The political economy of the management of public expenditure in Britain: The introduction of cash limits under the 1974-79 Labour government

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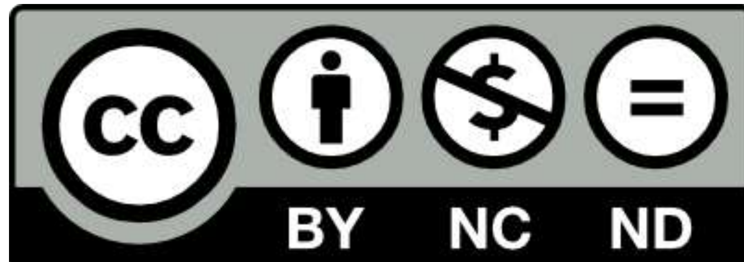

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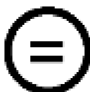
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Abstract

This thesis examines the political economy of the management of public expenditure during the 1974-79 Labour government in the UK. In particular, it examines the introduction of cash limit reforms to the control of public expenditure in the context of significant economic pressures which confronted state managers during the 1970s. Inflation, low economic growth, high public borrowing, stagnant productivity, and recurring sterling crises prompted a serious reappraisal of public expenditure governance in 1974-5. It is due to these pressures that cash limits were introduced, as a means of controlling expenditure. This thesis makes use of primary archival documentary evidence to shed new light on the motivations of state actors in introducing cash limits. Contrary to mainstream accounts which explain cash limits as a technical fix to an issue of control over spending, the thesis demonstrates how cash limit reform was in fact motivated by a series of political and economic concerns, primary amongst them being wage inflation. By way of a Marxist examination of the political economy of public spending, the thesis demonstrates the way cash limits were used to discipline the working class and to depoliticise decision-making vis-à-vis public expenditure.

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Finally, I wish to dedicate my thesis to a few special figures. Firstly, to Karl Marx and Friedrich Engels, the eternal champions of the working class who have shaped my thoughts and actions for most of my adult life.

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Introduction

This thesis is about cash limits, but in so being it is also about public expenditure. And insofar as the thesis is concerned with public expenditure, it is also concerned with wages, with economic management, the civil service, party politics and trade unions. Whilst cash limits themselves may appear at first glance as a small change in the management of the state's affairs, when examined closely an understanding of cash limits also enables a deeper understanding of the politics of a particularly contentious and transformative period in British political history.

Cash limits were formally introduced in 1976, during a Labour government with a small majority whilst managing substantial economic woes. Scholars characterise this period as the time when Keynesian post-war consensus came apart at the seams, and one wherein Labour as a political force was spent (Clarke, 1988; Clarke, 1992; Kerr, 2001). The Labour government of this period is widely understood as the prolegomenon to the neoliberal restructuring of British society, where the economic and social character of the country would be fundamentally and irreversibly changed. There are those who point to the infamous IMF crisis of 1976 as the moment where British social democracy gave way. Others point to the 'Winter of Discontent', or runaway inflation and government overload. This thesis, whilst not necessarily contesting the importance of these pivotal moment, makes the argument that perhaps one of the most pivotal changes of the period is oftentimes overlooked when assessing the inarguable shifts in political and economic management of the period. This thesis, by way of a close empirical examination of cash limits, seeks not only to re-assess cash limits themselves, but also the period by way of an understanding of cash limits. It is argued that cash limits emerged at the convergence point of several serious economic, political, and social challenges which the British state needed to confront.

But rather than emphasise change, in many ways cash limits represent a continuity – a continuity of governing problems and a continuity in a certain way of thinking about the management of public expenditure. However, the reframing of this continuity around the substantive problems of inflation, balance of trade deficits, a declining role for sterling internationally, rising unemployment and

trenchant labour militancy is what brought about cash limits, and it is through cash limits that one catches an early glimpse of the changes that were to be wrought later in the century. In this sense, the thesis is also concerned with the political (mis)fortunes of the Labour government of 1974-79 led by Harold Wilson and James Callaghan respectively, and particularly how the issue of public expenditure related to the troubled period under examination. This was a Labour government under severe strain. Not only was its Parliamentary position precarious in the extreme, but also its historical alliance with the trade union movement was under renewed pressure.

The thesis therefore examines a critical point in British political history, which is arguably one of the most significant in terms of subsequent transformations. However, unlike those accounts which focus on the personalities of the Labour Party (Haines, 1977; Donoughue, 1987), or the economic crises of the period (Coates, 1980), or even the scale of labour militancy (Shepherd, 2013), this thesis examines public expenditure as a focal point for crises and their resolution. And in many respects, it is on the terrain of public expenditure that one can observe some of the most fundamental problems and solutions offered by the Labour government of the period.

It is also important to note that much of the thesis focuses upon the civil service, and in particular those civil servants who worked within the Treasury. The Treasury is the nerve-centre of British politics and stands as one of the most vital aspects of the British political system (Hennessy, 2001). Any Department is ultimately held-up by the purse strings, and the purse strings always lead back to the Treasury (Hennessy, 2001). Therefore, whilst cash limits undoubtedly impacted every government Department of the day, the focus of the analysis will be on the Treasury. There are two primary reasons for this: 1) limits of time and space in terms of researching and writing a thesis on a policy change that spanned across the entirety of government and the sheer wealth of primary evidence available; and 2) the Treasury was the government Department most instrumental in terms of the development, implementation, and later management of the system of cash limits (Pliatzky, 1982: 138-9). Therefore, the focus on the Treasury is one of both necessity and convenience. Whilst public expenditure was a

collaborative process, with every spending Department working closely with the Treasury in planning and implementing public expenditure, the Treasury served as the central point from which expenditure was monitored and managed. Furthermore, when examining cash limits – particularly in terms of the early conceptualisation of them and implementation – the Treasury was the place wherein this work was done. Multiple Committees were established to carry on the work of developing cash limits, meaning that the choice to focus on the Treasury is in many respects an obvious one.

All that said, the thesis proceeds in a grounded fashion. Whilst the argument is undoubtedly theoretically informed, there is an explicit attempt to structure the discussion based on the empirical evidence. The argument of the thesis is built from an engagement with primary documents collected from the National Archives and thus represents the first such focused engagement with cash limits[1]. The contribution of this thesis, therefore, is primarily to be found in this empirical analysis of an important change in the management of public expenditure in British political history. However, it will also be argued that cash limits had wider significance, that such changes cannot be explained simply by way of policy imperative or institutional change. Rather, cash limits will be examined in the context of severe *structural* concerns effecting the British state in the 1970s. Consideration will be given to the major socio-economic concerns of the day, primarily the issue of inflation and the role of wages in the economy. Whilst theoretical discussion of these issues is somewhat limited herein, and whilst no definitive explanation of such socio-economic factors can be provided, the thesis establishes its ground in a Marxist understanding of the wider social context. Therefore, a critical perspective on the nature of capitalist social relations is maintained throughout, though this is by no means the preoccupation of the thesis.

Therefore, whilst theoretical considerations are present, the empirically informed narrative of the conceptualisation, introduction and function of cash limits is presented in a manner whereby the

[1] Limited treatment is given to cash limits making use of archival materials by Lowe (2011).

primary archival evidence is front and centre. Theoretical discussion is mainly confined to a discussion chapter at the conclusion of the empirical discussion, though themes found in this discussion emerge throughout. It is by way of this fine-grained empirical analysis of cash limits that this thesis makes it primary contribution to the extant literature. Most accounts of cash limits can be categorised as either following closely the publicly stated justifications for their imposition, concerned primarily with the institutional ramifications of their introduction, or positing their significance in the context of a restructuring of the capitalist state away from the Keynesian welfare model partially adopted after World War 2. This thesis, whilst not rejecting the significance of these explanations, provides a substantive evidential basis upon which theoretic conclusions of the significance of cash limits can be made. By way of examining the administrative and political process through which they were conceptualised, introduced, and managed, the thesis provides fresh insight to the motivations and intentions of state managers for bringing forward cash limits. It is through this that the significance of depoliticization as a motivation becomes clear. So far, cash limits have not been fully examined in light of recent discussions concerning depoliticization as a state management strategy. Through empirical analysis, the thesis discovers that the introduction of cash limits stemmed from a preoccupation with financial discipline enforced in a manner that was politically unassailable. Contrary to the Public Expenditure Survey Committee (PESC) process, which allowed negotiation and further settlements, cash limits were introduced as a means of weaponizing inflation to curtail demands for higher spending by both programme managers and trade unions, whilst presenting this as a technical fix to the process of governing public expenditure commitments. Through the primary archival evidence, it will be shown that at the forefront of the minds of senior state managers concerned with cash limits was the issue of labour costs and the ability for particularly public sector unions to push for pay settlements that were at odds with counter-inflation policy. In light of these concerns, the pre-existing institutional architecture for the management of public expenditure was seen as too open to revision, as too concerned with agreed upon resource considerations rather than on the cash consequences of spending. As such, cash limits represented a ‘revolution in attitudes and systems’ which would see

incomes policy essentially built into public expenditure decisions in a manner which was not subject to negotiation.

Cash limits achieved this depoliticisation in two ways: firstly, it allowed the Labour government to essentially *enforce* an incomes policy which was agreed on a voluntary basis with the trade unions. Cash limits would provide an involuntary upper limit to pay awards which essentially pre-empted wage negotiations and established a ceiling for any pay component for public sector budgets. In essence, the *voluntary* incomes policy became *involuntary* by the imposition of cash limits and the ensuing logic that any pay awards above the agreed-upon norm would be countered by a reduction in public programmes. And second, cash limits allowed the Treasury to place public expenditure decisions within an apparently cast-iron rule – namely, that cash limits, no matter what, could not be breached. This transformed a decisively political question (namely, whether to award additional funding to a department in case of inflationary pressures) into a technical one. Cash limits, regardless of the impact they had on underlying volume and resource considerations for the programme in question, would not be revised as a matter of course, meaning that no additional funding for pay or for increased costs of goods and services would be provided for public bodies under the cash limit regime. The impact this may have had – say on staffing levels, capital projects, etc. – was no longer a decisive concern in the governance of public expenditure.

This latter point is, perhaps, most significant in terms of the lasting impact of cash limits as a means of governing public money. By supplanting resource considerations as enshrined in the PESC process, cash limits transformed the priorities of governance in relation to public expenditure. It was no longer to be about meeting need, or fully resourcing a programme as agreed, but rather on keeping within the cash limit, meeting an abstractly *financial* target without room for discussion or negotiation. Cash limits were set and then managed by the Treasury, whilst responsibility for keeping within the limit was placed squarely on the spending department. Breaches in the ceiling would result in corresponding reductions and other potentially punitive remedies. As such, the *political* decision of

whether to allow more or less spending in light of economic context, was supplanted by adherence to a new rule wherein cash limits must be kept within. As a result, any demands for increased pay by public sector workers beyond what was allowed for in the cash limit could be countered with the demand from the Treasury that any such additional cost must be found by offsetting savings. As such, this depoliticising process not only precluded negotiation regarding pay and additional expenditure, it also pitted the interest of public sector workers *against* the public at large, as any additional pay would have to be financed at the expense of public sector budgets.

The thesis is structured in a straightforward manner. After a literature review addressing literature concerning the period in British politics, as well as the specific literature concerning cash limits, the theoretical assumptions of the thesis are laid out. Following this, there are four empirical chapters which provide a finely grained historicist account of cash limits, from inception to operation and later malfunction. The thesis concludes with a more conceptual discussion about the role of cash limits in the restructuring of the state form in the context of capitalist crisis. This chapter attempts to bring together several points developed throughout the thesis to better theorise the relevance of cash limits.

Chapter outline

The first substantive chapter of the thesis is the literature review. The literature relevant to the thesis ranges from general accounts of political and economic context of the 1970s in the UK, to specific literature dealing with cash limits. The review begins by examining some of the important political context for the thesis, examining literature concerned with the main political and economic pressures facing the Labour government of 1974-79. More specific to the topic at hand, the literature review lays out the three main existent positions regarding cash limits. These three positions are grouped under the headings of 'orthodox' accounts, 'institutionalist' accounts, and 'radical' accounts. The first – the orthodox position – posits cash limits as a straightforward response to a perceived loss of control by the Treasury over the management of public expenditure. Generally, in such literature, public

expenditure was seen to be growing too fast – crowding out alternative investment and pre-empting resources from the private sector – and therefore needed curtailment. Such a position is often given as a critique of the Public Expenditure Survey Committee (PESC) system which governed public expenditure management from the time of the Plowden Report and subsequent reforms. This literature is identified as broadly critical of the Keynesian welfare state and locates public expenditure at the centre of much of the political and economic strife that Britain confronted in the 1970s. Authors in this tradition are often drawn either directly from the Civil Service of the government of the day, or otherwise from scholars with limited access to primary archival evidence regarding cash limits.

Institutionalist accounts fare better in terms of explanatory potential, as this tradition places cash limits within a context of sedimented rules and norms and examines cash limits as a fundamental challenge and change to these rules and norms. Finally, the radical accounts are examined which tend to focus on cash limits in the context of a crisis of capitalism not only in the UK but across the world. Such accounts are concerned with the fundamental transformation of the state taking place in the 1970s as a precursor to the monetarism and neoliberalism that emerged under Margaret Thatcher. Cash limits here are seen as an attempt to introduce market logics into the governance of public expenditure as a means of dismantling Keynesian welfarism and of disadvantage an increasingly militant working class.

The second chapter is a discussion of the theoretical and methodological assumptions undergirding the thesis as a whole. Whilst the thesis makes an explicit attempt to be guided by the primary documentary evidence collected from the National Archives, a number of important theoretical assumptions are held. The theory chapter begins with a critical overview of the predominant approaches to understanding British politics in the discipline of Political Science, with a brief discussion of the divergent perspectives on the state and its role vis-a-vis society. The chapter, by way of this critical engagement, then introduces the broadly Marxist position taken throughout the thesis. A discussion of what Marxism entails when it comes to the nature of society as well as the state's role

within it is then presented. Particular attention is given to the importance of crisis tendencies within capitalist social relations, and the state's essential role in crisis management, as well as to the importance of class struggle between the owners of capital and the owners of labour to the dynamic of capitalist society. In discussion of state strategies for managing both accumulation and legitimation crises, the chapter outlines a brief account of depoliticisation as an important concept in the understanding of British capitalism and state management, and how this concept will help shed light on the governing problems of 1974-79. The chapter concludes with an outline of the methodological approach deployed to create the evidential basis of the thesis and how the empirical analysis performed relates to the theoretical assumptions held.

The third chapter is the first of four empirically oriented chapters. Chapter three focuses on the public expenditure as an aspect of governing Britain in a more general sense, before examining the important changes to public expenditure management introduced in the post-war period. This chapter outlines the institutional and political preconditions for the introduction of cash limits. In order to do so, the chapter will examine the development of public expenditure budgeting throughout the post-war period, drawing attention to the emergence of the Keynesian Public Expenditure Survey Committee (PESC) system through a brief examination of the problems confronting the state in managing public expenditure in the 1950s. The chapter then outlines the reforms proposed by the Plowden Committee which resulted in the institutionalisation of the PESC system with its forward planning of expenditure on the basis of constant prices. Turning to the 1970s, the problems and controversies surrounding PESC is examined as the immediate precondition for the implementation of cash limit reforms in 1975-76. Discussion of cash limits is organised into three sections appropriate to the different narratives regarding their introduction. The first will examine the introduction of cash limits as a remedy to a failure of public expenditure control, whilst the second will examine their role in counter-inflation policy in the 1970s before moving on to examine the role cash limits played in response to economic crisis and wage pressures. This is done to give an impression of the political dimensions of the cash

limit reforms in contrast to the often technical and administrative presentation of them as a form of public expenditure control in a rather narrow sense.

The fourth chapter delves deeper into the underlying – and distinctly less *public* – reasons for the introduction of cash limits. This chapter also deals with the motivations of Ministers and Civil Servants in introducing cash limits, which casts doubt on the completeness of the publicly offered explanation of cash limits both at the time of their introduction and subsequently. In this vein, the chapter begins with an outline of the so-called 'Mandarin revolt' early in the life of the Labour government, which saw senior civil servants express a lack of confidence in the legislative agenda proposed by the government. A prominent concern was a lack of action on inflation, industrial relations and the public expenditure situation. The account of this revolt frames a discussion of the early work done by the Treasury's Cash Control Group in conceptualising cash limits and beginning the long process of their implementation. An in-depth account is then presented of the expectations Treasury officials had in terms of a system of cash limits and demonstrates how a preeminent concern was the issue of financial discipline over programme managers and, importantly, public sector workers. This chapter sets out considerable empirical evidence which challenges the orthodox presentation of cash limits as an issue to do with control of public expenditure as a whole, as well as the idea that cash limits were seen as a technical fix to a broadly technical issue. Instead, what is found through primary documentary evidence is a set of political concerns motivating the development of cash limits, as well as hopes as to their functioning which would go well beyond a simple reassertion of control and further towards a fundamental restructuring not only of public expenditure, but of the state form itself.

Chapter five examines the track-record of cash limits in terms of their effectiveness as tools of financial discipline in the immediate period after their general introduction. Particular emphasis is given to the first year of their operation (1976-77) as a case study for their effectiveness. Much of the discussion of this chapter concerns the emergence of the so-called 'underspend norm' as a consequence of the introduction of cash limits. The underspend norm was first identified in scholarship about cash limits

by Thain and Wright (1995), however due to a lack of primary documentary evidence they were unable to adequately assess whether the emergence of underspend was a fortuitous accident or an intended outcome for cash limits. This chapter, by way of discussion of the IMF crisis of 1976, as well as by reference to primary documentary evidence, provides an answer to this unresolved question in cash limits literature. The chapter argues that underspend was certainly a foreseen possibility and was something that civil servants were keen to promote. In short, underspend was a feature of the new system of control, not an accident or defect. The chapter concludes by demonstrating the continued emergence of underspend throughout the period of cash limit operation under the Labour government, before ending on a discussion of the breakdown of financial discipline as a result of a significant upswing in labour militancy at the end of the decade.

Chapter six then picks up the theme of labour militancy by examining the response of the trade union movement to cash limits, both before their introduction and during their operation. This chapter focuses on the uneasy alliance of the TUC with the Labour government of the day, as well as the divided priorities of the labour movement in regard to public expenditure and wages. This chapter closely examines the very close relation of incomes policy and cash limits, as mutually reinforcing elements of the government's efforts to tackle inflation. Herein, the role of cash limits in holding down wages and turning the trade union movement against the public interest is examined, with particular emphasis on the role of public sector trade unions in resistance not only to wage restrictions, but also to cuts in public expenditure. This is where a discussion of cash limits as secret cuts to public expenditure is examined, as well as the response to this by the trade union movement. Cash limits are then examined in relation to the 'Winter of Discontent' in terms of the role played by cash limits in creating pressure on wage differentials and thus contributing to a veritable explosion of public sector worker militancy at the close of the decade.

Finally, chapter seven attempts to bring together the main arguments and themes presented in the empirical chapters with a more theoretical reflection on the importance of cash limits in the history

of the British state. This chapter critically examines predominant accounts of cash limits in light of the empirical analysis of previous chapters, highlighting the respective strengths and weaknesses of existing accounts. Then, an analysis of cash limits as a form of depoliticisation is offered as a means of contributing to the cash limits literature in a novel, yet meaningful way. This argument is presented by way of a discussion of the weaknesses of existing radical accounts of cash limits and their relation to state restructuring in the context of capitalist crisis. It is shown that cash limits, rather than a technical change developed to better control public expenditure, were an attempt to fundamentally depoliticise decisions regarding public expenditure by side-lining concerns about resource allocation which had been enshrined in the Keynesian PESC system. Cash limits, instead, made financial discipline the objective of public expenditure, rather than the provision of services and goods needed by a public who expected a gradual improvement in their standard of living. Therefore, cash limits represented an early and fundamental aspect of the monetarist and neoliberal restructuring of the British state, developed, and presented in a depoliticised and technical manner at a time where the concern regarding public spending was at an all-time high.

Throughout the thesis, three primary research questions shape the discussion of cash limits. These are:

1. What were cash limits and how did they differ from previous forms of public expenditure management?
2. What were the reasons for the introduction of cash limits and what were the intentions of state managers in terms of the outcomes of cash limits?
3. What were the outcomes of the introduction of cash limits for the political economy of public expenditure in the UK during the period of 1974-79?

By way of a rigorous analysis of primary evidence, the thesis answers these three questions as well as providing a more wide-reaching conceptualisation of cash limits in the context of a Marxist political economy of public expenditure in the UK in the 1970s. It is hoped that by way of this empirical and

conceptual approach, a greater understanding of cash limits will be provided that examines not just the principle and outcomes of cash limits, but also the intentionality behind their introduction considering the political and economic issues of the day.

Chapter 1 - Literature Review

In terms of relevant literature to the thesis, it is possible to delineate two broad categories of literature, which in turn are further sub-divided. There is the general literature pertaining to general conditions prevalent in 1970s Britain; and the literature more specifically focused on public expenditure and cash limits. These two broad groupings will be examined in turn.

The general conditions

When surveying the literature concerning the 1974-79 period several themes stand out. Firstly, there is significant discussion concerning the Labour Party and its struggles vis-à-vis the economy, the trade unions, and the opposition (see Coates, 1980; Holmes, 1985; Taylor, 1987). In general terms, the Labour government of 1974-79 is presented as one of precarity (Coates, 1980: 11-24; Holmes, 1985: 1-31). Much is made in the literature of the political conditions immediately preceding the election of the Wilson government; namely, the monumental failure of the Heath government in terms of securing industrial peace and restructuring the British economy (Holmes, 1985: 1-6). Almost all accounts of the Labour government emphasise the role played by the Industrial Relations Act in essentially driving organised labour back into a close relationship with the Labour Party, reversing some of the division caused by *In Place of Strife* (Taylor, 1987: 6-7). Heath's heavy-handed approach to trade union militancy facilitated closer relations between the unions and the Labour Party typified in the work of the TUC/Labour Party Liaison Committee (Coates, 1980). This committee marked a high point in cooperation between Labour and the trade unions, and through it work the Labour Party developed a manifesto for government based on a mutually agreed contract with the trade unions. Out of this work was born the Social Contract which held Labour to several policy proposals in return for wage restraint on the part of the unions (Coates, 1980: 264-280). This formed the main claim to governing competency on the part of Labour in the election and afterwards, as it strove to present itself as the only Party with a sufficiently close relationship with the trade unions to secure industrial peace (Taylor, 1987).

However, such lofty ambitions were dead on arrival. Another inheritance from Heath was record inflation, which by the time Labour took office stood at well over 20% (Butler & Butler, 2000). Regarding the immediate inflation inherited by Labour in 1974, Heath's policies took the blame. The incomes policy introduced by Heath was seen as inherently inflationary, as it granted increases based on price thresholds (Fallick & Elliott, 1981: 264-280). Furthermore, Heath's dash for growth, as well as ad hoc nationalisations, were seen to add to the problems of inflation. However, general perspectives on inflation remained within the Keynesian paradigm (Gamble & Walton, 1976). This meant that inflation was seen as either caused by excess demand, or excessive increases in the costs of production.

The former view emphasised the role played by excess demand, namely when capitalists, consumers, and governments plan to spend more than the value of the quantity of goods produced (Gamble & Walton, 1976). The supposed evidence for this explanation of inflation was the considerable rise of public expenditure vis-à-vis growth in gross national product. In essence, the government was spending too much of the national resources available, crowding out private capital and inhibiting economic recovery (Healey, 1989). Denis Healey, Chancellor of the Exchequer for the duration of the 1974-79 Labour government tended to stick to this explanation when discussing the size of the public sector relative to economic performance more generally. However, the general theory adhered to regarding inflation went beyond the role of the public sector (Peacock & Ricketts, 1978). It was argued that during a period of full employment, such as that pertaining during the post-war period, excess demand could be managed by increases in the productivity of labour by way of investment in the production process (Gamble & Walton, 1976). Such increases in productivity – it was argued – would offset inflation by outpacing cost increases in production and thus negating price increases.

In lieu of productivity increases, there would be an excess of demand which Keynesians maintained would be reflected in the price of consumer goods. Given full employment, money wages would be bid up by capitalists, so that as much labour as possible could be secured. Due to an increase in money

wages, costs would increase in production (Gamble & Walton, 1976). Capitalists would then increase market prices to claw back these cost increases as much as possible and thus protect their profit margins. The most famous formulation of this demand-pull analysis was provided by the Phillips Curve, which demonstrated an empirical relationship between levels of employment and money wages (Maier, 1978). In simple terms, the fuller employment was, the higher money wages would be. Therefore, greater unemployment would reverse this trend and, due to lower money wages, would lower the price of goods and services. The Phillips Curve, then, attempted to provide an optimal unemployment level consistent with price stability which Phillips himself predicted to be around 2.5% unemployment, or 5.5% for stable money wages (Gamble & Walton, 1976). This simple idea of a trade-off between employment and prices also formed much of the background of policy discussion in the 1970s.

Labour's public commitment was, of course, to full employment. This was a central demand of the trade union movement and represented a key plank of the post-war Keynesian compromise (Coates, 1980). Publicly, Healey maintained a commitment to full employment (Healey, 1989), despite a steady increase in unemployment during his tenure as Chancellor (Butler & Butler, 2000). However, Healey and others within the Labour Party were keen to emphasise that such unemployment was the result of the public sector claiming too many resources and thus crowding out private investment, as well as the fact that high wages were a driving cause of inflation that was undermining full employment (Holmes, 1985).

This latter point demonstrates a subtle shift in the Keynesian demand-pull analysis publicly espoused by the likes of Healey. The most ubiquitous explanation of inflation for the period was not excess demand per se, but rather excessive increases in costs of production and – predominantly – wages (Wilson, 1979). Such a cost-push analysis was consistent with Keynesian views and differed primarily on the identification of the cause of inflation. Rather than excess demand being the cause, excess money wages were instead identified as the cause.

As a general theory of inflation, cost-push analyses examine the role of monopolies within the economy which become 'price-makers' rather than 'price-takers' (Gamble & Walton, 1976). Large companies, the public sector and even workers had sufficient monopoly power within the free market that they could set prices according with their interests rather than have prices be set by the market mechanism. That said, the monopolies in the minds of policymakers in the UK during the 1970s were not private capitalist monopolies, but instead the public sector (by definition a monopoly) and the trade unions and their closed shop policies. Given the centrality of labour to Keynesian analyses, it is no surprise that perhaps the most considerable monopoly was seen as the monopoly over labour-power exercised by trade unions. Buttressed by an institutional commitment to full employment, trade unions could effectively determine the level of their wages independent of competitive pressures within the domestic and global market (Kalecki, 1943). Due to the inflexibility, therefore, of wages a wage-price spiral was set in motion, wherein prices increased to account for higher wages resulting in inflation (Coates, 1980). Contrary to what might seem common sense, such an argument was favoured by the Labour Party and government not because of any anti-union sentiment, but due to their special relationship with the TUC (Coates, 1980). If trade unions exercised a monopoly over wages, then the only means to combat inflation was to secure the agreement of trade unions to exercise wage restraint, something which – it was claimed – only a Labour government in partnership with the TUC could do successfully (Dorey, 2001). In short, the cost-push theory of inflation became predominant, supplemented by arguments concerning excess demand (with emphasis on public expenditure) became a central claim to Labour's governing competency for the period. Heath had demonstrated to the country that the Tories could not secure union cooperation, and therefore were incapable of controlling inflation. Labour, on the other hand, worked closely with the trade unions and would win their support for wage restraint by way of a social contract (Holmes, 1985).

However, one of the main problems encountered by the Labour government of 1974-79 can be found in the contradiction between their commitment to both a demand-pull and cost-push approach to inflation. Healey often argued that the public sector was living beyond its means. In Cabinet he would

often appeal to his colleagues that reductions in public expenditure were necessary as the government was claiming to much of the national product (Benn, 1989). However, at the same time, Labour wanted to secure wage restraint based on an expanded social wage and commitments on nationalisation and industrial democracy (Dorey, 2001). Therefore, a dilemma emerged wherein wage restraint needed to be bought by an increase in the social wage whilst, at the same time, levels of public expenditure needed to be reduced to lower inflation. This was the immediate issue confronting the Labour government when it came to managing the economy, namely, how to maintain industrial peace and stable wages whilst also reducing public expenditure.

That said, the literature concerning the period points to issues above and beyond inflation when considering the difficulties faced by the Labour government of 1974-79. Theories of the decline of the British economy and the political consequences of this are varied, yet all point to the incontrovertible point that Britain was in an increasingly difficult position that demanded a substantive response from state managers. It is the literature concerning decline, therefore, that must be examined to better understand the conceptualisations of the period in question.

