Harold Wilson and the 1964 Labour Government: The devaluation of socialism

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HAROLD WILSON won the Labour leadership in 1962 after the unexpected death of the right-winger Hugh Gaitskell.

Although the candidate of the left, backed by Tribune, Wilson had not played a prominent role in the battles over nuclear disarmament and nationalisation. His reputation was made as the quick-witted scourge of old fashioned Toryism and the champion of state-directed modernisation.

The reality of Britain at that time was not the carefree swinging sixties that most people remember. Certainly there was near full employment, real wages had risen and youth culture was beginning to emerge. But Britain's long boom was a lot weaker than that in the Common Market. Italian, German and French annual growth rates were over twice those of Britain, which was locked into the ?Stop-go cycle?.

Periods of expansion quickly produced a balance of payments crisis as superior foreign exports flooded in. The pound then came under pressure and the government was forced to take deflationary measures. ?Economic stops? in 1957 and 1961 choked off an already low rate of investment. Industries like motor cycles and textiles collapsed or shrank rapidly under competition from the Far East.

A harsh winter in 1962-3 saw unemployment soar. The premier, Harold Macmillan, who had been hailed as ?Supermac?, was suddenly seen as a doddering old fool. The Profumo affair fatally wounded him, but the Tories pulled off their old trick of changing leader a year before an election. Unfortunately for them, they chose the ?eleventh Earl of Home?, a wealthy landowner in Scotland. He was the perfect target for Wilson?s rhetoric about the ?grouse moor mentality? of the Tories.

What Wilson stigmatised, however, was not capitalism as such but hidebound, old fashioned capitalism. What he advocated was the corporatism common on the continent, where management, unions and government were locked into a ?partnership?, which subordinated workers? interests to those of a booming capitalism.

Such corporatism was fashionable in the early 1960s, most obviously in France. Surely the answer for Britain was for the state to promote modernisation by boosting investment and research.

Wilson?s first speech as leader to the Labour Party Conference in 1963 seized on this state capitalist theme but covered it in socialist language. The word ?revolution? was used repeatedly. He meant a technological revolution but many didn't listen or wanted to believe that radical change was on the horizon.

Wilson promised a progressive response to the ?automation? that millions feared would bring back mass unemployment:

?If there had not been a case for socialism before, automation would have created it. It is the choice between the blind imposition of technological advance, with all that means in terms of unemployment, and the conscious, planned, purposive use of scientific progress to provide undreamed of living standards and the possibility of leisure, ultimately, on an unbelievable scale.?

However, the practical measures to achieve this utopia were feeble in the extreme. Wilson filled his speeches with
images of the new breakthroughs in marine propulsion, in aircraft guidance, in electronics, in agricultural and textile machinery. Such techno-scientific jargon and an emphasis on the role of the state in directing, planning and even competing with private industry was made to sound like the socialist utopia.

Labour’s manifesto, A New Britain, concentrated on this programme of economic reform. It promised a Prices and Incomes policy to curb prices and boost incomes. It included social reforms such as increased pensions, comprehensive schools with a leaving age of 16, and half a million housing units a year. Yet, despite Wilson’s trouncing of the Tories in debate, Labour’s popular vote was actually less than in 1959. It was a swing to the Liberals of two million Tory voters which gave Labour a tiny majority of four in the 1964 election.

The key positions in Wilson’s cabinet went to his right-wing rivals. George Brown was Secretary of State for Economic Affairs, in charge of the National Plan and James Callaghan was Chancellor of the Exchequer. Their first obstacle was the balance of payments deficit left by Reginald Maudling, the outgoing Tory chancellor. His words to Jim Callaghan on leaving Number Eleven Downing Street, ?sorry about the mess old cock!?, soon took on a deeper meaning.

The pre-election boom had created a massive trade deficit. Lord Cromer, the Governor of the Bank of England, demanded drastic measures to prevent a run on the pound. Wilson asked him incredulously whether he expected him to implement the very Tory policies he had stigmatised. ?Yes, indeed!? replied the ruling class trustee. There were only two courses available to a reformist government: a major deflationary budget or the devaluation of the pound.

Naturally, the Treasury, the Bank and the International Monetary Fund (IMF) were heartily in favour of the former. Sterling was still the second world reserve currency. The USA insisted that such a policy was a precondition for IMF support for the pound.

Washington also demanded support for the Vietnam War. Wilson happily complied, stopping short only at the president’s tentative requests for British troops. In July 1965, the government imposed a series of tax rises in return for an IMF loan of $1.4 billion. At a stroke, Wilson not only sabotaged his own economic policy but set in train the two movements which would finally undermine his government and nearly wreck his party—a revolt by rank and file trade unionists and the great student upheaval.

In September 1965, George Brown launched Labour’s National Plan. Like all state capitalist plans it was only indicative, not authoritative. But even compared to such plans in France or Japan it was completely toothless. It did not command anyone to do anything but only set a series of projections: a growth rate of 3.8%; a 25% increase in output by 1970; targets for fiscal policy and employment levels. The government’s role would be to encourage private industry to co-operate with both it and the trade unions to achieve these targets.

The Plan’s fatal flaw was its subordination to the Treasury and the Bank of England, the very institutions which Wilson had analysed as the main cause of Britain’s backwardness. However, he was able to present this to Labour supporters as the unavoidable consequence of the Thirteen Years of Tory Misrule? and his tiny Commons majority.

The alibi of the small majority and the Tory legacy was soon to be taken from Wilson and Brown. The general election in 1966 swept Labour back in with 48 per cent of the vote, the same as Attlee achieved in 1945, and a majority of 96.

Once again, a Labour victory was followed by a balance of payments crisis and a run on the pound. Wilson and Callaghan forced through £500 million worth of cuts and increases in indirect taxation. It was a complete return to the Tory stop-go policies. As Reginald Maudling remarked acidly, ?they have inherited our problems and, it seems, our solutions too.?

This budget was effectively the end for the National Plan. All that remained was the Prices and Incomes Policy. Instead of being part of a plan for coherent growth, it became a plan to slash wages. Wilson decided that to impose it he would have to take on and defeat a section of workers. He chose the seafarers, a hitherto moderate workforce who were fighting to shorten hours and increase pay.
Wilson launched a McCarthy-style red scare against the seafarers' shop stewards, accusing them of being "a tightly knit group of politically motivated men?", and naming those who were members of the Communist Party.

This witch-hunt brought an end to the strike but shocked many rank and file Labour supporters. Combined with Foreign Secretary Michael Stewart's fulsome defence of United States bombing in Vietnam, it started a mass exodus, of up to 200,000 members, from the Labour Party. Ken Livingstone, who actually joined the Labour Party in 1968, felt like "a rat who was boarding a sinking ship?.

Moreover, all this did not save Labour from another run on the pound. This time they were forced into a humiliating devaluation. Thanks to the majority of the trade union bureaucracy, Wilson had some success in freezing wage levels from 1966-68. But this led to a revolt of the rank and file, spearheaded by the shop stewards, which brought this to a grinding halt. Wilson concluded that the power of the shop stewards had to be broken. Once again, Labour was poised to attack and alienate its own base.

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