSE Books, **1979).**