Gamble (1994) identifies four general theses of decline: the imperial thesis, the cultural thesis, the supply-side thesis, and the democratic thesis. Each of these explanations attempts to discern the causes of UK economic decline. The imperial thesis focuses on Britain's world role as a factor which undermined the domestic economy. A lack of exposure to external markets, along with protectionism resulted in British capitalism becoming chronically uncompetitive by the latter half of the 20th century, meaning that international competitors (e.g., the USA, Germany, etc.) began to outperform Britain on a global scale. This meant that the UK economy, to adapt and survive, had to specialise into financial markets at the detriment of the productive economy, leading to a diminished balance of payments as well as increasing unemployment as manufacturing jobs moved abroad. The cultural thesis tends to emphasise less tangible factors, such as a generally conservative political culture which inhibited modernisation of the economy and its institutional supports. There are several variants of this thesis

which critique different aspects of British culture as reasons for the lack of adaptation displayed in the 20th century, ranging from critiques of welfare dependency to arguments regarding a preponderant aristocratic anti-modernisation sentiment. That said, both the imperial and cultural theses have less purchase than those explanations which instead focused upon the economy and the state of politics.

Economic theses of decline focus on economic (mis)management. Such critiques come from both the left and the right but tend to emphasise the failures of Keynesianism in terms of macroeconomic policy, as well as issues such as large and growing public expenditure alongside weakening economic performance. Trade union power is also often blamed for the decline of the UK, along with poor industrial relations strategies. Depending upon ideological persuasion, state managers were either too interventionist in industry, or not interventionist enough, or engaged in too much or too little economic planning. Overall, factors such as the rising PSBR throughout the latter part of the 20th century, along with a deteriorating balance of trade, increased days lost to strike action, stagnant growth and low productivity tend to be taken as evidence of poor economic management on the part of state managers, or as issues endemic to the structure of British capitalism. Whilst the symptoms are generally agreed upon, the causes differ.

Such explanations tend to come alongside critiques of the state. The democratic theses tend to converge on an assessment of the British state as too weak, but for different reasons. On the right, emphasis was often placed on high expectations on the part of the polity, resulting in democratic overload which reduced the state's capacity to act. Some pointed to the general exhaustion of British social democracy in terms of its ability to reconcile the interests of capitalists and workers, whilst others considered the British state to archaic in terms of institutional design, anti-modernisation in its culture and sclerotic in terms of its ability to adapt to new problems. Overall, it was seen that the state had 'taken on too much' or had simply lost control, disabling it from adapting to the general decline in Britain's economic standing. As such, it is natural that both the democratic and supply-side theses be taken together, as they are often motivated by the same concern; namely, the ability of the British

state to effectively manage the economy in a manner that was both good for business as well as largely legitimate in the eyes of regular working people.

Overall, the declinist literature agrees upon the symptoms of decline but seek different explanations in terms of cause. What is clear is that all explanations overlap to some degree with each other, and it is difficult to see the utility in favouring one approach over another. However, what is important to note is that the notion of decline was not one of purely scholarly awareness and interest, but was a sentiment shared by many during the period under study in this thesis. Political commentators, civil servants, politicians, and the public were all aware of the significant economic and political woes facing the country, due in no small part to the tumult characteristic of Heath's administration. The sheer scale of inflation, industrial militancy and stagnation meant that these things could not be ignored, and the feeling of the times were that all these issues were to come to a head. It is for these reasons that the 1970s are often characterised in the literature concerning British politics as the period where the so-called 'post-war consensus' finally gave way, from which emerged the politics of Thatcherism and the consolidation of what is termed neoliberalism.

The end of the post-war consensus?

There is considerable debate in literature concerning British politics as to the nature and extent of the post-war consensus. The post-war era in Britain is characterised as a period of cross-party agreement on several economic and political issues. Chief amongst these – it is argued – was a commitment to full employment as well as indicative planning of the market economy and social welfare. Kerr (2001), in his critique of the consensus narrative, points to the supposed success of both the 1945 Attlee government and the 1979 Thatcher government in fundamental altering the structure of British politics and setting down a new consensus. In short, the argument goes that the Attlee government – by way of a number of considerable interventions in the institutional makeup of British politics and society – brought into existence a "institutional structure and […] ideological apparatus" committed to a "Keynesian, social-democratic, state settlement" (Kerr, 2001: 210). This institutional and

ideological commitment to broadly Keynesian and social democratic processes for managing British society is claimed to have transcended the partisan competition of Labour and the Conservatives, winning favour with both and being institutionalised by way of the civil service into the processes of state management. As Clarke (1988) suggests, a key part of the so-called consensus, institutionally speaking, was the development of the indicative planning arrangements embodied in "the National Economic Development Council, the National Incomes Commission and the Public Expenditure Survey Committee" which were key institutional pillars for the Keynesian indicative planning state apparatus. Clarke (1988) continues

> NEDC brought together employers, trade unionists, government representatives and 'independent experts', providing a forum for tripartite debate and for the coordination of plans, but having no executive powers. The idea was that NEDC would arrive at a consensus as to the expected rate of economic growth. The NIC would then promulgate guidelines as to the acceptable rate of pay increases, while PESC would coordinate government expenditure plans over a five-year planning period, within the limit of the resources available.

Within this institutional framework, it would be possible to set a course for economic growth, wages and public expenditure within the context of an agreement to maintain full employment and balance the economy in light of such a commitment. An important part of this process is that it would involve input from both representatives of capital and labour, along with the state, to integrate and harmonise otherwise antithetical interests and demands (Clarke, 1988). Such was the nature of Keynesian planning in the UK during the post-war period, a system committed to continued growth in terms of both industry and public expenditure, along with a planned and harmonised increase in wages. Importantly for this thesis is the role of PESC in this so-called consensus. PESC would deliver forward looking plans for public expenditure which would expand alongside economic growth (Goldman, 1973), meaning that a general feature of the post-war system of government was a consistent increase

in public spending, often exceeding the already expansive plans laid out in the yearly PESC process (Pliatzky, 1982).

Returning, then, to the notion of a post-war consensus, the logic is that when the above institutional and ideological commitments were put in place, they remained relatively constant throughout the post-war period up until the collapse of the 1974-79 Labour government and the victory of Thatcher's Conservatives, who are said to have upended any commitments to Keynesianism in favour of a vigorous monetarism and commitment to free-market processes (Kerr, 2001). This so-called replacement of Keynesianism with the ideology of the New Right was introduced by way of a narrative of Britain's precipitous decline throughout the 20th century as both an imperial and economic force in the world, along with an economic doctrine favouring denationalisation of industry, an abandonment of any commitment to full employment, a desire to end inflation by way of restrictive monetary policy, a staunch anti-trade union position and an opposition to growing public expenditure (Kerr, 2001). In short, the doctrines of Keynesianism were to be abandoned in favour of a smaller state subservient to the will of the free market.

Now, Kerr aptly demonstrates that the notion of Thatcherism as some decisive break with the post-war consensus is largely a myth. Not only did Thatcher display considerable continuity in terms of policy and priority with the Labour government of 1974-79, also the degree to which Labour itself was committed to the shibboleths of public expenditure, full employment and state intervention is overstated. Revisionist literature concerning the post-war consensus points to several features of the 1974-79 government, as well as earlier governments, which bring into question the supposed consensus that was held across and within parties (see Burnham (2003). This thesis will further contribute to this revisionist impulse, by demonstrating that much of what is known of Thatcherism with regards to public expenditure was pioneered by a Labour government. The story of cash limits demonstrates a clear break with Keynesian institutional practices as well as ideological commitments, and the empirical contribution made in this thesis will demonstrate that much of what came to be

understood as monetarism or neoliberalism regarding public expenditure and wages was brought in by the 1974-79 Labour government. Thatcher may very well have adopted the policies and deepened them, but it was a Labour government beset by contradictory governing priorities which forged the way towards a dissolution of the post-war rules and norms concerning public expenditure, and the replacement of these with depoliticised, market-oriented processes which sought to introduce financial discipline for both the state and for organised labour.

Cash limits literature

The literature concerning cash limits can be categorised by way of three approaches: firstly, the orthodox accounts; secondly, the institutionalist accounts; and finally, the radical accounts. These will be dealt with in turn.

Orthodox accounts

The orthodox account adheres to an empiricist view of cash limits in the sense that the view given is one that adheres very closely to the publicly stated and immediately observable reasons for their implementation. Some of the major accounts in this vein were written by Civil Servants who had considerable insight into the conceptualisation, formation, and implementation of cash limits (see Pliatzky (1982) & Wass (2008), yet the accounts very often adhere closely to the publicly stated case for cash limits given by officials at the time.

In this sense, the literature in the orthodox tradition tends to focus on the supposed loss of control over public expenditure by the Treasury which emerged as a popular narrative following the evidence given to the then newly formed Expenditure Committee by Wynne Godley, Godley, himself a Civil Servant and economist, examined public expenditure outturns for 1974-5 with the expenditure as planned in the 1971 White Paper laying out the same expenditure (Bevan et al., 1981). In examining these figures, Godley stated that outturn was £5 billion more than planned for in the 1971 White Paper, and that these billions could not be meaningfully accounted for in terms of change of policy

(Pliatzky, 1982). Instead, Godley pointed the finger at the Public Expenditure Survey Committee (PESC) system and its use of constant prices as a reason for the discrepancy. This evidence was then made the basis of numerous press stories which stated that public expenditure was out of control. According to Pliatzky (1982), also a Civil Servant at the time of the introduction of cash limits, this episode marked a low point in the Treasury's credibility and, as such, presaged the introduction of more effective means of controlling for public expenditure. The means that were introduced and subsequently justified considering this supposed loss of control were cash limits, argued to be a remedy against runaway public expenditure.

Orthodox accounts, therefore, tend to replicate this episode and take for granted the notion that cash limits were a response to the loss of control over public expenditure experienced by the Treasury and revealed by Godley (see Bevan et al. (1981); Bevan (1980); Browning (1983); Pliatzky (1982); Pliatzky (1985); Wass (2008). In addition, such accounts also take for granted the idea that PESC was to blame. For instance, Pliatzky (1982) refers to the constant price basis of the PESC system as "funny money" which did not reflect economic realities in a robust enough manner. Therefore, from the off, orthodox accounts not only posit cash limits as a means of improving control over public expenditure, but also as a means of remedying what was in essence a broken system for the planning of public expenditure (Pliatzky, 1982). Such accounts also replicate the overall concern that inflation was either partially caused by PESC, or at the very least that PESC was not assisting in efforts to remedy inflation. In a sense, PESC is seen in orthodox accounts as a faulty Keynesian mechanism which was no longer delivering optimal outcomes, which therefore necessitated modernisation in technique when it came to public expenditure management and control. Again, cash limits were seen as a way of remedying such faults and as a way of modernising public expenditure management in the context of inflation.

However, was it left unexamined in orthodox accounts is the fact that cash limits – rather than a novel and modern means of improving control over public expenditure – were a return to Gladstonian principles of spending within ones means (Goldman, 1973). The orthodoxy, therefore, tend to take an

uncritical view of cash limits which hew very closely to the publicly stated narrative given by the Treasury as to their purpose and efficacy[2]. PESC is, in a sense, scapegoated in terms of inflation and is seen as actively responsible for the erosion of Britain's competitiveness and creditworthiness in the global economy due to the ever-increasing borrowing requirement PESC was generating. Cash limits, therefore, would be introduced as a means of combating state profligacy in terms of expenditure. By doing so, cash limits would arrest the growth of public expenditure and the PSBR, allowing the UK to enhance its international credibility (Pliatzky, 1982). As such, orthodox accounts present a dim picture of the Keynesian welfare state as one that was actively encouraging inflation by way of profligacy which, in turn, was undermining Britain's reputation and creditworthiness. Restoring control to the Treasury and moving it away from government departments was therefore seen as responsible thing to do, and cash limits were the way in which this would be done.

Therefore, it can be stated that the orthodox accounts of cash limits reproduce what has often been termed the Treasury view of British politics. The Treasury view – with its origins in the early 20th century – essentially boils down to the notion that little additional and no permanent employment can be created by loan-financed public works (Peden, 1984). This view was predicated upon the belief that public investment tends to 'crowd out' private investment and, as such, acts as a drag on economic activity in the long run. Whilst the Treasury view came to be significantly undermined by the emergence of Keynesian thinking, even within the Treasury itself, the view remained an implicit truth and public expenditure was always held in suspicion due to the potentially devastating effects it could have on economic stability (Peden, 1984). By the 1970s, due in large part to a generally held perception that Keynesian ideas were running out of steam, this notion of public sector spending crowding out private investment came back into fashion.

On the surface, such a crowding out thesis was supported by circumstance. Public expenditure had grown significantly throughout the 20th century, and continued to rise throughout the 1970s whilst

[2] Expenditure Committee, *The Financing of Public Expenditure*, 11-12-1975, HC, 1975-76, Ev. 758-9

economic growth, investment and productivity began to contract following the Heath-Barber 'dash for growth' in 1972-3 (Artis & Cobham, 1991). Therefore, modified forms of the Treasury view began to gain purchase, wherein public expenditure was seen as inflationary and, in simple terms, bad for business (Bacon & Eltis, 1986). Even those who believed in public expenditure as a vital aspect of economic management had, by the 1970s, expressed doubt in the growth of public expenditure and with it the PSBR. Chancellor Healey made his thoughts regarding the growth in the PSBR known quite publicly and maintained that only through greater discipline on the public side would Britain achieve an export-led recovery (Healey, 1989). The crowding-out thesis, therefore, became a lynchpin of orthodox analyses of cash limits, which were seen to stave off the untrammelled growth in public expenditure and return a more business-like attitude in terms of spending money.

This orthodox view was supported during the period by Treasury Ministers and officials, who believed that the economic situation demanded a reduction in public expenditure which could be achieved only through tighter control than the PESC system provided. Cash limits were therefore a prudent and business-like means of containing the growth in public expenditure attendant to an economic recovery based on private enterprise. In summary, this encapsulates the orthodox view of cash limits and from this view they were a success. Despite continued pressure for a growth in public expenditure, the Labour government managed to arrest the pace of growth for the first time in decades. This arrest in the growth of public expenditure also translated into a significant fall in the PSBR from 1974/5 before increasing again near the end of the decade (Heald, 1983). Cash limits, therefore, could be construed as a success until the levee broke with widespread industrial action in the public and private sector in 1978/9. As a means of controlling the growth in public expenditure and thusly reducing the PSBR, cash limits are viewed by the orthodox literature as a triumph of Treasury control and the re-emergence of the Treasury view as a counter to Keynesianism.

More contemporary academic literature which examines or discusses cash limits tend to reproduce this view. Generally speaking, cash limits are interpreted as a means of controlling the growth of public

expenditure in a context of economic downturn. In Rodney Lowe's archival study of civil service reforms, he states that the Treasury's "reputation and administrative power were fully restored by cash limits" (2011: 227) and concludes that "cash limits were… essentially an instrument of administrative control" (2011: 227) which enabled the growth in public expenditure to be meaningfully checked. This narrative of the return of Treasury control is also echoed by those who were insiders and subsequently wrote analyses of their time in the Treasury. Of note are the accounts of Pliatzky (1982 & 1985), who is the main proponent of the orthodox view, Browning (1983) who touches on cash limits as means of controlling expenditure and allowing for the return of Treasury control, and Wass (2008) who was at the time Permanent Secretary for the Treasury. Wass (2008) gives a conventional account of cash limits, stating that cash limits were about tightening control over public spending generally. The way they did so, he argues, is that they were strictly enforced by the Treasury. That said, Wass also notes the scepticism with which these claims were received by both the public and the markets. However, he later details how the Treasury were surprised by the success of cash limits in controlling expenditure.

In conclusion, the orthodox literature has a straightforward view of cash limits; namely that they were developed and implemented to control public expenditure and were successful in doing so. Such a success was a reassertion of Treasury control over public spending that was increasing at an alarming rate and needed to be arrested as a means of reducing the PSBR and boosting Britain's economic fortunes.

Institutionalist accounts

Institutionalist accounts of cash limits share certain assumptions with the orthodox account, namely that cash limits were primarily a means of exerting control over public expenditure (see Thain & Wright (1995); Wright (1977). However, where institutionalist accounts differ is the complexities of cash limits as a system of control within an already developed system of control (PESC), and the way cash limits created new rules and norms for the governance of public expenditure. Institutionalist analyses look

in greater detail at the way in which cash limits functioned, the way in which they changed the rules and norms governing public expenditure, and some of the (un)intended outcomes of cash limits beyond simply the curtailment of growth in public spending and the subsequent reductions in the PSBR.

Theoretically speaking, institutionalist accounts do function with a theory of the state, albeit a theory which centres exclusively on the rules and norms which the state embodies as a historically developed institution (Bell, 2011). Such accounts are generally less reliant on the public narrative of cash limits provided by politicians and state managers, instead focusing on the dimensions of cash limits that lie behind the public narrative.

The paradigmatic study in this tradition is Thain and Wright's (1995) 'The Treasury and Whitehall', which shares similarities to the classic text of public expenditure Heclo and Wildavsky's (1981) 'The Private Government of Public Money'. Thain and Wright identify key changes introduced by cash limits to the rules governing spending behaviour within the institutions of government, as well as the change of norms associated with this. The main argument in the book concerning cash limits is that cash limits were introduced by the Treasury as a means of instigating a regime of constrained discretion, where the Treasury would have greater control over the day-to-day of public spending. Importantly, Thain and Wright do not speak of cash limits as imposing control, but as imposing both control *and* flexibility, the latter of which is scantly addressed in orthodox literature.

For Thain and Wright (1995), who also had access to historical data and archival materials, what cash limits did was create an impression of control behind which lay considerable flexibility for the Treasury. They point out that cash limits, whilst presenting publicly by the Treasury as firm and immovable ceilings, were in fact quite amenable to change under conditions specified by the Treasury. Officially, cash limits could be revised as a result of two factors: the introduction of new policy, or substantial modification of existing policy. This vital inclusion of allowing for revisions of cash limits, according to Thain and Wright, allowed the Treasury to better maintain the appearance of credible

control. By way of advancement in the monitoring of departmental spending, the Treasury could in effect pre-empt a breach in a cash limit and revise it upwards in anticipation for this. The result would be a publicly defendable statement that no cash limits were breached. This therefore created the perception of financial discipline which in fact was undergirded and facilitated by significant flexibility in terms of the revision of limits. However, the authors admit that it is not possible on the basis of available evidence to determine whether control was subordinated to flexibility or vice versa, and further the authors do admit that significant financial discipline was created by way of the cash limit regime. However, the attainment of discipline came not from a simple change in the rules of the game, but rather the change in norms this rule change brought about.

Thain and Wright, by way of comparison of announced cash limits and actual outturns for expenditure, demonstrate an almost immediate change in norms. For the authors, the PESC era of public expenditure planning and control was defined by the 'overspend norm' wherein it was expected and routine for government departments to overspend because of changes in prices and wages and then bid for top-up funds by way of Supplementary Estimates. PESC created a ubiquitous expectation that public expenditure plans would be exceeded by actual spending. However, through the rule change of cash limits, an 'underspend norm' became ubiquitous, where government departments spent below the amount allocated in their cash limit by an overall aggregate of 2%. Therefore, it is argued that whilst flexibility was inherent in the cash limit system, it was made up for by a predictable yearly underspend across government departments achieving fiscal discipline as a result. Thain and Wright remark at the immediate and near universal nature of underspend as a consequence of cash limits and therefore suggest that this could be considered a fundamental shift in the institutional norms surrounding public spending.

However, whilst the authors can demonstrate the existence of the underspend norm emergent from cash limits, they are still unable – due to a lack of primary archival evidence – to determine whether such underspend was a fortuitous accident or an intended outcome of cash limits. Therefore, whilst

their account furthers understanding of the cash limits regime, they are left with a significant unanswered question which would better enable one to judge whether control was seen to trump flexibility in terms of cash limits. This unanswered question will be addressed in this thesis which has access to primary archival evidence. Such evidence enables a better assessment of the intentions behind cash limits and will enable a determinate answer as to whether underspend was an unanticipated accident or determined outcome.

Like other accounts in this tradition, Thain and Wright are concerned with whether cash limits could be considered an improvement over PESC, or whether they represent a retrograde step for the planning and control of public expenditure. Institutionalist accounts are generally concerned with this question, as a comparative assessment of the efficacy of the rules of the game form much of the concern for these works. For Thain and Wright, cash limits made the public expenditure system less expansionary and represented a significant modification to the rules of the game governing public expenditure. The abandonment of volume planning in favour of cash limits marked a significant change, however the authors do not suggest that cash limits in themselves were a paradigm shift in the management of public expenditure. Furthermore, they do not see the imposition as cash limits as a coup by the Treasury, but rather a negotiated settlement regarding the discretion of the Treasury and the discretion of spending departments. On the whole, the authors hold off on any strong pronouncements as to the benefits or disbenefits of cash limits, instead focusing on the potential paradigm shifts in the future as well as highlighting some of the inherent constitutional limits to Treasury control over public expenditure. For them, in short, whilst cash limits enhanced control, they could not stop the growth of public expenditure in the long-term.

Heclo and Wildavsky, on the other hand, are much more explicit in their normative assessment of cash limits. Whilst their initial work was published prior to the introduction of cash limits, the authors address them in a preface to the Second Edition of 'The Private Government of Public Money'. Their

work is an exhaustive account of what the authors call the 'public expenditure community', and how rules, norms and culture influence the workings of this diverse community of actors. For them

> British government is about many things, but if anything, it is about the process of allocating up to half the nation's resources through public spending (1981: lxi).

This public spending is particularly important as it determines not only "the public's standard of living but also… the standards by which public men live" (Heclo & Wildavsky, 1981: lxi). In short, government is primarily a community tasked with the governance of public money in the interests of said public, by means which are often inaccessible to the public. Throughout the text, there is an assumption of underlying reasonableness to government, that public money is spent in pursuit of public policy and that overall, the public expenditure system is designed not simply for control, but for the realisation of policy decided by democratic government. As a result of these commitments, the authors perceive the implementation of cash limits as something egregious to such goals. In simple terms, the introduction of cash limits set up a dilemma between achieving policy and sticking to spending goals, with one seemingly always having to be sacrificed for the other, and for which PESC was originally designed as a remedy to. Cash limits, by emphasising spending over and above policy

> Opens the way for all sorts of ignorance and irrationality in the policy process – ignorance about what is being achieved by the numbers, irrationality that hits spending targets but misses policy objectives (1981: xxxix-xl)

For Heclo & Wildavsky, then, cash limits represented a resurgence of a contradiction between policy goals and spending goals. This contradiction would be exacerbated by an overzealous emphasis on meeting targets or spending within limits, without consideration for policy. This theme is one that is addressed in other institutionalist literature and centres upon the ambivalence of cash limits when held alongside PESC. Due to the incompatibility of underlying volumes in constant prices and the cash ceilings in current prices, the concern was that the policy decisions enshrined in the constant prices would be sacrificed on the altar of cash control to the detriment of policy delivery.

David Heald, author of another important institutionalist assessment of public expenditure, also raises this concern. For Heald (1983), the introduction of cash limits heralded the end of Keynesian indicative planning. Heald argues that the public view of PESC, the evaluation of its weaknesses overall, produced strong anti-planning perspectives on public expenditure in the early 1970s. For Heald, PESC became a scapegoat where substantive failures were presented as technical weaknesses of the PESC system. For instance, the author suggests that explosion in public pay settlements were responsible for the discrediting of volume planning and that the fault lay not with PESC, but with runaway inflation in the economy due to stalling productivity and general decline in the competitiveness of British industry. In a sense, this wider crisis was seized upon as an opportunity by the Treasury to introduce cash limits which would allow for volume in public programmes to be squeezed. Heald suggests that cash limits were much more akin to targets than limits, given that the limits were based on forecasts for inflation which, of course, had to hew lower than reality. Any honest publication of inflation forecasts was likely to be exceeded due to the impact this would have on wages and prices, and because union organisers would take these as a floor to be exceeded in any pay settlement. Therefore, it was always likely that the inflation forecasted would be exceeded and, as a result, cash limits (predicated upon inflation forecasts) would result in a squeeze in volumes, diminishing resources and cancelling of capital projects. This would have a deleterious impact on public works, in the sense that new developments would have to be deferred (e.g., the building of new hospitals, etc.) and that budgets would be cut in response to pay awards and prices increases, leading to a decline in service standards for the public. For Heald, the introduction of cash limits (and subsequent developments in cash planning) signalled an attempt to dismantle the post-war Keynesian welfare state, and in this sense, he shares some ground with more radical critics of the implementation of cash limits.

Radical accounts

Radical accounts of the introduction of cash limits tend not to focus on cash limits, but rather the broader changes to the welfare state in the context of economic crisis and popular militancy on the

part of working people. For many, cash limits signalled an end to the Keynesian compromise in favour of what was then termed *monetarist* policies most publicly advocated for by Thatcher's Conservative Party.

The primary school of thought amongst radical accounts is that of Marxism, and along with this theoretical orientation comes a general critique of the conditions confronting British capitalism in the 1970s. Generally, such accounts examine the economic quandaries faced by the British state, focusing primarily on the decline of the UK as a capitalist power relative to emerging developed economies in Europe, Asia and the Americas. Despite differences of interpretation, almost all radical accounts place an emphasis in the crisis of profitability which began to be felt around the capitalist world in the 1970s (see Clarke (1988); Gamble & Walton (1976); Glyn & Sutcliffe (1972); Glyn & Harrison (1980); Yaffe (1973). Given the centrality of profit to the continued reproduction of the capitalist system, as well as the identification of endogenous factors resulting in the decline of profitability – particularly in developed economies – radical accounts place public expenditure in the context of capitalism's continued willingness and ability to finance spending (Roberts, 2018). The breakdown of a commitment to full employment, to state ownership of enterprise, to social welfare spending and maintenance of public services is traced to the inherent crises tendency of capitalism as a system of production, and the state is conceptualised as – in some form or another – a manager of capitalist affairs which must navigate crises to secure the reproduction and expansion of capitalism by way of profitable enterprise (Clarke, 1991).

Key to these accounts is that the crisis of capitalism, whilst predominantly economic in nature, effects the entire social body (Holloway & Picciotto, 1977). Given the understanding of capitalism as a series of social relations, any breakdown in the economic performance of capitalism is caused by, and felt as, a general crisis for society. A crisis of accumulation (of profit) manifests itself as a crisis of the state, as for radical accounts the state derives its (financial) power and purpose from capitalism and its continued growth (Clarke, 1991). As such, a common theme is a notion that the Keynesian welfare

state was in crisis and that efforts were underway to restructure the state to accommodate a new status quo for capitalist accumulation (Clarke, 1988). Therefore, the crisis of capitalism and its profitability felt strongly in the 1970s precipitated a political transformation in the form and function of the state, which was not a phenomenon that could be isolated to Britain but was in fact generalised across the developed capitalist world (Marazzi, 1995). The general thrust of the argument is that the Keynesian compromise established after the war could no longer ensure the accumulation of capital and needed to be transformed so that the crisis of profitability could be solved.

What this means for radical accounts of cash limits is that they are placed in a context of state restructuring away from Keynesian welfarism and indicative planning towards a new compromise which would better facilitate profitable enterprise (CSE, 1979). Public expenditure in particular is a focus for such accounts not simply due to political preoccupations, but due to the idea held by Marxist accounts that state expenditure is only possible as a subtraction from profit in the form of taxation and borrowing (Roberts, 2018). Only through the sustaining of profitable enterprise can the welfare state be successfully financed, and in the 1970s it was becoming increasingly clear that the representatives of capital were no longer interested in doing so at the expense of their own profitability.

Now, it must be noted that despite the common themes outlined above, radical accounts differ significantly on several issues. For instance, certain accounts emphasise the role of labour militancy in creating a 'profit squeeze' (Glyn & Sutcliffe (1972); Glyn & Harrison (1980), whilst others focus solely on the contradiction between fixed and variable capital in explaining the decline in profit (Yaffe (1973); Roberts (2018). Other accounts focus on the social struggles of the period and view the period as one of class struggle between socialism and a renewed form of capitalism which broke from welfarism (Clarke (1988); Holloway and Picciotto (1977). Others focus on the failure of social democratic politics vis-à-vis an ascendant new right which utilised populist ideological strategies to win over working-class voters to a series of reforms which were in fact not in their direct interest (Coates (1980); Hall

(1983); Panitch (1977). All these differences, however, are not the focus of this thesis. Instead, they will be raised in light of the different accounts given of the importance of cash limits and the reason for their introduction.

The account of the crisis of capitalism in the 1970s given by Glyn & Sutcliffe (1972) and Glyn & Harrison (1980) emphasises the fall in the rate of profit but place a great deal of emphasis on the social struggle over surpluses which manifested as inflation. For these authors, the ability of organised labour to defend its standard of living despite increased prices caused significant problems for British capital. The authors argue that inflation in prices which is not accompanied by an increase in wages is not necessarily problematic for capital. In the context of falling profits, increasing prices is a means for capitalists to maximise surplus. However, given the ability of the organised working class to resist what in essence for them would amount to wage theft, the 'profit squeeze' worsened for capital. In light of this, public expenditure, which buttressed the organising strength of the working class, needed to be targeted for reduction as a means of reasserting the discipline of the labour market. For instance, the threat of unemployment was not considered as particularly detrimental to the worker if they had access to free public services and unemployment benefits. In short, the costs of the reproduction of the labourer were socialised by way of the welfare state taxing profit and borrowing funds. Therefore, public expenditure was especially targeted by state managers as a means of weakening the leverage of the working class vis-à-vis capital in a time of inflation, allowing capitalists to subdue wage increases and capture a great portion of the surplus.

Cash limits, therefore, are important insofar as they assisted in this process of cutting back public expenditure and restraining its growth (Glyn & Harrison, 1980). Cash limits, being based on targets for inflation, essentially meant that public expenditure would be cut unofficially as inflation increased beyond the targets. With higher than anticipated inflation, cash limits would squeeze the underlying volumes agreed via PESC and thus result in a reduction in public expenditure without being publicly acknowledged as cuts (Hall, 1983). Furthermore, due to the massive size of the public sector

workforce, firm cash limits would create a ceiling on pay claims and help keep pay increases below inflation. This would allow for a rebalance of forces, meaning that workers would bear the cost of inflation whilst capital could reap the benefits. In short, for these authors, cash limits were there to assist in the reduction of the public sector as a means of deleveraging the working class. Furthermore, they enabled the imposition of wage discipline in a large and growing public sector which – it was anticipated – would have a knock-on effect on the general rate of wage increases across the economy.

For authors such as Yaffe (1973) and Roberts (2018), who focus on an orthodox Marxist account of the tendency of the rate of profit to fall, the role of cash limits – whilst not directly discussed – is similarly to maintain a reduction in public expenditure. For these authors, profitability is the source of all funds for state expenditure. Without profitable production, the state cannot maintain public spending. Given the secular tendency for profits to decline, there will be constant pressure on the part of state managers to constrain and reduce public expenditure. Given the depth of the profitability crisis in the 1970s and the inability for capitalists in the UK to fundamentally restructure production away from uncompetitive industries, these authors suggest that the willingness and ability for domestic and international capital to pay for public expenditure dwindled. By way of investment strikes and offshoring of production, significant pressure was exerted on states around the world to reduce the tax burden, reduce borrowing, control inflation and maintain competitive labour markets. Public expenditure was seen as a barrier to all of these by international and domestic capital, meaning that the reduction of public expenditure was a necessary stage in the resolution of a particularly deep profitability crisis.

Whilst there is reliable empirical evidence to point to the decline in profitability in the UK and globally during the 1970s, the accounts by Yaffe, Roberts and others of this school of thought tend to underspecify the mechanisms by which the decline in profit translates into direct policy changes regarding public expenditure. Whilst they do emphasise the role of markets in exerting pressure on governments to restructure the economy based on lower wages, there is no one-to-one correlation in

terms of declining profits and subsequent reductions in public expenditure. Whilst the Labour government of the 1970s certainly managed to contain the growth of public expenditure, it could not be reduced outright due to statutory transfer payments such as unemployment benefits. That said, their accounts are useful insofar as they demonstrate – by way of statistical data – the presence of a significant profitability crisis in British capitalism that manifested in inflation and societal division.

Perhaps the most direct treatment of cash limits from the radical accounts is that of David Hall (1983) in his book 'The Cuts Machine'. Hall – a trade unionist and adherent to the then-relevant alternative economic strategy associated with Tony Benn and the left of the Labour Party – examines cash limits from the perspective of a public sector socialist trade unionist. As such, he emphasises not only the role cash limits played in cutting public expenditure, but the role they played in disciplining public sector workers and transformation of public sector employment overall. Hall, by way of primary evidence, demonstrates the scale of the hidden cuts achieved by cash limits, demonstrating that more money was saved by way of their imposition than was cut during the 1976 IMF crisis. For Hall, cash limits were a depoliticised way of achieving greater fiscal discipline.

For Hall, cash limits were a means of fundamentally altering the orientation of the public sector towards achieving savings by way of cuts, and that cash limits achieved this in a manner which was insulated from political challenge. Presented as a technocratic change in the method of controlling public expenditure, cash limits instead operated in a way to cut expenditure by fiat and restructure work within the public sector. Public sector employers would have to work harder, for longer and without above-inflation renumeration. Therefore, the politics of cash limits are interpreted by Hall as antithetical to the welfare and public service ethos of the public sector.

Those radical accounts which emphasise what is called class struggle emphasise the respective power of labour and capital in a struggle over the form and function of society. For the likes of Holloway and Picciotto (1977), the state is a mediation of this struggle, attempting to resolve conflict in favour of the expanded reproduction of capitalism. For authors in this tradition, the strength of workers to

refuse the discipline of the market is key to their power vis-à-vis capital and therefore public expenditure is seen as a buttress to the strength of the working class in its struggle against capitalist exploitation and discipline. Because the reproduction of the workers is socialised by the state, the individual cost of reproduction for the labourer is reduced. Therefore, the disciplining power of the market over the lives of working people is mitigated somewhat. This, along with a densely unionised public sector, created a bulwark of working-class strength to resist the driving imperatives of capitalism and instead secure a decent standard of living despite any profitability crisis. Here, the Keynesian welfare state – by way of integrating working class aspirations into the form and function of the state – was no longer capable of maintaining both a decent standard of living for workers and a consistent rate of return on invested capital (Clarke, 1988). The Keynesian integration of the working class was, initially, introduced as a means of mediating revolutionary demands in light of socialist regimes that had emerged elsewhere. However, by the 1970s this integration had resulted in a working class who aspired to a continued improvement of their standard of living through increased wages, more democratic control, and comprehensive public services. No wonder then, that in the context of a profitability crisis wherein capitalists sought to reimpose discipline and cheapen the costs of production, the Keynesian compromise became an obstacle, rather than an asset, to capitalism as a whole.

Cash limits, therefore, are posited as a means of reversing this integration of the working class within the form of the state, by purposefully limiting the PESC exercise. Due to PESC's ability to inflation-proof public spending, increased prices and increased pay were paid for as a given, regardless of the tax burden or the increase in borrowing this would incur. In essence, public services would continue to grow in spite of crisis, public wages would continue to increase, and the reproduction of labour would continue to be effectively socialised and paid for by a redistribution of surplus. Cash limits, instead, would mean that pay and price increases could directly limit the amount of public money spent. Public sector workers, for instance, were faced with a choice: above-inflation pay rises or full and proper funding for public services? The trade-off therefore was between a social wage for all, or

a pay increase for a certain sector of workers. This broke the assumption established under the Keynesian indicative planning era of increases in both pay and public service provision and thus represented a significant de-integration of working-class interests and aspirations at the centre of the state.

Therefore, cash limits can be seen as an attempt to exert a new financial discipline over the central nervous centre of the welfare state, ensuring that inflation in pay had very real consequences in terms of the provision of social services (CSE, 1979). Divide and rule, rather than diverse interests harmonised by way of Keynesian planning. Cash limits, then, are seen by authors in this tradition as a significant step in the restructuring of the capitalist state away from its Keynesian form towards what is now termed 'neoliberal' or – at the time – monetarist form. Financial discipline would take priority over need, and resources would be limited if the working class would not acquiesce to lower wage increases.

This emphasis on wage restraint was echoed by the CSE State Group, who in an early appraisal of cash limits, argued that the primary goal of the introduction of the limits was to control public sector pay. The CSE group suggested that "like leads with a sliding loop sometimes used to train young dogs" cash limits "[attempt] to transfer responsibility for unemployment to the unions which find that the harder they struggle maintain real wages the tighter the noose becomes." (CSE London Working Group, 1980: 127). In essence, the CSE viewed cash limits as a way for state managers to divide the working class in terms of its demands. The working class could not demand increased public expenditure, increased wages, and full employment. Contrary to the Keynesian compromise, these goals were to be made contradictory rather than complementary. Therefore, the CSE view cash limits as a means of undoing a fundamental arrangement at the centre of the post-war order: namely, that the British people could experience increased living conditions, increased social wages, and full employment. Instead, under cash limits, demands for higher than inflation pay rises would be met with reductions in public

expenditure and as pointed out by Hall, an overall reduction of staff in the public service relative to workloads.

This is very much the view of a scholar closely associated with the CSE, Simon Clarke. In his seminal work 'Keynesianism, Monetarism and the Crisis of the State' Clarke argues that cash limits were introduced as a means of dividing public sector workers from the producers and consumers of public services. Clarke suggests that under the PESC system, where public expenditure was planned to grow in parallel with targeted economic growth, public services could expand – to some limited degree – in relation to social need at the point of provision. Whereas with cash limits, public expenditure would be "centrally determined bureaucratic and political criteria would be confined within rigorously enforced financial constraints" (Clarke, 1988). The cash limit regime therefore sought to limit the horizons of the working class in terms of what it could expect from the public sector both in terms of employment (and pay) and social services. Because of this, any demands in one part of the public sector for higher wages, would have to be compensated for by reductions elsewhere. A fundamental dilemma was introduced into the very heart of the public sector and – in the analysis of both the CSE and Clarke – put public sector trade unions in a particularly difficult situation. Free collective bargaining, in essence, could no longer be tolerated within the public sector as it would be incompatible with cash limits, which relied heavily upon stable assumptions about future pay levels.

Summary

The three main bodies of work relating to cash limits have been outlined above. Orthodox accounts, primarily concerned with retelling or re-establishing the public narrative offered by the government and civil servants at the time of the introduction of cash limits, provide a useful starting point for comprehending the context within which these changes were introduced. An overwhelming public concern for the levels of inflation and public expenditure were met with demands for tighter control over the financial apparatus of the state, demands which were happily met by the Treasury with their introduction of the seemingly novel system of cash limits.

The emphasis in the orthodox literature is on the loss of control over a public sector that was growing much too fast. Inflation added fuel to this already worrying fire, and the increase in the PSBR alongside Britain's ailing economic performance set the stage for new approaches to the issue of public expenditure. Much of this literature tends to have an implicit anti-welfare state narrative, wherein it is assumed that during the 1970s the state was living beyond its means and that a reckoning was necessary. This is useful for the analysis which will follow, as it provides the public image of cash limits against which any new appraisal of them needs to be set. The orthodox literature provides several largely uncontested arguments for cash limits which will be critically examined throughout the course of this thesis by way of examination of never-before examined primary documents.

The institutionalist approaches, whilst deepening an understanding of cash limits in terms of the rules and norms of the state and of public expenditure specifically, tend to limit the discussion of cash limits to the immediate institutions of the state. Of primary concern for this literature is the processes through which state managers determine public expenditure and the impact cash limits had on these. There is limited assessment as to whether cash limits were a positive step, or whether they were incompatible with the Keynesian welfare state, but by and large the usefulness of this literature comes down to the detailing of institutional processes, as well as providing some useful data in terms of the effectiveness of cash limits as a new regime of rules for public expenditure.

Thain and Wright's (1995) analysis is particularly useful, as it furnishes this thesis with an important research question concerning cash limits, namely whether the emergence of the underspend norm under cash limits was intentional and planned, or a fortuitous but unexpected symptom of cash control. This question, whilst originally unanswerable due to a lack of primary documentation, will be examined in detail in Chapter Three of this thesis, where the intentionality of underspend will be examined in light of new evidence.

The radical accounts are to be praised for examining cash limits in a wider context of economic crisis, as well as widespread workers' struggle. Rather than focus on cash limits themselves, the radical

approaches place cash limits within a broader discussion of the restructuring of the British state and of British capitalism due to a significant economic crisis for which the Keynesian compromise seemed ill-suited to address. These accounts not only emphasise the scale of public expenditure cuts brought in by stealth by cash limits, but also the impact this had on public sector workers vis-à-vis the working class. These accounts also do much to emphasise the role played by cash limits in the breaking up of the post-war Keynesian indicative planning state in favour of a more 'monetarist' or – what we call today neoliberal – state.

The radical approaches are particularly important for this thesis, as the theoretical assumptions of this work are most closely aligned with radical literature. The analysis contained herein takes a great deal of inspiration from radical appraisals of cash limits and examines them from a Marxist perspective. It will be shown that there is a great deal of merit in the radical approaches, and this thesis will demonstrate that there is significant primary documentary evidence to support the radical approaches. However, it must be said that the radical approaches themselves are limited. These limitations will become clear during the empirical analysis of cash limits presented in the following chapters, where the *political* as well as the *economic* importance of these reforms will be shown. In particular, the empirical evidence suggests a degree of *depoliticization* as the motivation and outcome of cash limits, something which the radical literature tends to overlook in favour of an appraisal of the economic consequences of cash limits and the impact they had on the workers struggle within the public sector.

Gaps in the literature

Whilst each 'genre' of explanation outlined above provide useful insights to cash limits, each of them are limited in their explanatory power. Orthodox accounts, whilst useful in providing important empirical detail, do not sufficiently scrutinise the publicly available narrative regarding cash limits. Rather that critically engage with cash limits in terms of the actual intentionality of the reforms in the context of significant economic woes, orthodox literature tends to take the state's own narrative as a

given. Furthermore, the political economic analyses within the orthodox accounts are often wanting. For instance, the notion that public expenditure was simply too high is accepted as a given, without any scrutiny as to whether public expenditure was in fact sustainable. Rather, orthodox accounts tend to simply believe that at a certain ill-defined point, public expenditure becomes too burdensome. Furthermore, inflation is not subject to any critical reflection within the orthodox literature. Whilst a number of diagnoses of inflation are available, the orthodox literature does not interrogate the phenomenon and largely accepts the idea that wages were simply too high. In short, there is an absence of political economy within the orthodox literature, which prevents these explanations from properly contextualising the introduction of cash limits.

Orthodox literature also fails in the sense that it cannot properly interrogate intentions. Much of the orthodox literature is based on publicly published documentation, such as White Papers or Reports, or simply taken from personal experiences of authors. Any recognition that there is a limitation in such evidential bases is absent. For instance, it is well understood that much work goes into the publication of a White Paper, and oftentimes what is left out of a White Paper or what has been reworked within one, gives as much of an insight as to what is contained within it. When considering intentions (i.e., questions of 'why?'), the orthodox literature has little to say that differs from the sanctioned narratives. As such, there is in fact very little in terms of the *politics* of decision-making within the orthodox accounts. They tend to remain at a descriptive level of abstraction, disallowing any assessment as to the efficacy of a policy vis-à-vis its true (rather than simply publicly and rhetorically stated) intentions.

This is a weakness that is also shared by institutionalist analyses which, whilst providing a more systematic analysis of cash limits, still cannot examine the intentionality of the reforms in the context of political economic pressures and tensions. That said, institutionalist analyses are not purely descriptive. They attempt to locate change and to trace its impact on the management of public expenditure well into the future, and therefore present a deeper understanding of the nature of cash

limits, their successes, and failures. However, what is absent is any real examination of society, its contradictions, disputes, and pressures. The state is examined as an interlocking set of institutions subject to both continuity and change, however the sources of such dynamics tend to be endogenous to the institutions themselves. The political economy of the UK is often cursorily examined in institutionalist analyses, and even then, it is done so without critical engagement as to the nature of the economic and the political system.

Radical literature fails in a different way. Radical approaches tend to bias large-scale questions, sacrificing empirical specificity. Whilst a critical political economic perspective is often front and centre of radical approaches, what is lacking is a real understanding of the empirical detail of reforms and how these particularities relate to more general questions concerning society as a whole. Again, there is little focus on intentionality, with the intentions of political actors simply explained away by reference to structural imperatives. Actors recede in favour of discussion of quite broad political economic processes and, as a result, the more finely grained examination of the intentions and politics governing a decision are lost.

Therefore, it could be said that this thesis attempts to offer a corrective to each genre of explanation. Firstly, the thesis attempts to provide a deeper evidential basis than orthodox literature provides, to disturb official public narratives with a discussion of intentionality 'behind the scenes.' The thesis also provides a much richer political economic perspective on public expenditure management and cash limits, thus giving greater context to the imposition of these reforms. Secondly, in respect to institutionalist literature, again the thesis provides a greater assessment of the political economic processes within which cash limits emerged, as well as the response to these by actors from outside state institutions. As such, the thesis provides an account of the exogenous factors resulting in change to public expenditure management, rather than locating change as something purely institutional in nature. And finally, with respect to the radical literature, the thesis provides empirical detail and depth, a level of focus on intentionality, which provides greater detail through which an examination

of the general conditions can be enriched. All these correctives are largely possible due to use of primary archival evidence in the development of the argument of this thesis, which many of the accounts detailed above did not have at hand. Combined with a rich theoretical perspective on the political and economic characteristics of Britain in the 1970s, the thesis will provide a critical empirical perspective on cash limits and thus reveal elements of these reforms hitherto obscured.

Chapter 2 - Theoretical and Methodological Considerations

When setting out to examine a political process, whether this be elections or – in the case of this thesis – public expenditure management and control, the tendency within widely accepted approaches within the discipline of political science tend to focus narrowly on the processes themselves. For example, the predominant accounts of public expenditure management during the period under study in this thesis tend to focus either on the motivations and machinations of the embedded political actors most strategically relevant to the policies or processes in question, or they place onus on within what the actors themselves are embedded, namely institutions. The state *as such* is not theorised, its purpose again taken for granted. The question of the social totality – that of which the state is merely a moment, though a strategically important one – is left unanswered. This is all to say that orthodox political science accounts of the state and its many processes, actions and functions, lacks not only a theory of the state, but a theory of the social relations of which the state is a part. In Marxist terms, political science lacks a theory of capitalism and of the specifically capitalist nature of the state and its field of action.

The argument developed throughout the body of this thesis rests upon a consideration of both accounts emphasising political actors and those emphasising institutions. That said, this thesis also rests upon a critical theory of not only the state but of the social totality – that is, the social relations which form global capitalist life. The thesis thus builds upon Marxist theory in terms of both the nature of the state and the nature of capitalism, which the state works to reproduce. As such, it is important that the basic premises of Marxism are covered in this section, as well as the specific elements of Marxist state theory which are relevant to the thesis. It is my contention that a study of public expenditure is weakened unless it is developed in light of consideration of the valorisation of capital on a national and global scale, as well as in light of the ongoing class struggle between capital and labour and the fundamental manner in which this struggle shapes the political arena and is in turn shaped by it. Therefore, the remainder of this chapter will examine three main areas of theoretical

importance: firstly, the social relations of capital as a global system of exploitation of labour power; second, the specifically capitalist nature of the state and the role of public expenditure in capitalist society; and three, the struggle between capital and labour and how this informs state strategies for the reproduction of national and international capitalist social relations.

Capitalism as a social totality

At the outset of Marx's critique of political economy, he states that

> The wealth of societies in which the capitalist mode of production prevails appears as an 'immense collection of commodities'" (Marx, 2004: 124)

From this deceptively simplistic statement, Marx goes on to analyse the commodity form as the basic unit of capitalist society. What this statement contains, however, is an indication of the full scope of Marx's analysis; namely, capitalist society is one in which wealth as such takes the form of commodities. Therefore, the commodity form is the key to understanding capitalism as a total system of social relations. Importantly, for Marx, the commodity is not a 'thing' – a mere object – but instead a set of relations which presuppose and reproduce the commodity form (Holloway, 2015). What this means is that the commodity form is both the beginning and end of capitalist relations, and that all facets of life under capitalism take this form, including the living labour of working people (Holloway, 2015). For Marx, the capitalist relation appears first as an exchange between the owner of the means to produce commodities and those who have nothing to sell other than their power to work (Marx, 2004). Therefore, capitalist and labourer appear as two parties exchanging one thing for another; the capitalist sells access to the means of production, whilst the worker sells their ability to work for the capitalist through these means of production.

The presupposition of this relationship – which on the surface appears as one of mere exchange – is in fact a history of violent expropriation (Bonefeld, 2001). For the capitalist to meet the worker in the form described above, it is necessary for the capitalist to have ownership over the means of

production (and therefore subsistence), and for the worker to have no independent (or self-actualising) access to subsistence (Bonefeld, 2011). The worker must be stripped of all ownership other than their labour-power, so that the only route towards the satisfaction of basic needs is the selling of one's labour-power for a wage. Therefore, the precondition of the capitalist totality is that workers are stripped of any access to the means of subsistence, whilst the capitalist class are granted a monopoly over these means (Bonefeld, 2011). As a result of this uneven relationship, labour-power can be exchanged as a commodity, meaning that both the product of labour and labour itself become commodities to be exchanged. Capitalism, therefore, is fundamentally based on the exchangeability of labour and the products of labour; both the form of life and the means to sustain life are given a price and are bought and sold on the market.

The key purpose of this relationship is for capital to grow; that is, for wealth to beget greater wealth (Marx, 1977). This is achieved by the capitalist exploiting the differential in the value of labour power and the value of labour performed. As the worker only sells their capacity for labour, rather than the actual product of their labour, the value of commodities that can be produced by the labourer can exceed the wage cost of employing them (Marx, 1970). It is this fundamental differential – that is, between the value of labour-power and the value of labour performed – which provides the source of the very lifeblood of capitalism itself; namely, surplus value and its realisation as profit (Marx, 1977).

Marx expounds on this basic relationship in Volume 2 of 'Capital' where capitalism is presented as a circuit, and where he presents the social relations of capitalism from the vantage point of money and its growth (or valorisation). In the section entitled 'The Metamorphoses of Capital and Their Cycles' Marx states:

> The circulation process of capital takes place in three stages… *First stage*: The capitalist appears as a buyer on the commodity and labour market; his [sic] money is transformed into commodities, or it goes through the circulation process M-C. *Second stage*: Productive consumption of the purchased commodities by the capitalist. He acts in the

> capacity of a capitalist producer of commodities; his capital passes through the process of production. The result is a commodity of more value than that of the elements composing it. *Third stage*: The capitalist returns to the market as a seller; his commodities are exchanged for money, or they pass through the circulation process C-M (Marx, 1977: 31).

This circulation process is stylistically presented by Marx as

M-C …P …C'-M'

Wherein 'M' stands for money capital, 'C' for commodities 'P' for productive consumption, 'C'' for a commodity of a greater value than the initial purchase of C and 'M'' as the greater value of C' realised as money through sale on the market. Marx goes onto expand this circuit by specifying that the initial M-C exchange can be subdivided wherein 'C' is broken down into two constituent parts; namely, 'LP' or labour-power and 'MP' or means of production. The combination of labour-power and the means of production constitutes productive consumption and is the process wherein a commodity of greater value is produced for sale.

The circuit presented is a formalistic presentation of the capitalist mode of production – an abstraction which, nonetheless, captures the essential stages of capitalist production (Milios, 2003). As can be seen, the circuit is thus a representation of social relations of production, exchange and circulation. The circuit is formed – in essence – by relations between workers and capitalists, and capitalists-qua-other capitalists. However, and this is a key element in Marx's analysis, these relations take the form of relations between 'things', things such as money, commodities, etc (Elson, 1979). Social relations, therefore, are cast in the form of commodities by way of what Marx terms the fetishization of commodities, which is inherent to capitalism as such (Rubin, 1972). For Marx, the purpose of his critique of political economy is to question *why* social relations take the form of things, and thus to reveal the social nature of reified objects (Rubin, 1972). Therefore, the objective of Marx's analysis is to reveal capitalism as a "complex Relation encompassing the interaction between the material means

of production, capitalists, workers, value, commodity, money, and more – and all this over time" (Ollman, 2003: 67).

Therefore, in discussing the emergence of the capitalist circuit Marx argues that capitalism *over time* totalises itself. The reasoning being that in order for the circuit to reproduce itself, a necessary precondition must be established and maintained. This precondition lies in

> distribution; not distribution in the ordinary meaning of a distribution of articles of consumption, but the distribution of *the elements of production themselves* [emphasis added]. These consist of the objective things which are concentrated on one side, and labour-power which is isolated on the other. The means of production, the objective things of productive capital, must therefore stand opposed to the labourer as capital, before the process of M-L [the purchase of labour-power by the capitalist] can become a universal, social one (Marx, 1977: 40)

Therefore, in Marx's analysis the circuit of capital, in order to successfully function and reproduce itself, presupposes the achievement of the capitalist mode of production in general; it must become the "prevailing social condition" (Marx, 1977: 40). Thus, the *extension* of Marx's abstraction of the circuit of capital represents the social relations of capital as *total*, that is as increasingly all-consuming on a national and global level (Ollman, 2003). This expansive notion of capital is not arbitrary, however, but contained in the very logic of the valorisation of capital which is a process of growth without end. Capital must grow, and to grow it must expand production and find new markets, subsuming the entire globe under its logic. It goes without saying that notwithstanding some exceptions, capitalism is now the prevailing social condition and certainly was so during the 1970s.

In terms of what this means for the analysis developed in this thesis is that the circuit of capital is a process of global validity (outside exceptions such as the then Soviet bloc or Communist China). The global significance of the capital relation as outlined is taken as a precondition of analysis throughout the thesis and is considered the historical and immanent context within which states operate

(Burnham, 2001a). Therefore, the thesis has a valid and coherent conception of the *system* in place within which states operate. The social totality is understood as a capitalist one, adherent to the rules of exchange, production and circulation as outlined by Marx, as well a social totality founded upon the profound inequity of the distribution of the elements of production themselves which leaves labour-power isolated from its means of independent subsistence.

The capitalist nature of the state

So far, what has been outlined is the Marxist understanding of capitalism as the most general level of abstraction – that is, at the level wherein the most essential features of capitalism can be grasped, as well as its formal movement (Ollman, 2003). However, in order to examine and understand the nature of the state under capitalism, it will be necessary to adopt abstractions which are less general and which, consequently, are more directly useful for understanding state management in the 20th century. As Clarke (1991: 189) makes clear, the state "cannot be analysed at the same level of abstraction as capital". The reason for this, which will be further outlined below, is that the state does not "*constitute* the social relations of production, it is essentially a *regulative* agency, whose analysis, therefore, presupposes the analysis of the social relations of which the state is regulative" (Clarke, 1991: 189).

As outlined above, the primary motive of capitalism is its self-expansion by way of the production and realisation of surplus value. In short, profit is the lifeblood of capitalism. Therefore, conditions for profitability need to be secured and reproduced through time. As Marx (1977) stated, for capitalism to be a generally prevailing social condition, the uneven distribution of the "elements of production themselves" must be maintained, meaning that the capitalist's ownership of the means of production must be continually secured. This is achieved by the maintenance of the separation of labour from access to the means of subsistence so that the labourer is continually forced to sell their labour to the capitalist (Bonefeld, 2001). This relation – the uneven distribution of the elements of production – is the precondition for profitable enterprise and one which the state must maintain.

The state enters the equation not by way of some logical necessity, however. Rather, the necessity of the state is a historical one. The relation of struggle between capitalist and labourer is a historical relation of struggle, where class domination is challenged and reasserted (Clarke, 1991). The separation of the labourer from the means of subsistence is consistently challenged in both fundamental terms – that is, struggles where the labourer seeks to directly appropriate the means of production for themselves – or incrementally – that is, where the worker seeks to eliminate exploitation by way of wage demands and demands over control of the work process. It is this struggle, this refusal of the labourer to "submit passively to their subordination to capitalist social relations" which necessitates the intervention of the regulative agency of the state (Clarke, 1991: 190). Returning to the circuit of capital, at the outset one sees the exchange of money capital for labour power – a relationship between the owner of capital and the labourer *free from* independent access to the means of subsistence. This relation presupposes the uneven distribution of the elements of production, which – as Clarke points out – is an *external* presupposition from the point of view of exchange (1991: 190-1). This supposedly free exchange therefore requires the *forcible* separation of the worker from the means of subsistence.

This forcible separation was performed by the state. With the dissolution of the feudal order, through the period of primitive accumulation, the free labourer was created (Marx, 2004). Land was enclosed and those who once subsisted from the land were forced to sell their labour power to survive. The historical preconditions of capitalist social relations were forged in this manner by the exercise of power and law, enacted by the state (Kay & Mott, 1982). The state was then subsumed by the prerogatives of capitalist production and became a subservient regulative agency of capitalism. Therefore, the state is a *form of expression* of class domination and is therefore a *moment* in the total reproduction of capital at a national and international scale (Burnham, 2006). The state, as such, is the *political* expression of the class domination of capitalism and is the political means by which the preconditions of capital are reproduced (Burnham, 2006).

It is here that the meaning of the political, in a Marxist sense, becomes relevant. Capitalist social relations, as outlined above, rests on the separation of the political from the economic (Wood, 1981). Given that class domination under capitalism is mediated by the exchange of commodities (namely money capital for labour-power and productive capital) direct force is abstracted away from this relation (Holloway & Picciotto, 1977). As outlined above, the capitalist and the worker meet each other in the sphere of exchange as free and equal – that is, as owners of commodities who simply exchange one for the other (Marx, 2004). No direct use of force is implied in this relationship but is instead implied given the necessary preconditions for the relationship. Therefore, as the state does not intervene directly in this relation of exchange, the 'economic' moment of social reproduction is separated out from the 'political' moment of reproduction (Wood, 1981). This therefore gives rise to the apparent externality of the state vis-à-vis capitalist social relations, and results in it being examined as a discrete social unit with its own laws of motion distinct from others.

The political, therefore, is understood in the Marxist tradition as organised coercion, of which the state is the supreme example (Burnham, 2006). By way of force masked by law, the state maintains the separation of labourer from the means of subsistence and guarantees the reproduction of capitalism. However, it does so in a manner which does not appear as such. The state confronts society as *civil* society, over which the state stands as neutral arbiter (Kay & Mott, 1982). The state simply protects private property and one's ability to dispose of it as one sees fit and both capitalist and labourer as subject to the same *universal* laws (Kay & Mott, 1982). Though, as seen above, the application of a universal law in the context of uneven and unequal distribution means the reproduction of said inequality. Therefore, the protection of private property by means of force and law is, in essence, the maintenance of the monopolised ownership over the means of production on the part of the capitalist, and the isolation of the labourer from the means of subsistence.

That said, as a consequence of the fetishized and fantastical appearance of the state and the economy as two distinct arenas, politics and economics are seen as separate to each other. For example,

economic crises are seen as distinct from political crises, and so on. The *appearance* of the state as a neutral arbiter vis-à-vis a civil society made up of equal private citizens thus plays an important regulative function for capitalism as it serves to isolate labourers from each other and to protect the prerogative of capitalists to dispose of their property as they see fit.

Now, returning to Marx one encounters a deepening of this analysis. Whilst the state – on the surface – appears as a neutral arbiter of exchange relations, a simple protector of private property, when one moves to the realm of production circumstances look quite different. In Capital Vol. I, Marx (2004) describes the movement from exchange – where the worker confronts capitalist as private owners of commodities in a fair and equal exchange – to the sphere of production[3]. In this "hidden abode of production" the apparent freedom of the labourer disappears, as the capitalist exerts control over the length and intensity of the working day in order to produce as much surplus value as possible within given constraints. However, it is also here where the labourer becomes a vital – and living – component of the forces of production who is then active in the production process and thus begins to demand greater control over the production process. Furthermore, in the abode of production, the worker becomes a collective worker, united with other workers by a common purpose and common knowledge. As a result, a struggle ensues which erupts from within the abode of production outward to exchange and – importantly – the political regulation of these relations.

Firstly, there is the historic struggle over the length of the working day. In Marx's formulation of surplus value, the labourer's day of work is broken into two constituent parts: firstly, the part of the day where the labourer works to reproduce their existence as wage-labour; and secondly, the part of

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[3] "The sphere of circulation or commodity exchange, within whose boundaries the sale and purchase of labour-power goes on, is in fact a very Eden of the innate rights of man. It is the exclusive realm of Freedom, Equality, Property and Bentham… [However] [w]hen we leave this sphere of simple circulation of the exchange of commodities, which provides the 'free-trader vulgaris' with his views, his concepts and the standard by which he judges the society of capital and wage-labour, a certain change takes place, or so it appears, in the physiognomy of our *dramatis personae*. He who was previously the money-owner now strides out in front as a capitalist; the possessor of labour-power follows as his worker" (Marx, 2004: 280)

the day which is worked purely for the surplus of the capitalist (Marx, 2004). Given that the labourer only sells their *capacity to labour* – that is, their labour-power – the necessary portion of the working day need only reproduce them as labourers, that is as able to sell once again their labour. In short, the worker replaces to the capitalist the value paid to them as wages. The vital portion of the working day – for the capitalist – is the time wherein the labourer works to produce value which *exceeds* the cost of their labour-power. For example, say that the work performed by a labourer in each day totals 10 hours; 6 of these may be worked to reproduce themselves as a labourer (to replace the value paid to them in wages), whilst the remaining 4 serve only to produce surplus for the capitalist. This is the essence of surplus value – the labour-time that is surplus to the amount necessary to cover the initial investment of capital (Marx, 1977). Therefore, a clear strategy for capitalists seeking to extract greater profit is to extend the length of the working day. Rather than 10 hours, the working day is 12. Whilst the wages remain the same, the amount of surplus is increased from 4 to 6. This is what Marx terms the production of absolute surplus value (Marx, 2004). However, and importantly, there is a clear physical limit to the length of the working day – it cannot exceed a certain physical maximum without essentially depriving the worker of time off to rest and reconstitute themselves prior to another day or work (Marx, 1970). Furthermore, struggles mounted over the length of the working day by the working class have long meant limits to the legal maximum working hours per day. Therefore, when the strategies of lengthening the working day have been countered by the working class, the capitalist resorts to other strategies for enhancing profitability.

Chief amongst these is the production of relative surplus value. The production of relative surplus arises when the length of the working day is fixed, and instead what changes is the internal composition of necessary and surplus labour within the working day; that is, the relative values of necessary and surplus labour performed within the working day (Marx, 1984). The primary means by which relative surplus value can be produced is through the increased productivity of labour, which would reduce necessary labour time and free up time within the working day for surplus labour time. Here, what Marx is thinking of is the application of new technologies to the labour process which allow

for more commodities *per hour* to be produced. Whilst this may be the predominant method of relative surplus value production, there are other strategies available to the capitalist to increase the relative value of surplus to necessary labour within the production process (Marx, 1984). One of these, and perhaps the most obvious and ubiquitous, is the cheapening of labour-power.

The cheapening of labour-power sounds, on the face, simple. However, there are a few ways this can be achieved. Firstly, through application of enhanced production technology, commodities are cheapened over time. Therefore, the price of necessary commodities for the worker are in turn cheapened, and wages can consequently go down (Marx, 1984). Secondly, the capitalist can offload certain responsibilities for the reproduction of the worker to the state, which can provide certain services for the worker outside of the wage relation which, in turn, cheapen the cost of reproducing a labourer(Cockburn, 1977). Or thirdly, the capitalist can simply haggle wages down, refuse to increase them or increase prices relative to wages. This final point gets to the essence of the class struggle, particularly when it comes to examining the 1970s. The politics of the relativity of wages, prices and profits are central to understanding much – if not all – of capitalist history and are particularly pertinent when examining the relations of capital and labour in the 1970s.

As mentioned above, once the length of the working day is fixed or given – namely, that avenues for the expropriation of absolute surplus value have reached a fixed limit – surplus value production becomes the predominant means for the capitalist to realise profits (Marx, 2004). However, the application of labour-saving technology within the production process results in the gradual growth of fixed capital relative to variable capital, or capital to labour in the labour-process (Marx, 1984). This is what Marx (1984) calls the *organic composition of capital* – that is, the amount of fixed capital relative to variable capital. As the forces of production grow, the amount of labour is reduced. This results in a tendential fall in the rate of profit for capital over time – a dynamic which leads towards crisis of capitalist accumulation which is endogenous to capital's own movement (Marx, 1984). Again, in response to pressures on profits, the capitalists have limited options – what Marx (1984) calls the

"counteracting factors" to the tendency of the rate of profit to fall: 1) the capitalist can increase the intensity of the exploitation of labour; that is, by either increasing the length of the working day or by making work more intense (i.e. making the worker do more per hour worked, or to work faster); 2) reducing wages below their value; 3) cheapening the elements of fixed or constant capital (cheaper raw materials, etc.); 4) the mobilisation of the reserve army of labour to weaken the bargaining power of workers (i.e. the use of unemployment to reduce wages, intensify labour discipline, etc.); 5) expansion into foreign markets and the use of foreign trade to cheapen constant and variable capital; 6) increase in share capital (i.e. the flight of capital from direct productive investment into interest-bearing forms of capital, what is now understood as 'financialisation' of capital).

That said, such counteracting tendencies always reach a limit. For instance, as discussed previously, the length of the working day is limited not just by physical limits, but also by struggle and resistance by workers. The intensity of work is also contingent on the discipline of the workforce, as any struggle to control the labour-process, something which emerges from the collective worker, will limit the viability of such a strategy over the long term. The cheapening of constant capital too is a process with diminishing returns. Importantly, the reduction of wages below their value is something that is limited not just by competition, but also by worker resistance. Other limits also arise relating to the counteracting factors[4].

Perhaps most pertinent for the purposes of this thesis, the strategy of reducing wages – and in turn increasing prices – is a particularly limited strategy. Whilst the impetus for reducing wages comes from the constant pressure on profits, it is a method that is particularly difficult. Workers band together to

[4] For instance, the mobilisation of the reserve pool of labour is something which only serves to limit the progress of the tendential fall in profit, for by its nature the reserve pool of labour is precisely a product of labour-saving technologies employed in production. Whilst this reserve pool may grow, it is more of a symptom of the law of the tendency of the rate of profit to fall than it is a solution to it. And finally, whilst financialisation (growth in share capital) may serve to generate short-term returns for capital, in the long-run – as Marx (1984) points out – such share capital must be underpinned by a productive realisation of profit. Without the successful transformation of labour into surplus, such share capital becomes promissory without a firm basis in production. Again, this is a limited response.

protect the value of their labour-power and ensure that it is not pushed below its market value (Lebowitz, 2003). In the UK this role was performed by trade unions, which through a resolute institutionalisation of the collective worker, sought to preserve the *real value* of wages; that is, the value of wages relative to purchasing power. The wage reduction (or at the least control) strategy was preeminent in the post-war period in the guise of incomes policy and met with continued resistance from workers (Dorey, 2001). This will be returned to below.

What all this serves to demonstrate is that capitalism is not a harmonious form of production, but instead one that is riven by contradictions. Through its internal drive to revolutionise the forces of production, capital increasingly comes into conflict with the relations of production which it presupposes. It is in this sense that there is an element of impossibility in capitalist accumulation – it must strive towards greater profit, but in so doing undermines the very basis of this goal; the exploitation of labour-power at the site of production (Kurz, 2014). This impossibility is also shot through with antagonism, meaning that at each stage of the circulation of capital, at each point in its transformation, a struggle may break out between capital and labour, between factions of capital, which further serve to frustrate the valorisation process (Cleaver, 2016). Therefore, capitalism is a system defined by internal contradictions that are antagonistic (subject to struggle). The state, being part of this internally contradictory and antagonistic totality, must in turn serve to mitigate elements of the impossibility of capitalism, as well as manage the inevitable antagonisms which emerge from it.

However, it must be borne in mind that reducing wages or increasing prices are *distributional* responses to a fundamental problem of *production* (Glyn & Harrison, 1980). As such, any attempt to respond to the crisis of profitability on a purely distributional basis will result in circumstances such as inflation, which only further worsen the position of capital over time.

All this said, it is also necessary for the Marxist position to take account of the reproduction not just of capital, but of labour. Whilst capital reproduces by way of valorisation formally expressed in the circuit of capital outlined at the outset of this chapter, the working class reproduce themselves on a

different, yet related basis. To illustrate, it is necessary to return to Marx. Just as Marx discussed the idea of the *productive consumption* of fixed and variable capital in the process of valorisation, so too is the labourer involved in a form of consumption, what one might called 'reproductive consumption'. The goal of consumption on the part of the labourer is distinct from that of the capitalist. Given that the labour enters the relation of capital due to their "separation from its mean of its means of production, including the means of subsistence required for its reproduction", labour seeks money for the sale of labour-power, money which is in turn expended on the purchase of commodities. For labourers, then, the circuit of capital is experienced in the form of C (LP) – M – C. The distinctive form of money advanced to the labourer is a wage, which is in turn transformed into commodities required for subsistence. Therefore, in the exchange of labour-power for a wage, the labourer secures their subsistence and thus can reproduce themselves despite their separation from the means for subsistence.

Whilst Marx provided scant detail on the formation of the value of labour-power in 'Capital: Volume 1', he did provide a more useful elaboration in his pamphlet 'Wages, Price and Profit'. Here Marx delineates two factors which form the value of labour-power; a physical element and a moral (or historical) element. Marx states

> The value of the labouring power is formed by two elements – the one merely physical, the other historical or social. Its *ultimate limit* is determined by the *physical* element, that is to say, to maintain and reproduce itself, to perpetuate its physical existence, the working class must receive the necessaries absolutely indispensable for living and multiplying […] Besides this mere physical element, the value of labour is in every country determined by a *traditional standard of life*. It is not mere physical life, but it is the satisfaction of certain wants springing from the social conditions in which people are placed and reared up (1970: 72)

The physical element refers to the basic needs of the labourer in terms of their reproduction, that is, they must eat, sleep and live a basic life in order to be able to sell, once more, their labour-power on the market. If the capitalist were to provide wages which could not facilitate this simple reproduction of the labourer, then there would cease to be any sellers of labour-power for the capitalist to employ in production (Marx, 1970). Thus, there is a physical limit which – whilst it may vary according to the price of basic commodities, etc. – is nonetheless a basic limit to the value of labour-power under given conditions. The matter becomes more complex when examining what is termed the 'moral' dimension. For Marx, this is essentially a standard that is set by the historically developing needs and desires of the working class (Marx, 1970). The standard of life for a worker at any given time in history will vary greatly from what preceded and even follows it. What was once a luxury becomes a basic commodity (Lebowitz, 2003). For instance, the ability to pay for transportation, whether personal or otherwise, has varied greatly as workers have developed their standard of living. Therefore, the 'moral' element is Marx accounting for the evolution in needs and desires which – in turn – become a basic component in the formation of the value of labour-power.

What is important here, however, is not necessarily the fact that workers' needs develop and change, but rather how they become part of the formation of the value of labour-power (Lebowitz, 2003). Marx suggests that the moral element in the formation of wages emerges because of class struggle, wherein the determining factor is the "respective powers of the combatants" (Marx, 1970: 74). Workers, collectivised by way of mass production, became politically collectivised by way of organisations, combines, that is by way of trade unions, political parties, etc. Through such a process of political organisation, the working class could begin to formulate demands which exceeded the physical minimum which capital would prefer to pay them (Crouch, 1978). A clear example of this is the fact that in the 1970s, as a result of trade union strength, wage growth actually *exceeded* inflation in prices, demonstrating the ability of the worker to maintain the standard of living to which they had committed (Barnes & Reid, 1980). Therefore, whilst the value of labour-power – seen from the formal circuit of capital – is but another factor in the production of surplus value, when seen from the

perspective of the worker is a site of struggle that is of vital importance. This perspective also highlights the social contingency of the value of labour-power, in the sense that its value is not determined by some simple economic calculation, but by way of protracted struggle over the standard of life to which workers feel they are entitled.

The state, class struggle and the management of capitalist crisis

As outlined above, capitalism is a mode of production characterised not just by crisis, but by struggle. The resolution to any and every crisis of capitalism is always done in the context of competing interests; that is, the interests of capitalists contra capitalists, as well as capitalists against workers. This open-ended struggle means that the resolution of any given crisis is not predetermined, but instead is subject to considerations such as the balance of the respective forces engaged in the class struggle (Bonefeld et al., 1992). For instance, a crisis of capitalism could be resolved by recourse to worker-friendly policies, such as the extension of education or the limitation of the working day or could be resolved in favour of capitalists wherein labour protections are abolished and the working day is intensified (Lebowitz, 2003). The key point to bear in mind is simply that the outcome of any crisis is not something that is given but is something which comes out of a complex array of forces, within which the state is an active participant.

The state, despite having its modern origins in the previous modes of production, is now an agency that is entirely subsumed within the interests of capitalism (Engels & Marx, 2004). To illustrate, a simple observation will suffice: the state relies greatly on income derived from taxation to fund any state project (whether socially useful, like education, or socially regressive such as military spending). The state, like any capitalist entity, relies upon paid labour to execute its plans. Therefore, the state must have access to money, to wealth (Brunhoff, 1978). This wealth is generated by the self-valorisation of capital and precedes public revenue. Therefore, public revenue must be seen as something *subtracted from* the profitable production of national and international capital. As such, the state is beholden to, or presupposes, the successful movement of capitalist production, placing an

obvious limit on the scope of state action in terms of conceding to worker demands. It is from this point of view that one can see, quite clearly, the necessity of profitable capitalist accumulation for the state which has no independent basis outside of capitalist social relations (Clarke, 1991). It is in the interest of the state to foster profitable enterprise, and to take the requisite action to ensure this. Given the crisis prone nature of the capitalist mode of production, and the ever-present class struggle upon which resolution of crises is contingent, the state must take an active role in both the management of economic processes as well as the management of class struggle (Holloway & Picciotto, 1977). The state, therefore, can be defined as a moment in the total reproduction of capitalist social relations, or a *mediation* of the contradictory movement of capital as it seeks valorisation.

That said, it would be erroneous to presume that the state somehow exists above these social relations of struggle, as a kind of neutral arbiter. Rather, the state itself is an active site of struggle over which both capitalists and workers compete (Lebowitz, 2003). Different capitalist interests vie for influence with the state to ensure measures suitable to their own particular interests; capitalists dependent upon domestic markets, for instance, may have different economic interests to those who primarily export. However, and most importantly, the state is also subject to workers' interests. Workers, making up the overwhelming majority of the state's 'subjects', also vie for influence with the state (Lebowitz, 2003). Historically, the working class – through struggle – has come to wield significant power vis-à-vis the state, which has made concessions to the workers over time. The extension of the franchise, the introduction of a limit on the length of the working day, labour regulations, wage levels, public projects are all the outcome of a continued effort by the working class to secure their own interests contra the interests of the capitalist by way of the state as mediation of this struggle (Lebowitz, 2003). Therefore, to simplify, the state is subject to contradictory demands for economic management.

The picture becomes increasingly complicated by way of this historical process of struggle through which concessions were given to the working class. As the state became increasingly liberal in its form, by way of an extension of franchise and the growth in worker parties, popular support for government policies became increasingly important for the state to consider (Clarke, 1992). As such, an element of *legitimacy* has become central to the state's management of capitalist social relations (Miliband, 1973). Popular government requires legitimation by way of elections, meaning the management of capitalism has become increasingly subject to approval by elements within the working class who exercise their democratic rights. The growth in worker-aligned parties, for instance the Labour Party, fundamentally altered the manner in which the state could respond to crises in capitalist production. Workers could not be ignored because not only did they threaten disruptive industrial action, threatening the viability of capitalism and the state, but also because they could vote certain parties in or out of government depending upon perceptions of government action. No longer could the state disregard the demands of the mass of working people in any given country.

State action, therefore, is bound not only by the necessity of successful capitalist accumulation, but on the approval of the working class and its allies. State action is thus bound by concerns of accumulation and legitimation, and these concerns do not exist in harmony (Habermas, 1976). Both accumulation of capital and the legitimation of state activity are themselves mediations of class struggle and thus contain the contradictory demands of capital vis-à-vis labour. What may be necessary to secure profits, may be deeply opposed by the working class and thus cost the state in terms of legitimacy giving way to a political crisis which, in turn, could worsen the problems stemming from accumulation and vice-versa. From this point of view, it is impossible to endorse the formulation of state action proffered by political science, that is as a discrete agent in society concerned with the resolution of social problems in accordance with the demands of citizens. Firstly, from the Marxist perspective, the state is not discrete nor autonomous, but deeply bound to the imperatives of the circuit of capital; secondly, the resolution of social problems are in fact the management of fundamental contradictions which are inherent to the capitalist mode of production and are therefore

recurrent; and finally, citizens are – when seen from the point of view of production in Marx's terms – in fact two hostile camps with contradictory interests and demands. As such, state action is not only much more systemically constrained from a Marxist perspective, but also much more entangled with inherent social conflict which cannot be *resolved* only *managed*. Problems of governance are thus recast as recurrent dilemmas emanating from a fundamental social contradiction which presents an element of *impossibility* in terms of permanent solutions (Haydu, 2010).

To summarise the primary contradiction which the state faces in the everyday management of capitalist social relations, it would suffice to examine the contradiction that exists between the needs of production (that is, the need of capital for self-valorisation) and the needs of the working class in terms of their sustained and expanded reproduction (Lebowitz, 2003). As has been highlighted above, such needs – the needs of capital and the needs of labour – are at odds by the very nature of the production of surplus value. As such, the state must manage these contradictory needs with the added complication that it increasingly relies upon the working classes to provide *legitimation* of the state itself. By way of popular government, elected by the masses, the state derives a legitimacy by way of the working class and of capital, the forces of which gradually conceded to the demands for popular suffrage. Therefore, when managing social relations, the state must bear in mind the presupposition of its existence – that is, successful capitalist (re)production – as well as the demands of workers. The complication arises from the simple fact that workers are not simply forces of production; they are not simply labour-power but are a living component of the production process with needs which go beyond the immediate horizon of capitalist production (Lebowitz, 2003). Labour therefore exists both *for* capital, as well as *against* it and, consequently, the state embodies part of this contradictory existence of labour.

Thus, the state is caught between the needs of capitalists and the needs of workers, with a variety of historically contingent strategies for managing this contradiction. It may be, under certain conditions, that the needs of both capital and labour can be achieved in relative harmony, a view which Keynesian

indicative planning attempted to realise (Clarke, 1988). However, the tension is never resolved and any strategy for the reconciliation of these contradictory forces will be subject to limitations stemming from the very fabric of society. Thus, the state – by way of policy and adjustment, of muddling through – adapts governing strategies in light of the conflicting demands of capital and labour, with the long-term goal of successfully reproduced the capitalist social order. Therefore, economic management and the management of discontent become the two primary concerns of the state; the dilemma of how to ensure labour is available for exploitation by capital, whilst maintaining legitimacy on the part of the workers who are to perform such labour is the defining dynamic of the capitalist state in the 20th century.

Governing Britain at arms-length – politicisation and depoliticization in 20th century governance

When casting a critical eye upon the governing of Britain throughout the 20th century, certain fundamental problems or dilemmas recur. Despite the rhetorical claims of various governments, none have been able to resolve these recurrent dilemmas. This is due, as discussed above, to the fact that such problems or dilemmas are in fact the appearance of *contradictory* social relations which, by their nature, cannot be resolved without the relations themselves being effectively abolished (Gunn, 1994). That said, governments must still be seen to address these fundamental problems and to achieve some level of competence in relation to them. Whether it is the persistent problem of declining productivity of capital, the decline of key industries, recurrent inflation, or the cycle of 'boom and bust', governments have proffered solutions as a means of garnering support for their legislative programme (Burnham, 1991: 127-8). As Burnham summarises "[i]n short, governments must appear to be *competent*, as a way of gaining market *confidence*, to create *credit* or leeway in policy terms" (2001b: 128). That said, throughout the post-war period in British politics, successive governments "struggled to attain a reasonable degree of governing competence" with 'Old Labour' in particular struggling to "meet the high expectations of its traditional supporters and trade union militants or convince financial capital of the probity of its economic policies" (Burnham, 2001b: 128).Such

difficulties, whilst certainly due in large part to the contingent failures of successive governments to develop convincingly competent statecraft strategies, emerge from a fundamental contradiction in capitalist social relations which give way to the *necessity* and *impossibility* of what is termed 'legitimation'.

In 'Legitimation Crisis' Habermas states the principal contradiction upon which contemporary governance rests

> Because the reproduction of class societies is based on the privileged appropriation of socially produced wealth, all such societies must resolved the problem of distributing the surplus social product inequitably and yet legitimately (1976: 96)

Legitimacy here is understood as a sort of rationalisation, an acceptance of the social order and the norms which govern it, and some belief in the capacity of governments and state institutions in regard to their ability to govern in with a measure of competence relative to economic pressures and the needs of the population. Failure to secure such legitimacy would mean that "the latent force embedded in the system of institutions is released – either as manifest force from above (which is only a temporary possibility) or in the form of expansion of the scope for participation [from below]" (Habermas, 1976: 96). In short, failure to secure some rational acceptance of the social order and its norms results in the naked appearance of relations of force, and thus the transformation of society into a battleground which pits class forces against each other. Therefore, legitimacy and the constellation of concepts related to it (i.e., accepted norms, perceptions of competence, credibility, etc.) are vital to the ongoing reproduction of capitalist social relations in a manner which does not depend on naked expressions of force (i.e. violence, repression, revolt, etc.).

Throughout the 20th century, such legitimacy took on historically unprecedented forms. Due to the crisis prone nature of capitalist production, and the emergence of socialist challenges to capitalist production, the capitalist state attempted to 'absorb' the interests of the working class into the administrative body of the state. In a sense, the state transformed economic matters into

administrative matters which the state could manage. Both capital and labour became increasingly subject to 'indicative planning' as a means of securing both economic growth and the expanding needs of the working class (Clarke, 1988). This institutionalisation of both the needs of capital and the market, as well as the needs of the working class, mean that legitimation concerns become paramount as the law of value no longer operates without some direction (real or claimed) by the state and its actors. As such, the separation between the political and the economic became blurred, as more and more economic activity came to fall under the rubric of state (indicative) planning and labour became increasingly bound to concerns of public expenditure and expansive public programmes.

As such, the relationship between capital, labour and the state became significantly politicised throughout the 20th century, with this politicisation picking up considerable pace through the course of the two world wars and the reconstruction efforts after WWII. In the UK, this politicisation took the form of commitments to full employment, as well as to targeted growth in productivity and economic activity. Furthermore, the public sector – which would provide services to the working class – grew significantly, as did the state's ownership of certain key industries (Burnham, 2001b). This led to the emergence of a Keynesian indicative planning state form in the UK, which sought to ensure consistent growth in productivity, GDP, living standards, public expenditure and employment (Clarke, 1988).

However, this was not socialist planning, but rather an attempt to coordinate economic activity in the interests of the private sector, or of capital. Keynesian planning was aimed at increasing investment by an extension of the role of the state into the regulation of wages, the attainment of higher rates of growth by way of indicative planning which would seek to marry the working class to pay policies which would serve to limit wage increases by linking them closely to the rate of productivity, ensuring some stability for prices and profits (Clarke, 1988). And whilst such an extension of planning would attempt to ensure a consistent rate of exploitation and profitability – playing a formal role for the reproduction of capital – it would take on institutional form in the UK as the relation between the

National Economic Development Council (NEDC), the National Incomes Commission (NIC) and the Public Expenditure Survey Committee (PESC). As Clarke explains

> NEDC brought together employers, trades unionists, government representatives and 'independent experts', providing a forum for tripartite debate and for the coordination of plans, but having no executive powers. The idea was that NEDC would arrive at a consensus as to the expected rate of economic growth. The NIC would then promulgate guidelines as to the acceptable rate of pay increases, while PESC would coordinate government expenditure plans over a five-year planning period, within the limit of the resources available (1988: 294)

In short, the Keynesian institutional forms of intervention were designed as a means of restoring profitability of capital by regulation of the working class, but in a manner which contradictorily integrated, strengthened and unified the representation of the working class. By way of an attempt to address the fundamental formal problems of capitalist social relations – that is, maintaining conditions for profitability of capital – the state in the UK developed an institutional framework which politicised the relationship between capital, labour and the state (Clarke, 1988). Employers and trade unions were given direct representation in the processes of indicative planning, prices and wages were controlled by way of prices policies and incomes policies, and public expenditure was tied to the expectation of increased economic growth as well as the ever-expanding needs of the working class (Clarke, 1988). This created a situation where there was – on the part of the working class in the UK – an expectation of a "generalised increase in wages, without regard to the profitability of the employer… institutionalised in the form of incomes policy" and furthermore an "expectation of a generalised increase in the minimum level of subsistence… institutionalised in collective bargaining over the 'social wage'" (Clarke, 1988: 298). In attempting to regulate capitalist development, the state had essentially integrated working-class expectations into the institutional form of the Keynesian state, thus bringing their demands as sellers of labour into the forefront of governance.

However, as is clear from the above discussion, the capacity for this integration to function and continue, capital and the state would need to accommodate increased wages and public expenditure by way of transforming methods of production to create relative surplus value in a competitive market environment. Whilst such an imperative is a formal necessity within capitalist society, the achievement of this outcome is always contingent, meaning that such relative surplus value cannot compensate for increased costs and thus cannot be realised. Throughout the course of post-war British capitalism, it was becoming increasingly clear that domestic productive capital was experiencing a sustained and significant fall in profitability as a result of increased international competition abroad, and domestic pressures preventing a fundamental restructuring of production (Glyn & Harrison, 1980; Sawyer, 1991).These domestic pressures included a post-war commitment to full employment, as well as the institutionalised expectation of increased wages and public spending. However, with declining profitability – and given the reliance of state expenditure upon profitable production – such expectations could no longer be met.

It is at this terminus point that this thesis begins its analysis. By the 1970s, the Keynesian collaborationist framework was under severe pressure and was likely to give way. A sustained decline of British capital accelerated significantly in the early 1970s, manifesting as increased price and wage inflation, alongside poor economic growth and increasing unemployment (Glyn & Harrison, 1980). The reconciliation of working-class interests with those of employers and state managers could no longer be achieved as inflation quickened the pace of the decline of British competitiveness, resulting in a significant balance of payments deficit, a poor balance of trade, an increasingly vulnerable currency and a restive working class that was adamant in protecting its real standards of living. As such, the "institutional forms of the Keynesian Welfare State appeared increasingly as a barrier to both capital, in institutionalising the resistance of the working class, and the working class, in seeking to confine its aspirations within the limits of capital" (Clarke, 1988: 298).

Therefore, by the early 1970s, state managers in the UK began to look at ways of unpicking the Keynesian compromise by depoliticising the relationships which had been institutionalised in the post-war period. After Heath's abortive attempt to regulate industrial relations (Warner, 2023), the incoming Labour government sought ways to extricate itself from the rising expectations of the working class who had voted them into office. The dilemma of restoring profitability at the expense of the interests of the working class, whilst being a government elected through consent of the trade unions, would present unique challenges for the management of post-war capitalism, and through this complex and contradictory set of pressures, novel governing arrangements would emerge which sought to depoliticise the until then increasingly politicised compact between capital, labour and the state.

Depoliticisation, as defined by (Burnham, 2001b), involves the placing at one remove the political decision-making of the state. In essence, this means attempting to disguise the political nature of decision-making, particularly concerning economic management. Depoliticisation allows the state to do unpopular things without attracting blame, or – in a more fundamental sense – allows the state to restructure social relations for the benefit of capitalism without provoking social unrest on the part of the workers. There are, naturally, a number of ways that depoliticization can be affected, and it should go without saying that all attempts at depoliticization remain fundamentally political acts which may, due to this contradictory existence, fail to secure the intended outcomes. Only by way of an iterative process of learning and adaptation does the state really develop lasting depoliticization, and whilst such depoliticization is occurring so too are politicising efforts. Therefore, efforts at depoliticization must always be examined in light of the interplay between politicisation and depoliticization in the context of contradictory social relations (Warner & Luke, 2023). That said, it is still possible and necessary to delineate general features of politicised and depoliticised governing arrangements, even if it is accepted that such arrangements overlap, contradict each other, or coexist either relatively harmoniously or in antagonism. In his seminal work on depoliticization, Burnham attempts to difficult

task of such a delineation. For Burnham, politicised governing frameworks were predominant in the UK between 1945-1976 and were characterised by

- "Direct controls (production, consumption, exchange).
- Incomes policies (formal, informal).
- Downgrading of exchange-rate management (inconvertible currencies, confusion over the role of the IMF, etc., meant that Bretton Woods never constituted a clear system of rules even in its heyday 1958-1968).
- Treasury has formal responsibility for monetary policy (Bank of England Act 1946).
- Fiscal/monetary 'autonomy' (no significant interlinking).
- Centralisation of policy-making (including trade union representation).
- Growth of public sector – political disputes given the 'state as employer'.
- Large degree of public ownership and control.
- International co-operation (rather than integration)." (2001: 130)

In response to the institutionalisation of such politicised forms of governing, Burnham suggests that state managers became increasingly concerned with the placing at one remove the political character of decision-making, as a means to "off-load responsibility for the consequences of unpopular government policies; establish credibility with financial markets and alter expectations; and reassert the 'operational autonomy' of the political executive" (Burnham, 2001: 131). Such designs can be achieved in a number of ways, either by reassigning tasks within the state structure to quasi-independent or subordinate organisations, attempts to increase forms of external validation of government policy or enhance accountability and transparency, or the acceptance of "binding 'rules' (constrained discretion)" (Burnham, 1991: 131). Therefore, it is evident that strategies for depoliticization are generally shaped by preceding institutional forms of politicisation and tend to address the perceived 'overload' such governing arrangements create. However, what should be borne in mind, again, is that these institutional responses (either politicisation or depoliticization) are

formulated in direct response to imperatives which precede them; that is, the needs of capital in its movement to self-valorise over time.

With this latter point in mind, it is necessary to return once again to the question dealt with above regarding prices, profits and wages. The Keynesian compromise established a situation where an attempt to guarantee profits by way of price control and incomes policy, tied to productivity and assumptions on economic growth and subsequent public expenditure, was attempted (Clarke, 1988). Whilst this reconciliation seemed to function with credibility for some time, by the early 1970s the decline of British capital placed strain on this constellation of forces and interests (Roberts, 2018). Wages were a serious concern, given the entrenched nature of wage growth as a result of both incomes policy and trade union strength (Glyn & Sutcliffe, 1972). Further to this, attempts to bolster the social wage over time as a means of securing industrial peace had led to a rapid growth in the public sector which was not only significant in terms of total employment, but also in density of trade union representation (Heald, 1983). As such, attempts to regulate the relation of capital and labour by way of a social wage had resulted in a growing public sector and the emergence of the state as a significant employer (Fairbrother, 1994). Therefore, the question of public expenditure had also become a question of industrial relations and wage growth. In short, the politicised governing arrangements established post-war had resulted in the effective institutionalisation of wage growth regardless of whether capital's profitability could contain these.

In Marxist terms, wages were now growing through the moral and historical element; the working class had secured a set of expectations of growing wages and a standard of living associated with this. This had been secured in place by way of the Keynesian compromise, shutting off an avenue for capitalist strategy when considering a falling rate of profit. As the profitability crisis came to a head in the 1970s (Roberts, 2018), it was clear that the institutionalisation of wage growth was preventing a restructuring of domestic capital, as well as eroding any temporary gains made by capital by way of price inflation (Cleaver, 2000). Considering these dynamics, it becomes clear that depoliticization was

not just about managing perceptions of governing competence, but also about overcoming obstacles to the reduction in real wages of the working class as a means of restoring profitability (Marx, 1984). The working class needed to be dislodged from state institutions so that they were, once again, reduced to 'free' actors within the market, for whom the value of their labour-power is set by the needs of capital rather than any expectation for a particular standard of living (Clarke, 1988).

Depoliticisation, therefore, is also about a recalibration of the balance of class forces in favour of capital but done in a manner which would not completely undermine the legitimacy of government as a whole. A considerable aspect of such legitimacy is also contingent on perceptions of governing competence of any particular administration (Bulpitt, 1986). Such competence is based on the ability of any government to successfully achieve their objectives whilst not frustrating the fundamentals of economic management (Burnham, 2001b). Depoliticisation can assist in creating a perception of governing competence by offloading responsibility for difficult or controversial policy measures which may, in certain instances, contradict the stated objectives of a government (Burnham, 2001b). These considerations are pertinent when examining the Labour government of 1974-79 due to the complex and precarious basis upon which the administration had staked their claim to competence.

The Labour Party, distinct from all other parliamentary parties in the UK, was founded out of the trade union movement and relied heavily on the consent of the organised working class to pursue its policies (Miliband, 1972). Such a relationship often strengthened or weakened depending on circumstances. However, in 1974 the relationship with the trade unions was pivotal in not only the winning of the general election, but also in tackling the primary economic woes confronting the UK at the time (Coates, 1980). The Labour Party and the trade unions struck a deal, titled the 'Social Contract' in the early 1970s in response to Heath's abortive attempt to legislate trade union activity and essentially win industrial peace by way of coercion (Dorey, 2001; Warner, 2023). Instead, Labour used its relationship with the trade unions to not only agree a mutually beneficial platform between themselves and the trade unions, but also to appeal to the public as the only party which could

successfully convince the trade unions to settle an industrial peace (Holmes, 1985). This would be the central plank of Wilson and Callaghan's claim to governing competence: only Labour could secure industrial peace with the trade unions, and therefore was the only party which could combat inflation and restore the British economy.

However, in order to achieve this deal with the workers, the Labour Party used its close relations with union bureaucracy to promote a social contract which would see the unions agree to wage restraint in return for policies which the trade unions found favourable; namely, the withdrawal of the Industrial Relations Act, the extension of public ownership, the introduction of industrial democracy and – most importantly for this thesis – an increase in public expenditure presented as an increase to the 'social wage' (Coates, 1980). This quid pro quo was achieved so that strikes could end, economic activity could resume, and inflation be brought under control, whilst public expenditure would increase to offset losses to real incomes. However, as the 1970s progressed, such a quid pro quo would come under increasing pressure, forcing the Labour administration to resort to depoliticization as a means of reducing public expenditure *and* enforcing wage control despite its promises with the trade unions. Whilst this strategy secured perceived governing competence for some time, it ultimately came to a head in 1978-9 with the 'winter of discontent'.

For the time being, however, what is necessary to emphasise for the purposes of this chapter is that depoliticization became an increasingly attractive policy framework given the mounting pressures on the Keynesian indicative planning state. The contradiction between the interests of capital and labour could no longer be harmonised in the Keynesian form and a restructuring of capital and the state became necessary. It is in this theoretic context that this thesis will consider the issue of cash limits and will so reveal the depoliticising aspects of cash limits as a policy response to worker militancy and inflation within the governing paradigm of the then Labour government.

Methodology

The methodology employed in researching this thesis can be broadly described as following a theory-driven exploratory logic (Burnham et al., 2004). This means that the initial assumptions made regarding the subject matter of cash limits were theoretical in nature; that is, informed by the assumptions outlined in the previous sections of this chapter. Theoretically grounded assumptions in terms of the character of social reality, its form and content, as well as the role of the state within it, shaped initial expectations regarding the implementation of cash limits. It was assumed from the outset that the state within capitalist society seeks to manage the contradictory nature of social relations, particularly the contradictory antagonism between labour and capital. In more concrete terms, the theoretical assumptions about the state in Britain in the post-war period were informed by discussions of the Keynesian class compromise which resulted in the emergence of the indicative planning state and the concomitant growth in public expenditure. Cash limits, therefore, were assumed to be relevant within this process as well as the process of the disintegration of the indicative planning state, though the precise role they played was left undetermined.

Following initial meta-theoretical considerations, it was necessary to engage with existing literature on cash limits to identify a lack in all hitherto explanations. By way of critical engagement with a variety of such literature, it was discovered that most accounts of cash limits either relied upon insider-perspectives (such as Pliatzky's (1982) account), or upon documentation that was publicly available during the time of cash limit implementation. This meant that most accounts rely upon White Papers, political speeches, memoirs, reports by Select Committees and the like. Given the public-facing nature of these forms of documentation, the potential for rhetorical obfuscation of the intentionality undergirding the introduction of cash limits placed obvious limitations on the explanations given (Atkinson & Coffey, 2004). Therefore, by way of an engagement with cash limit literature, it was determined that the most conspicuous absence was an evidential one; namely, that no primary documents were used. The reasons for this are elementary; primary documents stored in the UK's National Archives are subject to the twenty year rule, whereby documents remain sealed until at least twenty years after their initial publication (Home Office, 2013). Due to the period in question (1974-

79) it was deemed possible that an archival study was possible and that to better grasp the intentionality pertaining to cash limits the most fruitful form of research would be to consult primary documents held at the National Archives in Kew, London.

An important caveat to note here is that archives, and the National Archives in particular, are a *selective* form of memory. Those documents which are stored constitute an incredibly small proportion of documents that were produced at any given time. Therefore, there is an obvious epistemological limit inherent in reliance upon primary documents held by the state (Burnham et al., 2004). The possibilities for biases, for data loss over time, etc., are rife. That said, the reliability of primary documents as evidential sources within the social sciences remains unassailable. The documents stored in the National Archives are (with a small chance of exception) authentic, are stored in a rational form, and are vital to understanding the processes of policymaking which were once deemed too sensitive for public consumption (Scott, 1990). Therefore, if one is interested in an examination of intentionality of any particular policy, primary documents from the National Archives offer unparalleled potential as an evidentiary basis for research (Burnham et al., 2004).

Whilst primary sources constitute most of the evidence used in this thesis' analysis, secondary and tertiary documentation are also used. Secondary documents (political memoirs, news reports, speeches, obituaries, etc.) were invaluable for creating a timeline concerning cash limits, for providing important biographical information, and for giving one a narrative which could be examined in relation to the primary documents. This allowed a sort of triangulation, wherein accounts found in the secondary documents could be held under scrutiny by way of primary documents, and vice versa. This provided the opportunity for a much richer analysis, as secondary documents give an indication of a variety of factors often omitted from the technical documentation taken from Treasury records. For example, the Chancellor of the Exchequer is more likely to be concerned with perceptions, relations with social pressure groups, legacy, etc., than an (at the time) anonymous Civil Servant working within the Treasury.

Tertiary documents – that is scholarly work on cash limits – were also widely used to better inform an understanding of cash limits and develop workable research questions which would allow for a clearer contribution to the literature. The details of this literature are provided in the literature review chapter.

In terms of selection of documents, the logic followed was again informed by existing literature. It was clear from the outset that the Treasury was the government department most central to the implementation of cash limits. Therefore, a search of the National Archives database using key words 'cash' 'limits' 'public expenditure' and so on was undertaken and a series of documents were recorded as of potential interest. Through consulting these documents, it was then possible to snowball other potentially relevant documents both within the Treasury and other relevant departments by way of references made within the documents themselves. This would allow for the identification of other relevant work processes pertinent to cash limits with their own records, as well as indicate dates and times which would allow examination of Cabinet papers. The logic of moving between Treasury and Cabinet was to trace administration and decision-making in relation to each other, as well as to better present a picture of the executive political processes which informed and were in turn informed by cash limits. This resulted in over 200 files from the National Archives being examined and coded. Secondary literature such as memoirs and diaries were also useful in this process. By the end of data collection and preliminary analysis, a clear empirically informed timeline of cash limits was produced around which further coding of primary documents would take place.

Documents were recorded on an Excel spreadsheet with all necessary descriptors. Actual documents were coded through NVivo. The nodes for coding were taken from the themes which emerged upon reading of primary documents, as well as through consultation of secondary and tertiary documents (Maher et al., 2018). As such, some nodes were grounded whilst others were theoretically informed. Coding was deemed complete when all collected documents had been read and coded into relevant nodes. The nodes, when sufficiently saturated, were then written into summaries with relevant direct

quotation. These summaries were then used to write the empirical chapters of the thesis. Care was given to balance both empirically grounded and theoretically grounded nodes, so that it was possible for empirically grounded nodes to be held in critical relation to theoretically grounded nodes. This allowed for certain theoretical assumptions to be *tested* in light of empirical evidence hitherto unavailable. This presented some clear opportunities to scrutinise some of the claims, as well as remaining questions, contained in the existing literature on cash limits.

Finally, there are some important limitations that need to be addressed. The thesis, particularly in later chapters, relies more heavily upon secondary and tertiary documents than would have been optimal. This was due to the unfortunate impinging of contemporary realities upon the research process. Covid-19 and resultant lockdowns meant that further archival visits were impossible for a time, and extremely difficult to schedule for a time after that. This also prevented proper investigation of other relevant archives, such as the trade union archives at the Modern Records Centre. Whilst these factors are clear limitations with respect to the analysis presented herein, it is also a limitation which contains promise; namely, the promise of germane future research into cash limits and their consequences.

Chapter 3 – The Problems with PESC

This chapter will outline the institutional and political preconditions for the introduction of cash limits. To do so, the chapter will examine the development of public expenditure budgeting throughout the post-war period, drawing attention to the emergence of the Keynesian Public Expenditure Survey Committee (PESC) system through a brief examination of the problems confronting the state in managing public expenditure in the 1950s. The chapter will then outline the reforms proposed by the Plowden Committee which resulted in the institutionalisation of the PESC system with its forward planning of expenditure on the basis of constant prices. Turning to the 1970s, the problems and controversies surrounding PESC will be examined as the immediate precondition for the implementation of cash limit reforms in 1975-76. The chapter will draw on the work of a variety of Select Committees, Treasury documents, Cabinet papers and published accounts in order to outline the reasons for the introduction of cash limits in the 1970s. Discussion of cash limits will be organised into three sections appropriate to the different narratives regarding their introduction. The first will examine the introduction of cash limits as a remedy to a failure of public expenditure control, whilst the second will examine their role in counter-inflation policy in the 1970s before moving on to examine the role cash limits played in response to economic crisis and wage pressures. This is done to give an impression of the political dimensions of the cash limit reforms in contrast to the often technical and administrative presentation of them as a form of public expenditure control in a rather narrow sense.

The traditional 'system' of public expenditure control

In order to understand the Public Expenditure Survey Committee (PESC) system as a form of planning and control of public expenditure, it must be understood relative to the problems in public expenditure control which preceded it and which it was developed in order to address (Heclo & Wildavsky, 1981: 203). In the 1950s, during Macmillan's premiership, the Treasury was headed by a Ministerial team committed to pursuing an anti-inflationary policy in relation to public expenditure (Jarvis, 1998: 23). Thorneycroft, Powell and Birch were convinced that in order to contain inflation the

government itself must contain public expenditure, as this would lower monetary demand and assist in curbing excessive wage demands (Jarvis, 1998: 23). The rationale was that the government must live within its means and thus set an example for the British citizenry (Jarvis, 1998: 23). This view was taken in light of Treasury forecasts which showed the growth of public expenditure on social services outstripping GNP growth through to 1960-61 (Jarvis, 1998: 25), which only added to the growing pessimism of the times relating to Britain's relative economic decline (Lowe, 1997: 464). Thus, these Ministers, committed as they were to containing public expenditure growth, sought to apply a 'Stop' policy in response to the sterling crisis of 1957, constraining public investment to existing money levels[5] (Clarke, 1978: 2).

However, several months later Thorneycroft was expecting large supplementary expenditure claims for the year, with a further increase in the following year which he argued would constitute the "highest increase ever in peace-time"[6]. Due to Thorneycroft's position vis-à-vis public spending and inflation, he was unprepared to approve Estimates at such high levels. Thus, in a series of Cabinet meetings reductions were sought. After considerable debate, savings were found which fell short of Thorneycroft's expectations by some £50 million[7]. Whilst acceptable to others in the Cabinet, the Treasury ministerial team felt the £50 million still constituted an excessive claim and eventually resigned over the sum[8]. This episode serves as an illustration of the "problem of ever increasing Estimates" for public expenditure throughout the post-war period. With increased demands for public expenditure to meet social needs, the Estimates system was clearly incapable of providing sufficient control over spending, resulting in increasingly "heavy" supplementary bids for increased expenditure. The public resignations of the Treasury team over increasing supplementary bids demonstrates the political difficulties in managing public expenditure through what was an essentially piecemeal, short-term process with the Treasury at the centre. The need to plan ahead and have clear information

[5] TNA: CAB 195/17/5, Cabinet Conclusions, 31st December 1957
[6] Ibid
[7] TNA: CAB 195/17/8, Cabinet Conclusions, 5th January 1958
[8] TNA: CAB 195/17/9, Cabinet Conclusions, 6th January 1958

regarding levels of prospective spending was being increasingly felt at Cabinet level by the end of 1957, and it is to these questions which the Select Committee on Estimates addressed its enquiry in 1958.

The *Select Committee on Estimates on Treasury Control of Expenditure* was tasked with looking into the modes of control exercised by the Treasury over public expenditure. The primary means of control at this time took place through the Estimates System[9], which was in essence an annual cash-control system (Walshe, 1987: 5). This was the "ancient body" upon which the "new burdens of public spending were loaded" throughout the immediate post-war period, which had seen a great expansion in the public sector in terms of both size and scope (Goldman, 1973: 1-3). As such, because of "the fundamental part" that public expenditure had come to play in the economy by the late 1950s, the Select Committee on Estimates felt that "the interests of every citizen" had become "more deeply involved" in how this expenditure was managed[10]. Whilst the Committee did not question Treasury authority in its relation to public expenditure, it did ultimately question the system, or rather the absence of such a system, in managing this expenditure effectively. The Committee, in its conclusions, stated that

> it is really an abuse of language to speak of a 'system' of Treasury control, if by the word 'system' is meant methods and practices that have at one time or another been deliberately planned and instituted[11].

This non-system was a complex, diffuse and decentralised system developed over centuries, wherein spending proposals by departments were considered in a "piecemeal" fashion "on its merits" without an overall picture of increasing state commitments[12]. Whilst this non-system contained means for detailed Treasury scrutiny of departmental proposals on the basis of their annual estimates, it lacked

[9] Select Committee on Estimates, Treasury Control of Expenditure, 23rd July 1958, HC 254-1, paras 5 & 6
[10] Ibid
[11] Select Committee on Estimates, Treasury Control of Expenditure, 23rd July 1958, HC 254-1, para 94
[12] Select Committee on Estimates, Treasury Control of Expenditure, 23rd July 1958, HC 254-1, Ev 1627

the capacity for providing 'forward looks' on civil expenditure (despite progress in Defence spending) which in turn hampered the capacity for the Treasury to continually participate in the "formation of spending policies or programmes by departments" (Goldman, 1973: 4). This weakened, in the Committee's view, a vital aspect of Treasury control over expenditure which came from its involvement in the process of forming policy with departments. Thus, due to the emphasis on control and obstacles to it stemming from the lack of a system for public expenditure management, the Committee recommended that a further enquiry be undertaken into how to improve the "theory and practice of Treasury control of expenditure"[13]. The absence of such a system had been increasingly identified with the 'Stop-Go' policies of the 1950s that had resulted in the public crisis of the Treasury ministerial team resignation at the beginning of 1958 (Jarvis, 1998). In this sense, and with some hindsight, the Report from the Select Committee on Estimates along with the resignation of the Chancellor indicated an end to the Gladstonian notion that the "saving of candle-ends" was the measure of "a good Secretary of the Treasury"[14] and the rise of "the interventionist policies of indicative planning" which would come to characterise the administrations of the 1960s (Clarke, 1978: 1-2). The Plowden Report would do much to enshrine this shift in theory and practice relating to public expenditure.

This shift in theory and practice was becoming acutely necessary during these years as the Treasury was beginning to feel the full-force of the sea-change in public expenditure that marked the post-war Keynesian compromise. As Clarke (1978) outlines, Supply expenditure had been increasing substantially since the war, coming to constitute around 22% of GNP by the late 1950s compared with 12% in the 1930s. Second there was the increasing charges from the development programmes of the nationalised industries, the growth of local authority spending and the expansion of national insurance. And third was the massive expansion of civil expenditure as the savings from the cancellation of Korean rearmament came to an end. As Baldwin (1971) puts it, the savings from the cancellation of rearmament did much to camouflage the growing momentum of civil spending which,

[13] Select Committee on Estimates, Treasury Control of Expenditure, 23rd July 1958, HC 254-1, para 95
[14] Select Committee on Estimates, Treasury Control of Expenditure, 23rd July 1958, HC 254-1, paras 5 & 6

by the end of the 1950s, showed no sign of slowing down. In short, public expenditure of both extensive scale and scope had become the norm in post-war Britain and showed no sign of abating, meaning that the short-term, cash-based Annual Estimates system of public expenditure control – along with the diffuse and decentralised non-system described by the Select Committee on Accounts – was no longer up to the task of managing public spending (Baldwin, 1971). The changed environment of public spending which had been accompanied by a political shift, in both the Labour and Conservative parties, towards the active use of public spending as a tool for macro-economic management in the context of a demand for full employment and rising living standards (Heald, 1983: 3-6). These changes placed new emphasis on the need for an infrastructure of indicative planning for public expenditure; namely, what was required were long-term plans for public expenditure growth which included assessments of the overall resource commitment of the state and the macro-economic outcomes of resource claims. It is to the development of such an infrastructure that we now turn.

Plowden and modernisation of the 'system'

The Plowden Committee, from recommendations of the Select Committee on Estimates report, examined the functioning of public expenditure management. As Lowe (1997) suggests, Plowden was responsible for the development of planning within the system of public expenditure management and also marked an important moment in the modernisation of state infrastructure in the context of full employment and increased demands for social expenditure. PESC was the central innovation of this modernising approach to planning, setting out – as Plowden recommended – to institute medium-term plans of expenditure priorities. Whilst the Plowden enquiry was restricted in its scope, being an internal enquiry staffed largely by insiders, its findings were critical of the control over public expenditure exercised by the Treasury. In its summary of the 'traditional system' the Plowden report commented that the "tendency is for expenditure decisions to be taken piecemeal" meaning that discussion of spending proposals by ministers took place in relation

> to a general background of the financial situation, rather than upon the competing claims on the present and future resources of the country which are represented by the aggregate of the spending policies of the Government[15]

The Report goes on to suggest that, under previous circumstances, such an approach to the management of public expenditure functioned reasonably well. This was not, however, due to the system of control instituted at that time, but rather the "strong external pressures on the Government to reduce both expenditure and taxes" which meant that "every Minister who wanted to spend had to run the gauntlet of severe criticism from his Cabinet colleagues, from Parliament and from the public"[16]. In such circumstances, short-term Treasury scrutiny of spending proposals, year on year, via a cash basis was an effective means of managing levels of expenditure. However, as many commentators, as well as the Report, highlight "the social, political and economic changes" experienced since the end WWII meant that such a system could no longer adequately contain expenditure levels [17]. This was due, in main, to the fact that the increasing size and scope of public spending now entailed "contractual or moral" commitments from government "extending several years ahead"[18]. This therefore necessitated the institution of "forward looks" which, up until that point, had only been extended to Defence spending and were not taken altogether very seriously by Treasury officials. Such forward planning was made necessary by what the Committee considered as a "Keynesian revolution in the role of public finance and its relationship to the national economy as a whole"[19]. This "revolution" essentially entailed the use of the annual Budget as a form of macro-economic management in relation to the business cycle of boom and slump, with spending coming to form an important dimension of demand-management through counter-cyclical deployment of public

[15] Plowden Committee, July 1961, (Cmnd. 1432)
[16] Ibid
[17] Ibid
[18] Ibid
[19] Ibid

funds. Thus, the notion of balancing expenditure with tax receipts had been rendered obsolete and thus required a "reconstruction" of the system for the management of public expenditure[20].

Such a reconstruction was to be based on four elements outlined in the Plowden Report. These were (a) that regular surveys of public expenditure as a whole should be made over a period of years, in relation to prospective resources; (b) that decisions on public expenditure were to have the "greatest practicable stability" so that long-term economy and efficiency could be developed; (c) improvement in the tools for measuring and handling public expenditure; and (d) the development of effective machinery for taking collective decisions by Ministers and officials on matters of public expenditure[21]. In line with these principles of reconstruction, PESC was formed, which essentially sought to plan public expenditure programmes on a five-year rolling basis. It is worth outlining the broad features of PESC before discussing its development and the emergent obstacles which prompted reform of the system throughout the 1960s and 70s.

PESC - its main features

The Public Expenditure Survey took the form of annual surveys of expenditure for functional government programmes in both central and local government, as well as the nationalised industries (Thain & Wright, 1995). The annual surveys would take a five-year period as the basis for planning public expenditure growth and allocation, based on the Medium-Term Assessment (MTA) developed by the Treasury (Pollitt, 1977) as well as, after its establishment in 1963, the growth objectives set by the National Economic Development Council (NEDC) (Clarke, 1978). Each department would estimate its financing needs and put these to the Treasury as bids; then on the basis of the MTA, the Treasury would then negotiate with the relevant departments on the size of their eventual allocations (Heclo & Wildavsky, 1981; Pollitt, 1977). Following this, the actual Public Expenditure Survey *Committee* (composed of the Principal Finance Officers of departments with a senior Treasury official as chair)

[20] Ibid
[21] Ibid

would meet, decide the budget and present the figures to relevant Cabinet committees and then full Cabinet for approval (Pollitt, 1977). After 1969, the final phase of the cycle was the publication of an annual white paper on expenditure (Pollitt, 1977). What is most important to note here is that the PESC system used a form of pricing, known as survey prices, which reflected resource volume considerations (Pliatzky, 1982). Survey prices were *constant* prices which enabled the planning of public expenditure to take place in *real* terms. This was seen as necessary in order to accurately examine the resource use of public expenditure programmes relative to the estimated total resources available[22]. The manner in which these prices worked was to show the expected rise in expenditure levels over the projected five-year period if prices remained the same as they were at the time of the original survey, hence *constant* prices. However, it must be borne in mind that such prices did not refer to any fixed point in time, as individual departments used their own procedures for deriving the eventual survey prices (Pliatzky, 1982). Furthermore, these constant prices, used in the initial survey, did not reflect any changes in the price of goods and services purchased. Thus, another set of constant prices would be developed before the publication of the public expenditure White Paper in December which adjusted the survey prices by the predicted relative price effect (RPE) which essentially referred to the relative price difference between public and private resources (Bevan, 1980). This would yield constant prices in cost terms, which would then be published alongside the volume figures expressed in survey figures.

On this basis, therefore, PESC reflected volume use by the public sector. This is what has led some to argue that PESC constituted a pure-volume planning system (Heald, 1983), with little sensitivity to the actual monetary cost of goods and services. This, it has been suggested, was in-keeping with the Keynesian turn in state management, which viewed public sector spending as a claim on the total resources available to the country at a given time. The advantages of this system were that it allowed state managers to adequately examine the potential resource-use of public sector programmes

[22] The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure, Vol. II, 11th December 1975, HC 69-L, Memorandum submitted by Mr. D. Heald

relative to national income as a whole, and over a period of years, thus allowing for expansions and contractions of public expenditure in line with growth of the economy as a whole without disruption of policy (Goldman, 1973). Given that the PESC projections for expenditure growth were also related to the prospective growth of national product as targeted by the National Economic Development Council (NEDC), public spending was explicitly related to the growth in the national economy and was therefore, theoretically at least, balanced within such considerations (Clarke, 1988). As will be seen below, the survey price basis of the PESC system was to experience considerable difficulty and criticism in the early-to-mid 1970s, and constituted one of the major aspects to be revised in cash limit reform to the system. Furthermore, as will be discussed, the relation of public expenditure growth to NEDC economic growth targets would also come in for criticism, as public expenditure growth continued to outpace growth in the national product. However, for now, we will examine the historical development of PESC in a series of phases wherein the outlined features of the system were instituted and adapted to governance problems as they emerged throughout the life-cycle of the Plowden system.

PESC – a short history

The first PESC operation was initiated under Selwyn Lloyd in 1961 before the final publication of the Plowden Report. Working with interim reports submitted to him by the Committee, the Chancellor set out to Cabinet in a memorandum his desire to "build up a 'plan' for the development of the public sector and its expenditure in the next four years, and methods of financing it," with an announcement to the House on the 17th of April that such a plan was under way[23]. A Public Expenditure Survey Committee was brought together made up of 24 departments, who completed their first survey of public expenditure by June of that year. Their objective was to "create the framework for a public sector expenditure plan working with an aggregate of 42 ½ per cent of GNP and paying special regard to economic growth and the balance of payments" (Clarke, 1978: 52). The first PESC report, foreshadowing future concerns, coincided with mounting pressure on sterling and *perceived* crisis in

[23] TNA: CAB/129/104, Memorandum by the Chancellor of the Exchequer 'Public Expenditure, 23rd March 1961

the balance of payments (Clarke, 1978; Thirlwall, 1980). The projections made by the PESC exercise were thus utilised in an attempt to curtail the growth of public expenditure through cuts in order to reduce total demands on the economy by aligning expenditure with resources (Goldman, 1973: 6). These hopes were dashed however, as the 1962-63 Estimates turned out £111 million above the intended figure (Clarke, 1978). This was to be a repeat experience with PESC control over the years of its operation, and an important factor in the eventual adoption of cash limits.

Despite frustrations, the PESC exercise was repeated throughout the 1960s and became fully institutionalised over this period (Goldman, 1973). In broad terms, the initial PESC exercise met the principles of the Plowden Report, in terms of looking at public expenditure as a whole, as well as its development over a number of years. The piecemeal and short-termist defects of the previous non-system of control were thus overcome. This supposedly corrected the problem encountered with the disruptive 'Stop-Go' approach of the previous system. As Baldwin notes in 1971, the PESC system allowed "changes in the level of expenditure without disruption of policy" meaning that the system was a marked improvement over the previous approach. However, as Baldwin (1971) also notes, the early phases of PESC focused on the long-term development of expenditure and as a consequence shifted attention away from annual outturn which was the focus of the previous system of control. In this sense, one could argue that PESC was a backward step in relation to the previous non-system, which at least enabled the Treasury to exercise close scrutiny over yearly spending in cash terms (Baldwin, 1971). This too was to be an issue that would re-emerge with the argument for cash limits.

Several phases throughout the 1960s have been identified in terms of the development of the PESC system. Whilst detailed discussion of these phases is not necessary for the following discussion, a summary of the developments is useful to keep in mind when considering the cash limit reforms to PESC in the mid-1970s. Goldman (1973) delineates broad phases within PESC's life-cycle up to the early 1970s, which chart the development of the system as a mechanism within the indicative planning infrastructure developed by the British state in the post-war period (Clarke, 1988: 294). The first phase

was the Conservative planning phase of 1961-64, which followed from the sterling crisis which formed the immediate context for the first PESC exercise under Lloyd's chancellorship. During this period the PESC system was linked up with the National Economic Development Council's (NEDC) target growth rate for the economy of 4%, meaning that calculations for the growth of public expenditure were linked with this assumption. This is also the period wherein the first White Paper on Public Expenditure was released, which was designed to illustrate the harmonious growth of GNP and growth of public expenditure. Thus, this phase was important in terms of linking PESC to the NEDC and the targets of growth adopted by the latter, affectively linking public expenditure budgeting to what many would claim was too optimistic an assumption regarding economic growth – especially in light of Britain's relative economic decline. This period was marked with a clear focus, therefore, on economic growth and the utilisation of public spending to help achieve this goal. As Goldman summarises such an assumption regarding economic and expenditure growth in the early sixties reflected "hopes and aspirations rather than past experience" (1973: 7).

The second phase outlined by Goldman is the second (Labour) planning phase of 1964-7 which further consolidated the approach of the previous phase, linking public expenditure growth to the NEDC targets for economic performance. In this phase there developed widespread acceptance of a particular understanding of planning consisting of "fixing a target rate of growth of the economy to an over-optimistic level [and] relating the broad movement of public expenditure to this target". However, this supposed commitment to planning for the future led to what would later be considered as a neglect of control, with public expenditure exceeding planned levels and continuing to outstrip GNP growth, reaching an annual rate of 9% by 1967-8. Then, in November 1967 there was the sterling devaluation which necessitated a considerable shift of resources into the balance of payments and exports. However, by this time public expenditure was increasing at a rapid pace meaning that drastic cuts were required to align spending with resources. Despite PESC being designed to supplant the 'Stop-Go' policies of the 1950s, the lack of effective control over expenditure and its growth, facilitated in part by optimistic targeting of economic growth meant the need for a considerable 'Stop' to be

applied in 1968. Thus, in January of 1968 a cuts package of £330 million for 1968-9 and £360 million for 1969-70 was announced. However, these reductions still left public expenditure far in excess of GNP growth. These measures prompted a re-appraisal of medium-term forecasting and planning in order to firm up control of expenditure. It was from this experience that what Baldwin in evidence to the Expenditure Committee[24] called the "path" was introduced.

The "path" essentially entailed the plotting of a year-by-year course by which the longer-term targets for expenditure growth would be met[25]. This meant closer scrutiny of annual outturns of expenditure to examine whether they were diverging from overall targets[26]. The PESC system, through its emphasis on future planning, had taken the eye off of year-by-year scrutiny of estimates, meaning that there was no effective mechanism of short-term control, which is what lead Heclo & Wildavsky (1981: 221) to suggest that PESC constituted, in this sense, a step backwards from the preceding 'non-system'. It was at this point when the incoming Heath administration sought to undertake significant reductions in public expenditure, and inherited a PESC machine more finely tuned to the need for controlling, as well as planning public expenditure. However, throughout the early to mid-1970s discontent with PESC was to gather momentum culminating in the most significant change to the system through the application of cash limits. In order to examine these changes, it is necessary to look at the context of public expenditure in the early-to-mid 1970s and the work of the Select Committee on Expenditure, which in 1971 had replaced the Select Committee on Estimates (Silkin, 1975).

The Expenditure Committee, the 'loss of control' and the 'missing billions'

The 1970s were a period of considerable re-evaluation of the supposed Keynesian consensus of the post-war period. The reasonably stable economic growth experienced throughout the 1960s had given way to a period of stagnant growth, low productivity and investment, massively increasing inflation

[24] The Expenditure Committee (General Sub-Committee), Command Papers on Public Expenditure, HC 549, 29th July 1971, Ev. 551-555
[25] Ibid
[26] Ibid

and the highest rates of unemployment since the 1940s (Butler & Butler, 2000; Tomlinson, 1990). Furthermore, Britain had amassed a significant PSBR by 1973/4 (around £4000 million) as well as a considerable balance of payments deficit (£3323 million) (Tomlinson, 1990). Export-led growth, the favoured strategy for economic revival of the newly elected Labour government was demanding resources and investment[27] (Healey, 1989). Parallel to all of this was the continued growth in public expenditure. The public sector, by the mid-1970s had grown significantly. It employed one in four of the working population, and absorbed 38 % of GDP in 1971-2, rising to 46 per cent in 1975-76[28] (Wright, 1980: 1). Unemployment benefits, social security and other transfer payments increased their share of GDP to 3% in the same period. The average social wage per head had swelled to £1, 275. At the same time, inflation reached unparalleled heights, with the annual growth in the RPI peaking in 1974-5 at a rate of 24.3 per cent (Butler & Butler, 2000); whilst GDP growth was dropping off to a considerable degree (GDP fell by 2.5% between the second half of 1974 and the first half of 1975) (Butler & Butler, 2000). These factors combined to give the public impression that not only was the economy in severe trouble, but that the size and scope of public expenditure was increasingly difficult to justify. The significant expansion in the public sector raised concerns about how it could be financed through taxation and borrowing, and given the significant rates of inflation and low rates of economic growth, concerns were expressed regarding the economic impact of continued expansion of the public sector. It is in the context of such concerns that the Expenditure Committee came into being, with a remit not only to examine control over expenditure, but also the means by which it was financed.

The replacement of the Estimates Committee with the Expenditure Committee followed from the recommendation made by a Report by the Select Committee on Procedure[29]. The Report begins with an outline of the changes recommended by the Committee on Estimates which led to the Plowden Report, and the consequent reconstruction of public expenditure machinery. Their general conclusion

[27] TNA T364/16, Wass to PPS, 'Economic Strategy', 14th June 1974
[28] On the narrower definition of public expenditure adopted by the Treasury in 1976 the figures are 22.7% and 26.7% respectively (Wright, 1980: 1).
[29] Select Committee on Procedure, Scrutiny of Public Expenditure and Administration, 23rd July 1969, HC 410

was that, given the massive expansion of government activity in regard to public expenditure, and the extension of the time-scale for planning public expenditure, "corresponding developments" were required in terms of the "financial procedures of Parliament"[30]. In the view of the Committee,

> much progress has been made in the forward planning of Government expenditure since the Report of the Plowden Committee, but the procedure of the House [of Commons] has never been adapted to it[31]

As such, the recommendation was that the Estimates Committee be replaced by an Expenditure Committee with a wider remit. The Estimates Committee was primarily concerned with Parliamentary scrutiny of annual estimates of supply expenditure, rather than with the five-year plans for the whole of public expenditure committed to by the government (Silkin, 1975: 47). As such, the Expenditure Committee was given remit to examine the longer-term plans for spending, as well as policy-decisions which lay behind them[32]. In short, the Expenditure Committee was seen as the appropriate form of Parliamentary scrutiny in light of the PESC operations developed after Plowden along with the significant post-war expansion of the size and role of the public sector. Through this remit the Expenditure Committee was, over a period of years from 1971, able to build up an "elaborate record […] of the policy changes, or, rather the changes in public expenditure" up to the year 1974-75 (Silkin, 1975). This body of evidence formed the framework for an assessment of public expenditure control in the early 1970s, which culminated in the 'discovery' of the so-called 'missing billions'. Wynne Godley, a Cambridge economist and ex-Treasury man, who served as special adviser to the Expenditure Committee, in giving evidence to the Committee for its enquiry '*The Financing of Public Expenditure*' described how he had discovered these missing billions. Using figures for public expenditure contained in the National Income Blue Book, which had published appropriation accounts (final outlay of spending) in money terms rather than the conventional constant price – or real – terms of the PESC

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[30] Ibid, para. 9
[31] Ibid
[32] Ibid, para. 35

machinery, Godley calculated that spending for 1974-75 was around £5 billion in excess of what had been planned in the 1971 White Paper[33]. Further to this, through reference to the work of the Expenditure Committee in recording policy changes regarding public expenditure, Godley concluded that this extra £5 billion in spending could not be "the result of an announced policy change," meaning that the extra expenditure had occurred "by default"[34]. Thus, the Expenditure Committee concluded that

> the Treasury's present methods of controlling public expenditure are inadequate in the sense that money can be spent on a scale which was not contemplated when the relevant policies were decided upon[35]

It is this episode of the 'missing billions' which seemed to confirm in the minds of many that public expenditure was 'out of control' and that the Treasury was responsible (Wright, 1977: 144-5; Heald, 1983: 193). At the end of 1975, the *Times* ran an extended story with the banner headline 'Spending is out of Control' which, as Pliatzky (1982: 130) comments, reflected a significant low point in the Treasury's reputation. However, the issue of control and its supposed 'loss' by the Treasury is a complex one. As Wright suggests, the notion of a 'loss of control' had two distinct, but often muddled, meanings. Firstly, 'loss of control' referred to what the Expenditure Committee, through Godley's evidence, had identified as a consistent trend for public expenditure outturns to substantially exceed the planned volumes published in the White Papers. As Wright (1977: 144-5) identifies, public expenditure exceeded plans in two ways. Firstly, in real terms (constant prices), public expenditure outturns had exceeded forecasts by several billions in the years following 1971, meaning that the actual volume of resources used by the public sector far exceeded the planned volumes contained within the PESC surveys and published in the White Papers (Wright, 1977: 148). Secondly, due to the

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[33] The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure, 11th December 1975, HC 69-L, Ev. 758-9

[34] Ibid

[35] The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure: Report, 11th December 1975, HC 69-I, para. 3

constant price basis of the PESC exercise, the actual money being spent by the public sector was far in excess of what was assumed within the PESC exercises[36] (Pliatzky, 1982). This was due to the fact that constant prices were designed in such a fashion as to insulate planning considerations from the dynamic of cost inflation. What this meant in practice was that if prices for goods and services increased due to inflation, the extra monetary cost would be paid automatically (or as one Treasury official put it "for free"). Therefore, public expenditure was 'out of control' in terms of volume as well as in terms of actual monetary outlay, which was discovered by Godley when examining the appropriation accounts for his evidence to the Expenditure Committee. As such, PESC was seen to be in crisis as it had been unable to adequately plan, let alone control, the agreed volumes of public expenditure, as well as being insensitive to the actual monetary cost of the programmes. This monetary insensitivity essentially entailed higher public spending in cash terms than had been forecast by PESC, meaning that the growth in public expenditure was seen to be occurring by 'default' rather than as the consequence of any agreed policy.

As outlined in the Chapter 1, for much of the secondary literature covering cash limits, the reason for their implementation relates directly to the work of the Expenditure Committee in uncovering the 'missing billions' as indicative that public expenditure was 'out of control' in the sense outlined above. Thematically speaking, cash limits are often portrayed as an administrative response to the problem of outturns exceeding forecasted plans, especially in terms of monetary cost. In short, they are widely seen as a 'technical fix' to a 'technical' problem. The Expenditure Committee critiqued the constant price basis of PESC as allowing money to be spent on a scale that was never consciously anticipated by the Treasury or the Cabinet, meaning that some re-imposition of short-term monetary control was to be warmly welcomed. The Committee endorsed, though not without contestation[37], the cash limits

[36] Ibid

[37] Brian Sedgemore, a left-wing Labour MP sitting on the Expenditure Committee, proposed an alternative draft of the report 'The Financing of Public Expenditure' in which he argued that Labour MPs on the committee did not support cash limits, which he called "the Pavlovian cry of monetarist theorists and others who wish to see public expenditure slashed" (The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure, 11TH December 1975, HC 69-I, paras. 1-14). He also believed that cash limits signalled "a march backwards through history and a panic reaction to the 'relative price effect' in times of rapid inflation."

proposal from the Chancellor, Chief Secretary and the Treasury announced to the House of Commons in July of 1975[38], which would apply to pay and prices in public sector goods and services in the year 1976-77. It is important at this stage to briefly outline the manner in which cash limits were intended to function as a means of 'controlling' public expenditure.

<u>Cash limits – a brief overview</u>

The principle of cash limits, in simplified terms, was to set a cash ceiling for the year immediately following the PESC exercise (year one in the survey). The cash ceiling, unlike the underlying volumes, would be costed in monetary (current price) terms and would be presented as a fixed limit above which spending would not be allowed to increase. The principle was that the underlying volumes (of goods and services) would not be financed in isolation from a consideration of their actual (current year) cost, meaning that if prices increased to such an extent that 'buying' the volume would breach the limit, economies would have to be found elsewhere so as not to breach the limit. Thus, pay and price increases would not be provided for 'by default', as with constant prices, but would have to be considered in light of the cash limit for the programme. In the words of Mr. Jones, a Treasury official, in giving evidence to the Expenditure Committee, cash limits would

> enable those concerned [programme managers] to see more clearly than they do in the present system what they can spend, and ensure that they plan their expenditure so that the amount they can spend is not exceeded[39].

In order to facilitate this process, programmes of spending were grouped into control blocks which would be given a cash limit, thus allowing programmes to be financed through savings found elsewhere within the block (virement). Thus, in short, cash limits were a form of short-term cash control grafted onto the PESC system and its constant prices. Constant prices would still be used for medium-term

[38] HC Deb, 1 July 1975, cc. 1189-2001189
[39] The Expenditure Committee (General Sub-Committee), Twelfth Report: Cash Limit control of public expenditure, 30th July 1975, HC 535, Ev. 71

planning, but with each financial year the volume figures would be revalued in order to take account of actual movement in pay and prices. These limits, therefore, would be used to monitor the levels of money actually spent in light of inflation in costs. Such cash limits were to cover 40% of public expenditure, excluding transfer payments which could not be controlled in the same fashion, due to the demand basis of their provision (Bevan, 1980). This, the Committee concluded, would remedy the problems encountered in controlling public expenditure in light of the 'missing billions'[40]. However, what is peculiar about the Committee's conclusions as well as the focus of much of the secondary literature is the omission of any discussion relating to the proposed object of cash limits – namely, controlling inflationary pressures. It is this dimension that seemed to factor most prominently in the House of Commons debate surrounding cash limits, which were announced in response to a significant drop in the value of sterling at the end of June 1975 and the growing PSBR which had attracted considerable criticism of the government in both the Committee's previous reports and within the House of Commons. In order to understand, therefore, the political dimensions of cash limits it is necessary to examine the second sense in which public expenditure was argued to be 'out of control'.

Cash limits and 'loss of control' as a failure of political management

The second sense in which one could speak of a loss of control of public expenditure in the 1970s was altogether more political. This second sense referred to the notion that public expenditure was rising too quickly relative to expenditure in the private sector and growth in GNP, meaning that increasing amounts of expenditure had to be financed through the PSBR, which had consequences for the money supply and thus inflation (Pliatzky, 1982). The importance of this second meaning is that it is not as distinct from the former as Wright (1977) suggests. The Expenditure Committee, in its previous reports[41], had pronounced on public expenditure and the PSBR in relation to the money supply and inflation. In their report, *Public Expenditure, Inflation and the Balance of Payments* the Committee

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[40] The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure, 11th December 1975, HC 69-I

[41] The Expenditure Committee (General Sub-Committee), Public Expenditure, Inflation and the Balance of Payments, 30th July 1974, HC 328.

reached significant conclusions when viewed in light of the supposed Keynesian consensus of the post-war period. Firstly, they concluded that the use of public expenditure as a tool for macro-economic management, deployed on a counter-cyclical basis, should be seen only as a last resort and subservient to considerations of the expansion of the money supply[42]. For the Committee, a high PSBR would need to be financed through an expansion of the money supply which, in times of inflation, would add to inflationary pressures[43]. A high PSBR signalled an incapacity to adequately control public expenditure, meaning that borrowing to cover such spending could not be justified from the perspective of sound economic management. Thus, a high PSBR would need to be met either with higher taxation or the "limiting of public expenditure"[44]. Furthermore, the Committee, in rather startling terms, suggested that controlling the money supply should be, with the exception of demand-management[45], the primary aim of economic and monetary policy. Therefore, for the Committee (or, perhaps more accurately, prominent Conservative members of the Committee) public expenditure of the scale seen by the 1970s, accompanied as it was with a substantial PSBR, was unjustified without either massive tax increases or credible plans for reducing and limiting the growth of the public sector.

Thus, the conclusions of the Expenditure Committee called for an end to the Keynesian approach to public expenditure as a tool of macro-economic management. Far more prominent in the minds of the Committee was the control of inflation through restraint of the money supply, which entailed scaling back the PSBR. The inter-relation of PESC and the NEDC growth targets in the early planning phases of the PESC regime had institutionalised the notion that public expenditure would grow progressively larger as the economy developed. By the mid-1970s this view had given way to disillusionment, as unemployment increased, growth slackened and inflation accelerated at an alarming pace (Tomlinson, 1990). In such a context, the notion that managers of the public sector could, themselves, be insulated

[42] Ibid
[43] Ibid
[44] Ibid
[45] Nigel Lawson attempted to have the exception of demand-management removed from the final wording of the report, reflecting his 'monetarist' stance in relation to economic management which posited control of the money supply as the main aim of economic and monetary policy.

from considering the effects of inflation on their spending was seen to be a significant factor in feeding inflationary pressures (Pliatzky, 1982). Looking back at Thorneycroft's Chancellorship, a major dimension in the counter-inflationary campaign of the late 1950s was the notion of leading by example (Jarvis, 1998). The government would have to lead the way in battling inflation by reducing its own spending, so as to set an example that the British citizenry could follow. However, by the mid-1970s the institutionalisation of PESC meant that public expenditure was largely index-linked *against* inflation, meaning that such an example was difficult to set. The constant price basis of the PESC exercise, which enabled planning in real terms, meant that public expenditure decisions were purposefully insulated from considerations of the monetary cost of the eventual spending (Pliatzky, 1982). This prohibited public expenditure from playing a counter-inflationary role in macro-economic management. In the words of an ex-Treasury Minister

> Real money is the signal the Chancellor and the government have given up and accepted inflation. You can only exercise control over regular money. Real money means you are accepting the very thing you must fight (in Heclo & Wildavsky, 1981: 222).

At this point it becomes clear that the two senses of a loss of control of public expenditure are not quite as distinct as Wright (1977) originally suggests. A major concern for those with political objections to high levels of public expenditure was that it would feed inflation. Whilst the precise mechanism by which such inflationary outcomes were supposedly generated differed, many within and outside of government had come to accept that the constant price basis of the PESC system was simply too insensitive to the "regular money" cost of public expenditure (Bevan, 1980). As Joel Barnett – Chief Secretary to the Treasury – complained, departments spending money were receiving full supplementation for pay and price increases, meaning that for him "there seemed a danger that, by allowing 100% of any increase due to inflation, the public sector itself was contributing to inflationary

pressures"[46]. This situation had led to supplementary estimates of £3, 500 million for the autumn of 1974, which Barnett suggested were the largest ever recorded[47]. Supplementary estimates of this size indicated that departments required much larger sums of money to purchase their programmes than had been anticipated when the PESC exercise had been completed. It was, in fact, this failing which led Barnett to initially request further investigation into the notion of extending cash control over public expenditure, months before the case of the 'missing billions' had come to light[48]. What this meant publicly for government was that in setting expenditure plans, they would be unable to stick to them, despite the 'paths' that were by then built into the PESC system. Thus, the notion that PESC could not contain pressures for increased estimates demonstrated that the system was failing as a means of managing inflation as well as the spending aspirations of departments, who sought full supplementation for pay and price increases rather than economies to offset rising costs.

It is this defect of the PESC system which led Pliatzky (1982) to endorse the notion that the 'missing billions' and overspend more generally (what Thain & Wright (1995) refer to as the overspend 'norm'), did not signify a failure of Treasury control, but a failure of political management. The PESC system did not do enough to force programme managers to consider the financial ramifications of their spending, and spending ministers had every opportunity to maintain and expand the size of their spending over the five-year PESC cycle. Cash limits were envisaged, therefore, as a managerial solution to the problems institutionalised by PESC. Firstly, due to the fact that cash limits would be set in current prices and not constant prices, it was hoped that programme managers would be exposed to the effects of inflation in their spending and would have to compensate with economies. Secondly, because cash limits would be presented as a firm limit, short-term control over the growth of expenditure could be achieved. Thirdly, by placing emphasis on the short-term cash limit rather than on the volume figures underlying them, it was hoped that greater emphasis would be placed, in the minds of managers and

[46] TNA: T 331/1075, Note of a Meeting held in Chief Secretary's Room, 'Supplementary Estimates: Universities and NHS Further Supplementation' (3-12-1974)
[47] Ibid
[48] Ibid

ministers, on finance rather than on resources. And finally, it was maintained that through cash limits it would be possible for the government to lead by example in its battle against inflation. Cash limits, which would be based on government targets for pay and prices, would expose programme managers to the pressures of inflation which, instead of being financed automatically and for free, would instead prompt a search for offsetting economies elsewhere. Given that the Labour government was asking the British population to accept a cut in their standard of living in the so-called '*Attack on Inflation*'[49], it was only fair that programme managers and ministers be asked to do the same regarding public expenditure. It is this counter-inflationary dimension to cash limits which allows an account of their imposition to go beyond the idea that they were a technical solution to a technical problem, revealing how they were designed to not only force economies, but also buttress the introduction of a voluntary incomes policy.

Counter-inflation as the object of cash limits

As outlined above, inflation in the 1970s was a considerable concern for both the government and the public (Tomlinson, 2014: 755-6). Given the political importance of how to frame and address inflation, the government, early in 1975, established a special unit, headed by Geoffrey Goodman (former industrial editor of the *Daily Mirror*) called the Counter Inflation Policy Unit (CIPU). The unit was established in tandem with the publication of *'The Attack on Inflation'* and was tasked with assisting the government "in projecting it's counter-inflation policies"[50]. Some of the early work of CIPU was to poll samples of the population on their attitudes towards the economic situation in the UK to assess which issues they considered the most pressing[51]. In an initial survey of 2431 adults, CIPU found that 40% of those polled considered the economic situation to be extremely serious, with 27% of people citing large pay increases as the cause, 21% citing inflation, 20% blaming strikes and 19% blaming the government[52]. Given the figures at the end of 1974, such an outlook is not surprising, with earnings

[49] The Attack on Inflation (Cmnd. 6151)
[50] TNA: INF 12/1376, 'Press Notice', 11th July 1975
[51] TNA: INF12/1376, Research Unit, 'Economic Situation Attitude Survey', 25th July 1975
[52] Ibid

haven risen by 29% and prices by around 19% (Barnes & Reid, 1980: 201). Furthermore, in a second survey people were asked whether they considered themselves better or worse off than two years previous, with 37% of people responding that they felt worse off with 71% of these citing higher prices as the main cause[53]. Further research collated and examined by CIPU, among them a Social Surveys (Gallup Poll) Ltd political issues gallup poll, indicated that blame squarely being placed on the government and the unions for the increasing prices[54]. Whether or not such figures accurately reflected the assessment of the politico-economic problems confronting the UK at the time are of secondary importance. What such information would have confirmed for those in Number 10 to whom CIPU reported was that the Social Contract established during and after the 1974 elections had failed to convince members of the public of the government's counter-inflationary credibility.

The Social Contract between the Labour government and the trade unions, which had re-established, following Heath's abortive Industrial Relations Act, free collective bargaining had been the basis of the election arguments put by Labour in 1974 (Coates, 1980; Dorey, 2001). The basic feature of the Social Contract was a supposed *quid pro quo* between Labour and the trade unions, wherein the unions promised to exercise constraint in wage bargaining on the basis the TUC-Labour Party agreement enshrined in the document *Collective Bargaining and the Social Contract* (Coates, 1980). In return for exercising constraint in these terms, the Labour Party had promised to not only repeal the Industrial Relations Act, but also to increase the social wage and begin moves towards implementing industrial democracy in the workplaces. This agreement resulted in Labour significantly increasing public expenditure in the late months of 1974, further adding to the large PSBR inherited from the Heath years. For those 'monetarists' on the Expenditure Committee, running such a high PSBR meant expansion in the money supply and, thus, inflation. For those within the Labour camp, public expenditure increases as was seen with the Social Contract simply reinforced expectations relating to higher living standards in a period where the country was deemed to be living beyond its means

[53] TNA: INF12/1376, N.H. Phillips, 'Second Survey', 4th August 1975
[54] TNA: INF12/1376, Social Surveys (Gallup Poll) LTD, 'Gallup Political Index: Report No. 180', 1975

(Rogers, 2009a). The most important factor in all of this, however, was that the anticipated wage restraint in response to government measures failed to materialise (Holmes, 1985). The dynamic of wage increases both responding to, and in fact anticipating (Jones, 1986), price inflation did not shrink back as a consequence of the Social Contract (Taylor, 1987). Instead, wage claims continued to soar, with settlements over 20% being the norm (Coates, 1980). In short, real wages were continuing to increase and even outpace the rate of growth in price inflation. For Healey and others in the Labour government, these wage claims were the driving force of much of the inflation afflicting the UK in the mid-1970s.

This point regarding wages was put to Cabinet by the Chancellor, who argued that "[m]any, though not all of our problems, are created by our excessive rate of wage inflation," and that unless policies were developed to address this issue "economic policy will suffer exceptional constraints"[55]. The argument regarding constraints related to the ballooning PSBR, which was forecast to be around £9, 000 million, or 10% of GDP for 1975. For Healey, this large PSBR was reflected in the balance of payments deficit, and was thus directly hampering an export-led economic recovery[56]. In his mind, the nation was "living 5 per cent above its means" with central and local government and the nationalised industries, together, "spending or on-lending to others, 19p in the £ more than they are receiving in revenue"[57]. Thus, the prospects for closing the balance of payments deficit and securing Britain's economic recovery could only be achieved if the public sector deficit was "substantially reduced," which could be achieved either by increases in taxation or cuts, or both[58]. Therefore, we can see despite Healey's typically Keynesian formulation of the PSBR problem, he was in more or less agreement with what Samuel Goodman referred to as the 'conservative mafia' heading the Expenditure Committee[59]; namely, that the PSBR, as it stood, was simply too high and necessitated

[55] TNA: CAB 129-183-12, Memorandum: 'Public Expenditure and Economic Strategy', 19-5-1975
[56] Ibid
[57] Ibid
[58] Ibid
[59] TNA: T331/1058, Douglas Henley, 'Expenditure Sub-Committee', 5th February 1975

significant cuts in the public sector. Where the Expenditure Committee, however, placed emphasis on the money supply, Healey placed his emphasis on 'excessive' wage increases which demanded a more thorough incomes policy, something which had been ruled out by the Labour government since the last of Heath's thresholds came into effect following a rise in the RPI in November 1974 (Fallick & Elliott, 1981).

For the Chancellor, therefore, as well as the Chief Secretary of the Treasury, the large PSBR combined with increasingly large supplementary estimates in the context of massive rates of inflation caused significant concern about the state of control of public expenditure. This concern is what initially spurned ministerial interest in the idea of cash control. Rather than the 'missing billions' or any other narrow conception of a loss of control, the Treasury ministers viewed cash limits applied to public spending in largely macro-economic and political terms. Such views were also expressed by Treasury officials who had been looking into the possibilities of cash control before Barnett had expressed his concerns about supplementary estimates at the end of 1974. Within the Treasury, under the leadership of Douglas Henley, the Cash Control Group (CCG) had been discussing the possibility of extending cash limits as a means of controlling public expenditure for some months prior to the end of 1974. For them, the planning of public expenditure in constant prices was seen to be "either positively feeding inflation or at least doing nothing to counter it"[60]. This was because the PESC system insulated the programme manager from considering the extra cost to the Exchequer of large pay settlements or price increases. As an early minute on cash control argues

> whatever pay rate they [programme managers] concede, providing the proper hoops have been gone through, they will get the extra cash to cover it[61]

Unlike in the private sector where price and pay increases were seen to prompt consideration of "whether they should employ less staff, buy less goods, or buy poorer quality goods," the programme

[60] TNA: T331/1075, J.A. Marshall, 'Cash Limits' 15th August 1974
[61] Ibid

manager in the public sector did not need to be so "cost-conscious"[62]. Thus, for officials involved in the CCG, PESC fed inflation simply because it did little to counter it in the appropriation of resources by the state. This, it was later argued by member of the CCG, put managers of big public expenditure programmes in a "uniquely strong and sheltered position in the community, in which they were later joined by the pensioners," in that their spending allocations "have been fully indexed, without argument, against both inflation and relative price change"[63]. Therefore, for the CCG cash limits promised to create the need for cost-consciousness on the part of programme managers, making them more sensitive to inflation when making their expenditure decisions. This, it was suggested, could actively help curtail inflation, as cash limits would be set on the anticipated (or targeted) rate of inflation for the coming year[64]. Given that cash limits were publicly sold as firm limits, even if the inflation target proved to be wrong, the managers would be expected to curtail spending in response to pay and price increases[65]. If such a system were to be combined with government targets for pay and prices, then public expenditure control could be marshalled in support of a credible counter-inflation campaign, which would enable the government to once again lead by example in a manner that the "man in the street will understand"[66].

Quite apart, therefore, from the technical and administrative presentation of cash limits by the Treasury to the Expenditure Committee, Healey announced on 1 July of 1975 that they would be used to aid the government's counter-inflation campaign, being fixed upon

[62] Ibid
[63] TNA: T331/1078, Couzens to Henley, 'Minute to Cash Control Group', 3rd February 1975
[64] TNA: T331/1075, Note of a meeting in Sir Douglas Henley's Room, 'Justification for extending control by cash limits', 18th December 1974
[65] TNA: T331/1075, J.A. Marshall, 'Cash Limits' 15th August 1974
[66] TNA: CAB129/188/6, Memorandum by the Chancellor of the Exchequer, 'White Paper on Cash limits' 15th March 1976

> wage bills in the public sector so that all concerned may understand that the Government are not prepared to foot the bill for excessive settlements through subsidies or borrowing or by loading excess costs on the public through increases in price and charges[67]

It was only as a secondary matter that Healey mentioned to the House that they would also be employed "more generally as a means of controlling public expenditure in the short-term"[68]. Thus, it seems peculiar that so much of the secondary literature relating to cash limits tends to focus on them as a means of controlling public expenditure in the short-term when in matter of fact they were announced and employed as part of the "battery of weapons"[69] introduced by the government to reinforce its voluntary pay policy agreed with the unions in June/July of 1975. Cash limits, therefore, were clearly no mere administrative tool or technical fix, but instead seen as a political means through which counter-inflationary credibility could be attained in relation to the restraint of what was seen, at the time by both government and the public, as the main cause of inflation; namely, 'excessive' wage increases. This is despite the fact that, in evidence given to the Expenditure Committee, it was highlighted that wage costs only constituted a small proportion of the 'missing billions'[70]. However, this seeming confusion can be clarified by examining the immediate context precipitating the publication of the government's White Paper 'The Attack on Inflation' wherein cash limits were first introduced. For this we must examine the 'mini' sterling crisis of June 1975 and the debate within Cabinet around the possibility of reintroducing incomes policy, despite what had been agreed in the Social Contract.

Cash limits, wages and sterling

As outlined, cash limits were officially announced to the House of Commons on the 1st of July, 1975. Healey's announcement of cash limits coincided with his announcement of a new £6 pay policy with

[67] HC Deb 1st July 1975 vol. 894
[68] Ibid
[69] Ibid
[70] The Expenditure Committee (General Sub-Committee), The Financing of Public Expenditure, 11th December 1975, HC 69-L

the trade unions enshrined in the White Paper '*The Attack on Inflation'*. This White Paper also outlined the initial use of cash limits as both a means of combating inflation as well as controlling, in more general terms, public expenditure. This announcement is referred to by Lowe (2011), who argues that Healey was seen to have "jumped the gun" on cash limits, announcing them before the Treasury had reached satisfactory conclusions regarding their introduction. This analysis is borne out by examination of primary documents. Douglas Henley, acting as Chair at a meeting of Permanent Secretaries to discuss cash controls, stated that "examination of a cash control system at official level had been partly overtaken by the Government's announcement[71]. This is certainly an understatement, given that just a month or so previous, Henley suggested that he would be prepared to give an "assessment of the real value" of cash limits to the Chancellor in the next year[72]. In fact, other members of the CCG were convinced that introducing cash limits for the year 1976-77 would essentially entail a "crash exercise"[73] which could only be tolerated by departments in the context of a "crisis"[74]. Such a hurried introduction, it was argued, would mean having to rely on short-term economic forecasts of pay and price movements which would deliver "very rough justice"[75].

One of the primary obstacles for much of the early consideration of cash limits was the sensitive issue of pay. Treasury officials felt it necessary that rather than rely upon their own estimates for pay increases, a norm set out in a national incomes policy would be required[76]. This was due to the wish to avoid cash limits being directly perceived as a surrogate incomes policy for the public sector, something which would no doubt generate political difficulties for the Treasury[77]. This is very much in line with Treasury thinking in the 1970s as Wilson (1979: 115) and others (Haines, 1977) recall that a primary 'fetish' for the Treasury was the notion of a statutory incomes policy. Despite the catastrophe

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[71] TNA: T331/1077, Henley, 'Note of a Meeting of Permanent Secretaries to discuss Cash Controls', 6th August 1975
[72] TNA: T331/1077, Henley to Jones, 'Cash Control of Public Expenditure', 20th June 1975
[73] TNA: T331/1076, Glover to Anson, 'Cash Limits: Time Needed to Introduce Them', 6th March 1975
[74] TNA: T331/1076, CCG, 'Cash Control: CCG (75)9', 19th February 1975
[75] Ibid
[76] Ibid
[77] Ibid

met by Heath for pursuing a statutory policy in the early 1970s, the Treasury seemingly had not abandoned its desire for such an approach. Donoughue (1987) a member of the Number 10 Policy Unit, recalls how in the 1970s the Treasury and Bank of England had sought to force the issue of incomes policy through what he terms a Treasury 'bounce' around the issue of sterling depreciation (Haines, 1977: 44-68; Dell, 1991: 119-129). It is to this episode that one must turn in order to appreciate the reasoning for Healey "jumping the gun" in announcing cash limits, and thus further reveals the political nature of cash limits as a means of reinforcing government credibility.

In a Cabinet meeting held on 20th June 1975 the issue of incomes policy was hotly debated[78]. The options on the table were to continue with voluntary restraint, restore full collective bargaining or go for a statutory policy. The urgency with which this question was addressed was driven by a fear that external confidence in the British economy, in light of the rates of inflation and the size of the PSBR, would soon collapse and a run on sterling would ensue. As the Chancellor argued, inflation in the UK was double that of the OECD average, whilst unit wage costs were four times higher than the OECD average. As such, he argued that whilst foreign funds were still flowing into the country, this situation could "change with dramatic suddenness" which would compel "the Government to impose drastic emergency measures"[79]. Such measures would, Healey argued, involve large public sector cuts and cuts in real income as well as investment, thus increasing the number of unemployed. Shirley Williams, Secretary of State for Prices and Consumer Protection, agreed that the situation was severe and that the rate of inflation would need to be reduced to single figures by 1976 at the very least[80]. To this end, it was proposed that some form of incomes policy needed to be implemented which would reduce the average wage settlements from around 20% to 10%. Whilst some, such as Michael Foot, supported a higher rate (15%) the feeling in Cabinet is that this would be far too little, far too late. The Prime Minister, in summing up, suggested that the consensus was to aim for a rate of settlement no higher

[78] TNA: CAB/128/56/29, 'Cabinet Conclusions' 20th June 1975
[79] Ibid
[80] Ibid

than 10% as a national average from the beginning of the next pay round, but that a statutory policy (supported by the Chancellor and the Treasury) would be "highly divisive"[81]. Instead, the desire to make a voluntary policy work – through cooperation with the TUC – was indicated as a potential solution. However, if such an option was to be successful "the Government in its role as employer would have to hold a hard line"[82]. To this end, the PM concluded that "cash control of wages for […] public sector bodies" would need to be introduced to make a voluntary incomes policy seem credible[83].

In the event, the economic situation following this meeting of Cabinet deteriorated rapidly. The sudden turn-around of events foreshadowed by the Chancellor's comments seemed to come to fruition at the end of June with a significant slide in the value of sterling and the threat that substantial foreign holders would, if the slide were not arrested, diversify out of sterling and thus damage the economy even more so. This is the situation to which Donoughue refers as the Treasury-Bank of England 'bounce'. Donoughue (1987), along with Haines (1977), suggest that the slide in sterling was in a sense orchestrated by the Bank and the Treasury as a means of achieving a statutory incomes policy. Unhappy with the outcome of previous Cabinet discussions, it is suggested that the Treasury and Bank engineered a crisis in sterling in order to force Wilson's hand in accepting a statutory policy. The evidence cited in support of the interpretation is that no attempt by the Treasury or Bank of England had been made to halt the slide; "no money had been spent to bolster the rate" (Haines, 1977: 59).

However, as Dell argues "the real bounce was coming not from the Treasury nor from the Bank but from the markets" (1990: 163), a point which was echoed by Wilson (1979) when he stated that the Treasury, not "unnaturally", were reflecting in their desire for a statutory incomes policy the "prejudice" of the markets. Whilst this is a somewhat reified view, it can be said that the threat to

[81] Ibid
[82] Ibid
[83] Ibid

sterling in 1975 was not entirely a fabrication of the Treasury and the Bank of England. International holders of sterling were indeed threatening to pull out of sterling. As Healey put to Cabinet on the 1st July, the problem was thus – sterling was dropping from its rate against the dollar of £1 to $2.20 (seen as the minimum acceptable exchange value). The risk was that, below this rate, sterling holders would begin to sell their pounds. Nigeria had indicated earlier in the month that they would begin to diversify their holdings, whilst the Kuwait government had stated that they would begin to move funds out of sterling if the rate dropped below 2.20, and the Saudi Arabian government that they would begin to sell at below 2.17[84]. By the 1st of July, only a couple of days after the initial fall, sterling stood at 2.1740, thus sparking fears in the government that sterling would fall[85]. Further to this, the Chancellor, in Cabinet, argued that without the government coming out and openly stating that they would begin to control wages more forcefully, and with statutory backing, sterling would continue to fall and potentially collapse, ushering in a period of hyper-inflation that "could lead to the total destruction of the value of the currency and of society itself"[86].

Whilst it is certain that Healey was mobilising the slide to its full effect to win over his colleagues, the threat certainly appeared acute enough to move the situation along. The TUC proposals, which had been signalled to Cabinet by Michael Foot (Morgan, 2007), for a flat-rate policy – popularised by Jack Jones – were taken up, with the proviso that the percentage rate of increase had to be 10% rather than 15%, something which Jones was willing to accept in light of the sterling crisis and the threat it posed to the maintenance of a Labour government (Jones, 1986). However, Cabinet expressed considerable concern that such a voluntary policy might not appease international opinion and "market prejudice" meaning that the flat-rate voluntary policy needed to be firmed up[87]. This relates back to the previous mention made in Cabinet that if a voluntary policy were to be pursued, government itself would have to lead by example by taking a firm line in relation to public sector

[84] TNA CAB 128/57/1, 'Cabinet Conclusions' 1st July 1975
[85] Ibid
[86] Ibid
[87] Ibid

wages. It is in context of this consideration that the "battery of sanctions" behind the 'voluntary' policy were introduced, one of which was the use of cash limits on public expenditure[88]. This was the compromise position reached by the government which faced contradictory constraints. The first was the need to maintain union support and the Social Contract, which could not tolerate a statutory policy. In the other direction, demands by holders of sterling that inflation be brought under control demanded a tougher stance vis-à-vis wages. Given the failure of voluntary restraint under the TUC guidelines, as well as the AUEW's firm rejection of income control, the prospects for voluntary restraint seemed slim, whilst inflationary pressures were increasing (Taylor, 1987). Real wages were rising fast, outpacing prices at a time when the total of national income was declining. As Browning (1983) suggests, the continued growth of real wages was continuing in the context of an adverse shift in Britain's terms of trade, which had reduced real national income by around 4%. This was reflected in a balance of payments deficit of some £3.8 billion, which was at that time 5% of GNP.

Concluding remarks

The context of the introduction of cash limits was a perceived breakdown of the PESC system in light of persistent high inflation. PESC was a system developed based on Keynesian assumptions regarding the role of public expenditure and its appropriate levels vis-à-vis growth in the economy and the stability of prices. Given the circumstances of the early 1970s, PESC came under serious scrutiny as a potential means by which inflation was being carried into the public sector without adequate control. However, the immediate public concern was with the supposed lack of control over spending which PESC had seemingly produced. The case of the 'missing billions' presented a public opportunity for the Treasury to push for harder controls over the levels of public expenditure as a way of not only recuperating its public image, but also as a means of reasserting a measure of direction over public expenditure which had been eroded through PESC.

[88] HC Deb 1st July 1975 vol. 894

However, as outlined at the close of the chapter, the reasoning behind the introduction of cash limits went deeper and touched more specifically on the issue of wage inflation and discipline over workers. Whilst inflation was undoubtedly a concern, it was wage inflation which most worried policymakers at the time. Therefore, cash limits were not only a response to the erosion of control over public expenditure, but also to the stubborn problem of wage inflation. In the next chapter, the immediate circumstances resulting in the eventual imposition of cash limits will be examined, with particular emphasis on the role of Treasury civil servants in the direction of policy, as well as the motivations of the Labour government in announcing cash limits in 1975.

Chapter 4 – The Introduction of Cash Limits

The Mandarin revolt – counter-inflation policy

At the close of 1974, around two months after the second General Election in October, Douglas Wass – the Permanent Secretary to the Treasury – sent a letter to the Chancellor. In this letter, Wass explained how there was "no longer any official support for existing policies"[89]. Official support, it was argued, had evaporated due to the Government's failure to address "two inter-related problems which must both be tackled if the UK economy is to be viable"[90]. These two problems were inflation, "in particular wage inflation" and the "excessively large balance of payments deficit"[91]. The Government's approach hitherto was doubly problematic, hinging primarily on the Social Contract established between the Labour Party and trade union movement. The Social Contract had pledged a return to a situation of free collective bargaining in response to Heath's restrictive approach to industrial relations. Such a return was supposed to be secured through voluntary restraint in wage bargaining along TUC guidelines, which would be met with higher public spending on the social wage by the government. In this sense, Labour had pledged to spend more in return for wage restraint from the trade union movement. This resulted in large growth of the PSBR, which stood at £6, 387 million by the end of 1974 (Tomlinson, 1990) and was projected to grow to £12 million throughout 1975.

This Social Contract, however, did little to combat inflation and virtually nothing to address the massive growth in the PSBR. For the years 1973-4, inflation stood at 16.1 per cent (Butler & Butler, 2000: 411), with the value of wages and salaries growing annually by 18.3 per cent (ONS, 2016). Between 1974-5, inflation was 24.3 per cent (Butler & Butler, 2000: 411) with the rate of growth in wages and salaries standing at 29.4 per cent (ONS, 2016). In short, Labour was facing wage inflation which stood higher than price inflation. This was defined by Treasury officials and commentators as

[89] TNA: T277/3053, Wass to Chancellor, 'Economic Policy', 20th December 1974
[90] Ibid
[91] Ibid

the "wage/price spiral" and in their view demanded intervention in the wage determination process[92]. Thus, at the close of 1974, the Treasury were pushing the Chancellor to adopt an incomes policy, in spite of the Social Contract[93]. In an annex to the letter sent by Wass, Bryan Hopkin (Chief Economic Advisor to the Treasury) argued that "cost inflation is the central evil of our present economic condition" the cause of which was "the excessive scale of wage settlements" meaning that "the crux of economic policy is to reduce the scale of these settlements"[94]. This could only be achieved, it was argued, through "direct intervention in the processes determining income and prices," which meant the abandonment of free collective bargaining and a move towards incomes policy, whether voluntary or statutory[95]. This episode is referred to in Dell's (1991) account of the IMF crisis in the 1970s and is described by him as the 'Mandarin's Revolt'. For Dell (1991), this confirmed the right-wing analysis of the contemporary situation, which demanded strict action on wages and significant reductions in public expenditure. Furthermore, this episode marked the beginning of a shift in policy regarding incomes and the public sector which culminated in the announcement of a new incomes policy and the introduction of cash limits on public sector wages and spending more generally.

Thus, it is important to unpack the diagnosis of the Treasury at the end of 1974 in order to adequately conceptualise cash limits. By December of 1974, the Treasury had established the 'Cash Control Group' which was tasked with early examination of proposals to control expenditure via annual cash ceilings[96]. This group, led by Douglas Henley, examined the use of cash limits in relation to construction, and were exploring the possibility of extending their use across a whole range of public expenditure, including that of central and local government and the nationalised industries[97]. The notion of extending cash control across public expenditure had arisen in 1973 during such discussions in relation to the extension of cash control to construction during a moratorium on new works in the

[92] TNA: 364/16, Dow to Wass, 'The problem of stopping inflation', 9th January 1975
[93] Ibid
[94] TNA: T277/3053, Hopkin, B, 'The Next Stage in Economic Policy', 20th December 1974
[95] Ibid
[96] TNA: T331/1075, Henley to Baldwin, 'Cash Limits Control', 18th December 1974
[97] Ibid

public sector. In a note by Peter Baldwin dated 19th November 1973 it was stated that as a consequence of establishing a “system of financial limits” on all public construction, the Treasury was “better placed to extend the system” especially in light of “too rapid inflation”[98]. Douglas Henley endorsed this extension of cash limits, stating that “it is […] important as a move to the use of cash limits in appropriate cases for general control purposes”[99].

Thus, the Treasury had – for some time – been considering the use of cash limits as a control system within the public sector more generally and as a response to rapid inflation, the earliest discussion being 1969[100]. Thus, by the time that official support for existing policy had collapsed at the end of 1974, the Treasury had developed initial thoughts on the efficacy and mode of operation of cash limits. In parallel with the ‘revolt’ against government policy, the CCG had been established – given impetus by the shift in attitude of Treasury officials as well as by exhortations from the Chief Secretary to improve control over expenditure in order to reduce the scale of supplementary bids. It is clear from the documentary evidence that the use of cash limits as a control mechanism was conceptualised to address the two outstanding problems confronting the UK economy outlined in Wass’s letter[101], namely inflation and the balance of payments deficit. Their use to improve the balance of payments was elucidated to the PCC by Douglas Henley in a paper submitted in February of 1975, wherein the case was made that significant cuts to public expenditure would be needed to free up resources within the economy for export-led growth, thus addressing the balance of payments problems. Henley argued that in the case of large cuts to public expenditure, it would be necessary to “impose crude limits on various programmes by manpower or cash ceilings, or a combination of both”[102]. This argument came in response to a note by Peter Baldwin[103] on how to secure reductions in public expenditure moving forwards. Baldwin outlined how cash limits could be further used to support

[98] TNA T354/474, Baldwin to Henley, ‘After the Moratorium: Cost/Cash Limits’, 19th November 1973
[99] TNA T354/474, Henley to Chief Secretary of Treasury, ‘After the Moratorium: Cost/Cash Limits’, 20th November 1973
[100] TNA T230/1059, Levitt to Atkinson, ‘Cash Limits to Public Expenditure, 2nd June 1969
[101] TNA T277/3053, Wass to Chancellor, ‘Economic Policy’, 20th December 1974
[102] TNA T277/3053, Henley to PCC, ‘Economic Policy: Public Expenditure’, 8th January 1975
[103] TNA T277/3053, Baldwin to PCC, ‘Economic Policy: Public Expenditure’ 8th January 1975

incomes policy within the public sector by incorporating the provision for wages and salaries within the cash limit for a programme in a manner consistent with the stated norm of incomes policy[104]. This would mean that existing programmes could be "implemented in full in real terms only if the [pay] norm were observed."[105]. Thus, from the outset, cash limits were envisioned as part and parcel of the policy recommendations made by the mandarins in revolt. Cash limits were seen as an important dimension for securing adequate reductions in public expenditure (and thus in freeing resources within the economy) and in countering inflation by buttressing the operation of an incomes policy.

It can be argued, therefore, that cash limits were understood as operating upon the Social Contract in two distinct, yet related ways. Firstly, cash limits were devised as a means of achieving reductions in public expenditure so that resources could be directed towards export-led recovery. This was, therefore, an attempt to reduce the social wage in order to subsidise capital accumulation. Second, cash limits were seen as potentially reinforcing of incomes policy, thus reversing the wage explosion which was considered a direct consequence of the lax restraint shown by the trade unions. However, cash limits were by no means a typical policy for tackling the balance of payments or inflationary wage increases. In many respects, the 1970s saw the conventional interpretations of economic phenomena directly challenged. Whilst it is analytically questionable to make too much of the so-called Keynesian compromise in the post-war period (Tomlinson, 1981), it is quite evident that state managers utilised the scientific concepts developed by Keynes and Keynesian economics, even though many officials would not share the more *utopian* or normative dimensions of Keynes' thought (Negri, 1988). One such concept was the Phillips Curve which models the relation between rates of unemployment and the wage rate in producing inflation (Maier, 1978). The simple logic is that the lower the rate of unemployment, the greater the underlying power of the workers to push up wages above the rate of increase in productivity. This would result in higher inflation. It follows that the higher the rate of

[104] Ibid
[105] Ibid

unemployment, the lower the pressure on wages and, thus, the lesser the level of prices. However, by the mid-1970s this simple trade-off had been challenged.

In the paper by Bryan Hopkin attached to Wass's letter to the Chancellor sent at the end of 1974, Hopkin argues that the Phillips Curve "has […] been *exploded* by recent experience."[106], as any notion of a stable relation between "the level of unemployment and the rate of wage increases" had been overturned by the experience of massive wage inflation[107]. What this serves to highlight is that, for Treasury officials, the ability of the organised working class to secure increases in wages and salaries above and beyond that of price inflation, alongside increasing unemployment, demonstrated the need to rethink economic strategy for containing these pressures[108]. For Hopkin, the explosion of the Phillips Curve did not necessarily leave officials without prospect for challenging inflation but revealed the nature of the inflationary pressures facing UK policymakers at the time. Hopkin goes on to argue that what remained in place of the Phillips Curve was "the idea that the rate of inflation is sensitive to the general state of confidence in, and expectations about, the future"[109]. This is what one commentator in the 1970s referred to as the 'new' inflation (Jones, 1973), wherein inflation was seen to be caused by "wage-leadership" which, in turn, was underpinned by the "psychology of labour" in terms of their ability to pre-empt price and tax increases in their wage demands, largely as a consequence of strong union organisations (Rowthorn, 1977). The ability of trade unions to secure such settlements in anticipation of price increases thus indicated to many (including senior Treasury officials) that the real cause of inflation was not so much economic (in terms of a trade-off between certain variables in a model), but rather "economic-cum-political" (Jones, 1973: 13).

Therefore, inflation in the UK was seen as problematic not only because of the massive growth in general inflation, but the way in which this inflation was driven by wage demands. Inflation, particularly cost inflation, was argued to be the necessary target of policy by officials. And in order to

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[106] TNA T277/3053, Hopkin, B. 'The Next Stage in Economic Policy', 19th December 1974
[107] Ibid
[108] TNA T277/3053, Couzens, K to PCC, 'Inflation, the Unions and Unemployment', 10th December 1974
[109] TNA T277/3053, Hopkin, B. 'The Next Stage in Economic Policy', 19th December 1974

address this type of inflation, the government would need to confront what Kenneth Couzens - Deputy Secretary for Incomes and Prices - referred to as “union overweight”[110]. This overweight was identified as the primary reason why British inflation was so much higher than that of Germany or the USA. In explaining the relatively higher levels of inflation in the UK compared to competitors, Couzens argued that the reasons lay in the union movement[111]. His argument was not only that the union movement in the UK was bigger than that of the USA or Germany, but also that trade unions were “more unified among themselves than their counterparts in Western Europe”; that they had a “strong political strand in their activity”; that “their political orientation has made [them] more broadly redistributive”; and that the union movement as a whole contained a “strong tendency for each group to eye jealously what the next group is getting”[112]. Together, these dimensions resulted in an active union movement which was not simply prepared to passively respond to increases in prices, but instead pre-empt them in their wage bargaining. Furthermore, Couzens clearly identified the *political* role of the unions in determining public policy as a problematic feature of industrial relations. The remedy for union-led inflation, as Couzens saw it, was either to create more unemployment or to establish a sufficiently stringent incomes policy[113]. In relation particularly to the public sector, Couzens argued for pit closures to quell the militancy of the miners as well as advising that “where opportunity offers, press[ing] the economic case for public sector closures or reduction of services. This is the one market check on pay in the nationalised industries.”[114] This argument regarding the public sector is given as a means of combating inflation via the checking of union power within the public sector in the long-term. It is relevant also because it is the exact logic behind the implementation of cash limits. Couzens here is voicing the idea that wage increases within the public sector needed to be shown to have deleterious consequences for public service provision. By generating a dilemma wherein demands for wages in

[110] TNA T277/3053, Couzens, K to PCC, ‘Inflation, the Unions and Unemployment’, 10th December 1974
[111] Ibid
[112] Ibid
[113] Ibid
[114] Ibid

the public sector would have to be met by reductions in service or levels of employment, cash limits were supposedly mimicking the situations confronted by private employers in the context of inflation.

The idea that cash limits might result in a dilemma for programme managers and workers alike within the public sector was seen as a primary strength of cash control over public expenditure. As discussed in the previous chapter, the PESC system tended to insulate programme managers and workers alike from the pressures of inflation in prices and pay. As matter of fact, it was Couzens himself, in his role within the CCG, who argued that PESC placed programme managers in a "uniquely strong and sheltered position" in relation to the consequences of inflation[115]. It was this "uniquely strong" position that cash limits were seen to be intervening against, and undoing. Therefore, cash limits sought to intervene in terms of the expectations of, and confidence in, the future. Through the setting of a limit for programme managers, it would be signalled that any breach of the cash limit would mean reductions in the provision of service, or the reduction of numbers employed[116]. This would break into the sheltered position afforded to spending departments by way of the constant price basis of PESC. The annual cash limit, therefore, would augment expectations, indicating that pay and price increases would no longer be financed "for free" by the Treasury. This, therefore, would render public expenditure budgeting and control a dimension amenable to the attainment of counter-inflationary credibility.

In the early period of the exploration of cash control, the effect on expectations and behaviour was front and centre of conceptualisation. There was, in the early phases of work by the CCG (1974-75) no evidence of how annual cash limits would *materially* affect programmes. Thus, examining the work done by those concerned with public expenditure control reveals aspects of cash limits as a *political strategy* for augmenting the expectations and thus, it was hoped, actions of those spending public money. It will be argued in this section that the aim of cash limits in the eyes of those concerned with

[115] TNA T331/1077, CCG, 'Cash Control of Expenditure' 13th May 1975
[116] Ibid

their design and implementation was the attainment of managerial and financial discipline over programme managers and, thus, in relation to wage negotiation. Furthermore, the longer-term aim for cash limits was that they ought to play a *depoliticising* role in relation to an over-arching *politicised* strategy in the attainment of counter-inflationary credibility vis-à-vis voluntary incomes policy and reductions in public expenditure. In this sense, cash limits are understood as a *nested mechanism of depoliticisation*, in that they form one *buttressing* aspect of a generally politicised strategy for securing counter-inflationary credibility. However, what will be demonstrated is that such depoliticisation, whilst the eventual aim of cash limits, was not something initially deemed possible. Only after the introduction of an incomes policy and a definable norm in regard to wages and salaries, could cash limits become a question of *mere mechanics*.

<u>The Cash Control Group and early conceptualisation of cash limits</u>

One of the earliest treatments of cash limits as a means of controlling public expenditure was submitted to Douglas Henley in August of 1974[117] and met with his overall approval. The note sets out the general picture of cash limits as a form of control, examining their advantages and disadvantages. The paper begins with a general outline of the constant price basis of PESC and how such prices essentially meant that spending departments received "pay and price rises 'for free'" from the Treasury[118]. The paper then goes on to argue that such a "system has been criticised as either positively feeding inflation or at least doing nothing to counter it."[119] The reasons that the constant price basis of PESC was considered weak on inflation was that "programme managers have no reason to worry when costs rise above the Survey price level," largely because they were safe in the knowledge and expectation that "they will get the extra cash they need" from the Treasury[120]. The author contrasts this situation to the private sector, arguing that "[r]ising prices drive the private sector to consider whether they should employ less staff, buy less good, or buy poorer quality

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[117] TNA: T331/1075, J.A. Marshall to Henley, 'Cash Limits' 15th August 1974
[118] Ibid
[119] Ibid
[120] Ibid

goods."[121] The public sector was deemed free from this pressure, meaning that a key strength stemming from the "imposition of cash limits" would be to make programme managers more "cost-conscious," giving them an incentive to "watch how every penny is laid out"[122]. In this early note on cash limits, therefore, it becomes clear that the concern with inflation was also a concern with a lack of "discipline" in relation to the manner in which those responsible for departmental spending carried out their activities. This is referred to as the "constant price mentality" which became the Treasury's prime target in devising and implementing cash control.

Thus, even in these early "rough" treatments of the notion of cash limits, the concern with a particular mentality, or expectation, in relation to public expenditure was identified as closely linked to the problems of inflation and its impact on public expenditure. As such, cash limits – in the early phase – were understood not only as a "counter-inflationary weapon" but also as a means of establishing tighter Treasury control through "a new discipline"[123]. Thus, the immediate object of cash limits was to influence "Departmental psychology" in terms of adjusting purchases and staffing levels in relation to "relative expense changes"[124]. In fact, many of the officials considering cash limits at the CCG stage considered the managerial advantages to largely outweigh the macro-economic ones, such as countering inflation[125]. This new discipline, which would bring about much "greater financial discipline"[126] was to be forged through the use of a different price basis to that which existed within the given PESC machinery. The question thus posed at the outset of systematic Treasury consideration of cash limits was "whether [to] alter the emphasis in […] present forms of control so as to give much more weight to the need to count the cost at current prices"[127]. The issue of revaluing constant prices in PESC surveys to annual current prices so as to impose greater financial control was to be the primary pre-occupation of the CCG for much of its early work. The concern with prices, despite appearing to

[121] Ibid
[122] Ibid
[123] TNA T331/1075, Glover, A, 'Note of a meeting in Sir Douglas Henley's room', 18th December 1974
[124] TNA T331/1075, Copeman, H to Henley, D, 'Cash Limits on Public Expenditure', 16th August 1974
[125] TNA T331/1076, CCG to PCC, 'Cash Control', 19th February 1975
[126] Ibid
[127] TNA T331/1075, Baldwin to Copeman, 'Control of Public Expenditure by Cash Limits', 27th November 1974

be a mundane issue of primarily technical and economic importance, was in fact a fraught political issue which stood as the main obstacle to the introduction of cash limits.

In order to achieve the greatest possible discipline on public bodies' cash expenditure it was first necessary to arrive at a price basis by which to do so. The constant price basis of PESC meant that planning was done in real terms, rather than in terms of cash. As Douglas Henley put it "[m]oney is money, whereas constant prices are 'funny money'."[128]. What was 'funny' about the money that constant prices in the PESC surveys represented is that such money was secured on the basis of volumes, meaning that changes in the price level due to inflation were provided for in order to maintain the real spending enshrined in the plans. Therefore, the cost of price and pay increases were not considered as constraints on actual spending, allowing cash outlays to increase in relation to increasing costs with no offsetting reductions. Current prices, instead, would be based on forecasts for inflation in both pay and prices for the year ahead, and fixed in relation to this. Therefore, a clear financial limit would be set in advance. Thus, Henley argued that fixing limits in current, as opposed to constant, prices would remove "any ambiguity in how much programme managers at all levels will have available to spend"[129]. This would enable cash limits to be presented as a clear ceiling, laid out in financial terms, which would not be breached. Thus, it was argued that for cash control to have the "desired psychological impact, the rules governing the operation of the system would have to be stringent."[130]. This meant that no provision would be made for end-of-year flexibility regarding the carry-over of any over or underspends. Stringency was also expected to be achieved through the very nature of the limit, as this would force programme managers to examine their total expenditures in light of the limits and focus upon offsetting savings, allowing the Treasury an opening to push for economies if the cash limit was in danger of being breached[131]. A further element in achieving

[128] TNA T277/3054, Henley to Wass, 'Cash Control', 28th February 1975
[129] Ibid
[130] TNA T331/1075, 'Note of a meeting in Sir Douglas Henley's room', 18th December 1974
[131] TNA T 354/474, Mr. Anson, 'Background Note', 14th April 1975

stringency – and thus the desired psychological impact – was the stance of cash limits in terms of being either active or passive.

This distinction was introduced in a note penned by the CCG in February of 1975 for submission to the PCC. In this extensive treatment of cash limits, the authors state that in the case of a widespread introduction of cash limits as a form of control, "it would not be possible to conceal the assumptions built into them about future movements of pay and prices."[132] This was a concern largely due to the fact that this would reveal to the public the assumptions being made about pay *prior to* meaningful negotiations with relevant trade unions had taken place, as well as prejudicing 'market' opinion regarding the future stability of the UK economy. As a consequence of this, the distinction between operating cash control as a "'passive' or 'active' instrument of policy" was discussed[133]. The passive approach would entail "the limits being based on the best available estimate of what the economic forecasters believe will happen in practice."[134] The active approach would mean that "the limits might be based on target pay and price levels which the Government was aiming to bring about." The dilemma confronting the passive approach was that such forecasts might become "self-fulfilling because of the reaction of wage demands to price forecasts", gesturing again to the concern around the 'new' inflation[135]. With the active approach, however, the problem was that if "the price assumptions are shaded down, the planned volume levels of expenditure would tend to be under-fulfilled." This would, in essence, mean a cut in public expenditure that was not coincident with a change in policy as such.

The relative merits of the active and passive approaches to cash limits became a central point of discussion for the CCG throughout 1975[136]. The primary concern relating to the passive approach was that Treasury forecasts regarding pay and prices would be made public, thus making the Treasury

[132] TNA T331/1076, CCG, 'Cash Control', 19th February 1975
[133] Ibid
[134] Ibid
[135] Ibid
[136] TNA T331/1078, Couzens to Henley, 'Cash Control Group', 3rd February 1975

responsible for the (in)correctness of such forecasts. The risk was that any price assumptions would stimulate wage demands in advance, given the proclivity of unionised workers to secure settlements in relation to prospective inflation. Furthermore, the Treasury, in publishing forecasts, would certainly appear as pre-emptive of wage negotiations. Therefore, deriving an adequate means of arriving at assumptions in relation to pay and prices became a difficult obstacle to the development of cash limits. This obstacle, far from being merely a technical problem of which indices to use, was "essentially political and psychological"[137] in that wages were seen as particularly responsive to any public statement relating to price inflation[138]. Thus, this central obstacle to the implementation of cash limits was essentially the militancy of the working class and its power in defending its share of wages vis-à-vis prices and private profits.

Given that the passive approach was considered to present the problem of a self-fulfilling prophecy, rendering cash limits "both arbitrary and ineffective"[139], the preference was for an active approach. It was observed by officials tasked with examining the use of cash control by other countries that France, for example, pitched its cash limits purposefully low so as to render budget allocations actively counter-inflationary[140]. However, if cash limits were "shaded down" in such a way, in order to function more as targets than as forecasts, cash limits themselves would be acting as a sort of pseudo-incomes policy. Therefore, officials from the CCG argued that a "clearly defined incomes policy – at least for the public sector – seems to be an essential prerequisite of a system of cash limits covering pay."[141]. They argued that such an incomes policy would require a clear norm for wage increases, allowing the cash limit to be based on this norm as a target. The implication would be that if such a norm was announced, cash limits would be derived on the assumption "that the Government's incomes and prices policy would be strictly complied with."[142]. In the context of such an operation of cash limits,

[137] TNA T277/3054, CCG to PCC, 'Cash Control', 25th February 1975
[138] Ibid
[139] TNA T331/1083, Burr to Jackson, 'Method of Setting Cash Limits', 21st August 1975
[140] TNA T331/1082, Anson to Jones, 'Cash Control: France and Germany', 3rd March, 1975
[141] TNA T277/3054, CCG to PCC, 'Cash Control', 25th February 1975
[142] Ibid

any breach of the pay norm in the case of an excessive settlement would result in "a cut in staff numbers unless alternative savings could be found."[143] Thus, Ministers would be confronted with a dilemma that the PESC system had in the past protected them from. The choice would be to either capitulate to wage demands and face cuts to the service over which they presided, or to resist the claim and defend the volume of the programme. This dilemma was a key aspect of cash limits as a means of 'managing state managers' in the course of rapid inflation in pay and prices.

From this it is clear that cash limits were conceptualised in such a way as to address the problem that "the Government machine and the public have become attuned to the idea that once the size of a programme has been set in volume terms, it ought then to roll forward irrespective of cost."[144] This is clear indication that preliminary thinking around cash limits envisioned that they would intervene on public expectations and confidence about the state of future service provision. In this sense, cash limits sought to address what Bryan Hopkin had argued to the Chancellor, namely that inflation was currently driven by "the existence of confidence in both employers and employed that after the wage increases have taken place sufficient demand will still be there."[145] For Hopkin, a suitable strategy for addressing this would be "a system of instruments […] which would enable us to control the future flow of monetary demand (expenditure in current prices)," which could then be set so "as to produce a flow of monetary demand which, if wage increases were not 'excessive' […] would be sufficient to ensure full employment." He goes on to state that if there "were excessive [pay increases], then there would be insufficient real demand and this would cause unemployment, but the blame would lie on those who agreed the wage increases."[146] Whilst here Hopkin was addressing the macro-economy in general terms and proscribing a restrictive monetary policy which, in the end, he maintained could

[143] Ibid
[144] Ibid
[145] TNA T277/3053, Hopkin, B. 'The Next Stage in Economic Policy', 19th December 1974
[146] Ibid

not be adequately achieved, his conclusions were that the "best we could hope for is an adjustable control which would try […] to reproduce something of the same effect."[147]

Cash limits, in relation to public expenditure, were one such adjustable form of control which could be applied, through current prices, to the real volumes of public expenditure to create the trade-off between pay and employment within the public sector which was seen as having no such mechanism. The "ultimate objective" stated by Hopkin in relation to the economy generally, and inflation particularly, was to "change people's expectations and attitudes"[148]. Cash limits promised a means of doing so within the public sector, primarily in relation to programme managers who would become more "cost-conscious"[149] when making decisions about spending their outlay in an inflationary context. Thus, in a sense, cash limits were designed to make decisions on public expenditure, in the words of Douglas Henley in a letter recommending cash limits to the Chief Secretary, "more businesslike"[150].

From this, cash limits – rather than a technical fix to the issue of a lack of control – constituted what the CCG referred to as "a big change in attitudes – perhaps as great as the change required by the Plowden reform."[151] And yet, the literature concerning cash limits is particularly sparse in comparison to that addressing the Plowden system. Lowe refers to Plowden as a major moment in the "modernisation" of the British state. Cash limits, too, should be considered as a similarly important shift in the institutional structure of the government machine. This time, however, the implication is that modernisation also means explicit financialisation of spending decisions, which threatened to drive volume considerations "underground" or to abolish them all together (Pliatzky, 1982). Such a radical break with past practice would thus require extensive work to bring about. PESC, for instance, was a long-drawn process of conceptualisation, implementation and adaptation over the course of

[147] Ibid
[148] Ibid
[149] T331/1077, Henley to Chief Secretary, 'Cash Control of Public Expenditure', 15th August 1975
[150] Ibid
[151] TNA T277/3054, CCG to PCC, 'Cash Control', 25th February 1975

several years, itself a result of a committee inquiry. Cash limits, however, were not introduced through such a process. Whilst early in the cycle of exploration and conceptualisation of cash control by officials, such questions of implementation certainly arose. The options outlined by the CCG in their first report were between "the introduction of cash limits as a considered and deliberate managerial improvement."[152] This, it was argued, would require "extensive consultation with Departments" as well as the development of agreeable price indices to arrive at current prices for the programmes. The second option was "the imposition of cash limits in the context of a major economic crisis."[153] This was considered to "be easier, in the sense that the inevitable roughness, and the possibility that some programmes might fail to reach their forecast volume, might be more defensible in a crisis situation."[154]

In the event, the second option was the one chosen for the implementation of cash limits, with all the roughness this brought with it. The crisis, for Labour, was one of faltering external confidence in its ability to control inflation adequately, to control its deficits and address the severe imbalances in trade and payments. It was, in short, a crisis of 'market' confidence which itself was a mediation of the crisis of control over labour within the UK. Wage-leadership and the inflationary power of the organised working class was the cause for much concern overseas as well as at home. It is precisely this faltering of confidence, directly resultant from the power of the working class, which the Treasury seized upon in order to impress on the Chancellor – and the Cabinet – the need for a significant shift in policy. This shift was to come in July 1975 with the announcement of incomes policy, which though voluntary, would be buttressed by a battery of weapons, one of which was cash limits. Close examination of this period will reveal further the political dimensions of cash limits in terms of the management of expectations and confidence, namely the confidence of the "market" and the expectations of the workers.

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[152] Ibid
[153] Ibid
[154] Ibid

A revolution in attitudes and systems

As mentioned above, officials tasked with exploring the use of cash limits saw the issue of the price basis upon which the limits were to be based as a major obstacle to effective implementation. To quote the CCG's report to the PCC

"Calculating the cash limits would entail forecasting future movements in prices, and to the extent that these forecasts were significantly wrong (whether too much or too little) spending programmes in real terms could no longer be implemented as planned."[155]

This issue meant that if inflation forecasts were incorrect, the Treasury would itself be culpable for the errors. As the CCG put it, whether the Treasury forecasts corresponded with government policy, "they would generally be regarded by the public as such," thus undermining not only Treasury credibility but that of the Government[156]. This would in turn lead to mitigating changes to the cash limits being demanded by departments, resulting in a situation where if the government were to capitulate, they would be seen to have lost "their nerve" meaning that "the credibility of the system for future years would be seriously prejudiced"[157] Cash limits, in order to be impactful, needed to be presented "unmistakably" as hard limits which departments could not breach[158]. If the limits did not appear credible, say through revisions to the limits considering unexpected increases in costs, their psychological impact would be undermined and the game of "bluff" which cash limits ultimately represented would be called by departments[159]. Whilst it was admitted that such a game of bluff "was less than a rational tool of management,"[160] the main contribution of cash limits as financial constraint was "a general propaganda effect than a clear mechanical one."[161] Thus, the credibility of forecasts was important for the so-called propaganda effect to achieve the desired "psychological impact" on

[155] Ibid
[156] Ibid
[157] TNA PREM16/794, Hunt to Prime Minister, 'Cash Limits' 20th October 1976
[158] TNA T 331/1078, Baldwin to Henley, 'Cash Control Group', 5th February 1975
[159] TNA T331/958, Henley to Baldwin, 'Expenditure on Public Sector Pay', 27th January 1975
[160] TNA T277/3054, CCG to PCC, 'Cash Control', 25th February 1975
[161] Ibid

programme managers within the state machinery, as well as upon workers in central and local government and the nationalised industries.[162]

Thus, the problem confronting the implementation of cash limits was twofold. One, credible forecasts were required for arriving at the price and pay assumptions built into the limits[163]. Second, such assumptions could not be seen to be purposefully underestimating inflation so as not to prejudice Treasury control. The Treasury required, therefore, an unambiguous figure for prices and pay which were also not directly attributable to the Treasury. In this sense, the Treasury preferred a pay norm and price target set by the government, to reliance upon their own internal forecasts[164]. Utilising government targets for pay and price had two beneficial consequences for the Treasury in devising cash limits. Firstly, it meant they did not have to claim responsibility for assumptions about pay and price, which alleviated the problem of making such assumptions public (since they would already be public if announced by government as part of an explicit counter-inflation strategy)[165]. Second, by opting for targets rather than forecasts there was increased scope for genuine reductions in the volume of public expenditure[166]. The reason was straightforward: whilst a forecast aims for accuracy, a target aims for a desired goal which, in the 1970s, was a lower rate of cost and price inflation. Therefore, basing cash limits upon a norm for wages and a target for prices meant that if government targets on these fronts were *not* met, offsetting savings or reductions in staffing could be implemented within the public sector as a response[167]. Furthermore, targets would have a greater disciplining impact in relation to wage negotiations, as it would be clear that any excessive settlement outside of

[162] TNA T331/1075, Glover, 'Note of a meeting in Sir Douglas Henley's Room: Extending control by cash limits', 19th December 1974

[163] TNA T331/1077, HM Treasury, 'Note of a meeting of Permanent Secretaries to discuss Cash Control', 6th August 1975

[164] TNA T371/90, Court to Anson, 'Minutes of meeting of Interdepartmental Group on Cash Control', 20th June 1975

[165] TNA 371/90, Court to Jones, 'Interdepartmental Cash Control Group: Main points made at the meeting on 17 June', 18th June 1975

[166] TNA T331/1078, Cash Control Group, 'Minutes of a meeting' 10th January 1975

[167] TNA T331/1075, Glover to Anson, 'Cash Limits' 3rd January 1975

a defined norm would be met with the demand for economies to be made or lay-offs of staff[168]. This would create "the right amount of uncertainty" in the minds of programme managers in terms of what would or would not be subsidised by the Treasury in response to pay and price increases[169]. This, therefore, would aid "financial discipline" by encouraging restraint and "keen purchasing"[170].

This problem around price indices was much alleviated when, in July 1975, the government announced a new phase of voluntary income restraint based on a 10 per cent norm for wage increases in the year 1976-77 (Taylor, 1987). This norm was deemed necessary in order to return price inflation to single figures by the same year. The announcement of the incomes policy was accompanied by the announcement by Healey of the use of cash limits to control public sector wages and public expenditure more generally. The context of the announcement of a new incomes policy and the commencement of the "Attack on Inflation" was a not insignificant slide in the value of sterling around the end of June, which was seized upon by the Chancellor and Treasury officials as a means of forcefully urging a change in policy[171]. As has been noted above, the desire to shift policy direction preceded this supposedly incipient sterling "crisis" by many months, and there is reason to believe that the slide in sterling was not a threat to the UK economy. In fact, based on primary evidence, both officials in the Treasury, along with the Chancellor, felt that a depreciation in the sterling rate was necessary in order to boost the competitiveness of British exports[172]. Douglas Wass had commissioned a series of highly secretive exercises (the DELVE exercises) to examine the potential of depreciation, along with several alternative policies designed to augment the competitiveness of British exports and thus improve the balance of payments situation[173]. DELVE had concluded that a number of possible policies, such as import controls or quantitative restrictions, would not be feasible routes towards this

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[168] TNA T331/1086, Glover to Wiggins, 'Expenditure Committee twelfth Report: Cash Control of Public Expenditure, Memorandum by the Treasury' 25th September 1975
[169] TNA T331/1077, Butt, 'Note of a meeting of Permanent Secretaries to discuss cash controls' 6th August 1975
[170] TNA T331/1077, CCG, CCG, 'Cash Control of Expenditure' 13th May 1975
[171] TNA: CAB 128/57/1, 'Cabinet Conclusions' 1st July 1975
[172] TNA T364/17, Robson, 'Note of a meeting held in the Chancellor of the Exchequer's room' 26th February, 1976
[173] TNA T364/7, 'Delve Exercises: implications of alternative policies to improve the Balance of Payments', March 1975-August 1975

end (Wass, 2008). Their conclusion was, in essence, that some depreciation of sterling was required and that an incomes policy was necessary so as to firm up counter-inflationary credibility.

This conclusion was buttressed by international financial opinion. In June 1975 Treasury officials had requested diplomats stationed in Washington D.C. and Europe to canvass financial opinion in response to Britain's economic position. The US diplomat, canvassing opinion from several major financial institutions (both private and state) reported, perhaps unsurprisingly, that much concern centred upon inflation. In his report to the Treasury, Mr. Rawlinson stated:

> The key area in which action is hoped for, not surprisingly, is counter-inflationary policy. There is more interest in the achievement of early and visible results in the price figures than in how it is done, but the great majority of our contacts speak first and foremost of direct action to curtail wage increases. A freeze is frequently mentioned, but less emphasis is put on whether or not it is statutory than on action, which is strong, evident, credible and early. Several of the better informed have urged the importance of the Government itself giving a lead in relation to public sector employees[174]

Similar findings were reported in respect to Europe, albeit with more serious reservations. Mr. McMahon reported to the Treasury:

> I am afraid the most important point that has emerged is a deep scepticism as to the actual effect of announced policies of any kind […] Within this overall scepticism one general point has seemed to emerge which is in sharp distinction to what I believe to be present US reactions: European bankers are much more doubtful about the efficacy of an incomes policy as opposed to action on Government expenditure. There would be almost universal scepticism about any form of voluntary incomes policy. A statutory policy might

[174] TNA T 277/3056, Rawlinson to Barratt, 'Overseas Banking Opinion' 20th June 1975

> carry some conviction, according of course to its details; but there would probably still be a tendency to wait and see how it stood up to tests from individual unions.[175]

Taken together, these reports support contemporary research into the key indicators examined by international financial market actors, who tend to focus rather narrowly on inflation and state deficits. Taken together, these reports seem to confirm such a narrow view from financial opinion. However, what these reports emphasise which contemporary research tends to ignore is that concern with inflation was by no means, in the 1970s, a concern wholly with monetary policy. Rather, what concerned financial opinion was the wage settlements which they saw as driving inflation, and in particular the wage settlements within the public sector which also contributed to the increasing scale of public sector borrowing. What is now considered a monetary phenomenon, in the 1970s inflation appeared in a much more politicised manner as driven by unionised workers both within and outside of the public sector. As such, the response from government – as urged on them by Treasury officials, as well as right-wing politicians and commentators – was intervention in the wage determination process resulting in "period of wage restraint […] lasting perhaps three or more years."[176] Thus, in the 1970s a *politicised* solution to the concerns of inflation was proposed by the Treasury and sought after by sections of international finance.

These opinions were soon to be reinforced by what seemed to be a run-on sterling in late June. Referred to by Donoughue (1987) as a Treasury bounce, and by Dell (1991) as a 'market' bounce, by the close of the month the Chancellor was making apocalyptic arguments in Cabinet about the need for immediate action on wages[177]. These were followed up by meetings with the leadership of the TUC, during which Healey utilised the pressure on the pound as a way of convincing TUC leadership of the need for enhanced restraint in wage determination (Healey, 1989). The Treasury had long been arguing for a policy with statutory powers[178], which was rejected by Wilson and others as unworkable

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[175] TNA T277/3056, McMahon to Mitchell, 'Overseas Banking Opinion (Europe)', 24th June 1975
[176] TNA T277/3053, Wass to Chancellor, 'Economic Policy', 19th December 1974
[177] TNA CAB 128/57/1, 'Cabinet Conclusions' 1st July 1975
[178] TNA T277/3053, Wass to Chancellor, 'Economic Policy', 19th December 1974

considering Heath's failed policies and the subsequent Social Contract with the unions. Wilson personally wrote to Healey in June stating expressly that discussion of incomes policy

> should concentrate realistically on the approach which commanded more support in the Cabinet discussion at Chequers and should not waste effort in analysis of the two options for immediate purposes we effectively discarded; namely, on the one hand, a purely voluntary policy resting solely upon what the TUC can offer and, on the other, deciding upon a statutory policy…[179]

This was against the Treasury, which had maintained that only a strong, statutory policy would look sufficiently credible in the eyes of "foreign" opinion, and as the only means of halting a widespread diversification out of sterling by major holders abroad (e.g., Saudi Arabia, Kuwait and Nigeria)[180]. The dilemma thus confronted was the need for a credible incomes policy but one which did not introduce statutory controls which would have been unacceptable both to the unions and the employers. Wilson put it to the Chancellor that the aim, therefore, was for the government to "develop a policy of its own, which will be voluntary, which will command the maximum acceptance by the TUC and in the country," and which would "be supported by a range of measures […] to encourage compliance with those targets by employers both in the public sector […] and in the private sector."[181] Despite this, it was felt by officials within the Number 10 Policy Unit that the Treasury were still aiming to "stampede" government into a statutory policy, despite opposition from the Cabinet and the Prime Minister. Donoughue and Haines, in a letter to Wilson, suggested the Treasury were using the slide in sterling in order "to bounce the Government along the same old path they have trodden before, with incalculable consequences for the Government and the party."[182]. Whilst the notion of a Treasury bounce is contested, it is certainly true that senior Treasury officials saw a statutory policy as the most likely to be credible to financial opinion. Such credibility would stem from the acceptance of said policy

[179] TNA PREM 16/343, Wilson to Healey, 'Personal Minute', 27th June 1975
[180] TNA CAB 128/57/1, 'Cabinet Conclusions' 1st July 1975
[181] TNA PREM 16/343, Prime Minister to Chancellor, 'Personal Minute', 27th June 1975
[182] TNA PREM 16/343, Haines & Donoughue, 'Letter to the Prime Minister', 1st July 1975

by the organised sections of the working class. Therefore, what mattered was credibility and acceptance by the TUC. In such a context, a statutory policy had little hope of success. However, a voluntary policy would still demand, perhaps more so than a statutory one, government leadership vis-à-vis the public sector. In short, the government would have to lead by example, meaning that any weapon available for securing compliance in the public sector would aid the credibility and success of any incomes policy on a voluntary basis. The one weapon to hand, that had some conceptual and official backing, was cash limits on expenditure.

Healey had in mind the use of cash limits as a buttressing mechanism to the incomes policy. As matter of fact, he posed this possibility to the leadership of the TUC in a meeting in June, where he further stressed the dangers faced by the UK if sterling were to be seriously undermined[183]. In this meeting, contrary to some of his stated positions in Cabinet, Healey was adamant that the government wanted to avoid a statutory policy, but that "there was no dodging the difficult problem of compliance."[184] Towards this problem, Healey outlined the potential use of the Price Code in the private sector to sanction employers who went over the agreed norm, stating that the "counterpart in the public sector might be cash limits set for each employer, with the cost of any excess award coming off other parts of his programme."[185] What this demonstrated was a clear desire to make use of public expenditure control as a means of holding down wages, something that had not been done previously. Most incomes policies up to this point had hinged upon voluntary agreements or statutory guidance (the latter of which had disastrous consequences for Edward Heath's government). However, by way of cash limits a mechanism was available through which downward pressure on wages could be achieved in the public sector. As one Treasury official put it "cash limits are seen as a means of reinforcing public sector incomes policy" meaning that they were "pitched deliberately low"[186]. This meant that control of public expenditure was not something done out of a concern solely for the PSBR but was something

[183] TNA PREM 16/342, 'Note of a meeting in the Chancellor of Exchequer's room', 20th June 1975
[184] Ibid
[185] Ibid
[186] TNA T331/1076, Glover to Anson, 'Cash Control: Comments by CSD', 15th April 1975

which was revolutionised considering the demands of the market for downward pressure on the cost of labour.

Therefore, it is no surprise that Douglas Henley would describe cash limits to the Chief Secretary of the Treasury as "something of a revolution in our whole attitude and systems"[187]. The revolutionary potential of cash limits was that assumptions regarding pay movement could be built into the cash limit for any given year, meaning that wage demands could be pre-empted by cash control. As such, any demands for wages above and beyond what was factored into the cash limits would be heavily resisted and, if such an award was made, offsetting savings would be made elsewhere in the public programme in question[188]. The significance of this introduction of a 'business-like' attitude at the centre of the management of public expenditure cannot be understated. Public expenditure, as part of the post-war Keynesian indicative planning state, was expected to rise in line with GNP, and GNP was predicted to continuously increase by way of demand-management (Clarke, 1988). However, by the 1970s the assumptions undergirding the institutional framework of Keynesian indicative planning had lost credibility. In such a context, the continued increase in public expenditure, set in motion by the PESC process, was undermining the credibility of the management of the economy by the state. The integration of working-class aspirations for higher wages and an ever-expanding welfare state was no longer sustainable in the eyes of the Treasury, as increasing wages was further eroding the competitiveness of British exports upon which economic recovery supposedly hinged[189]. As such, cash limits provided a potential solution. Not only would they provide an appearance of control over public expenditure, but also create a limit wage increases without necessarily appearing as such. Furthermore, and perhaps most importantly, cash limits created a situation wherein working class demands for both higher wages and a higher social wage would now directly contradict each other.

[187] TNA T331/1077, Henley to Chief Secretary, 'Cash Control of Public Expenditure', 15th August 1975
[188] TNA T331/1086, Glover to Wiggins, 'Expenditure Committee twelfth Report: Cash Control of Public Expenditure, Memorandum by the Treasury' 25th September 1975
[189] TNA T364/17, Posner to Wass, 'Economic Strategy', 23rd February 1976

By way of cash limits, therefore, the Labour government managed to have their cake and eat it too. Cash limits allowed the Labour government to pass off incomes policy as voluntary whilst the reality was, within the public sector at least, that incomes could now be reliably pre-empted and controlled by cash limits. In many respects, therefore, it would be a misnomer to consider the incomes policy agreed in 1975-6 as voluntary, at least as far as the public sector was concerned. This achievement of an agreement on incomes policy also aided the Treasury officials who were rightly cautious about launching cash limits in lieu of any public agreement on wage increases. The Cash Control Group had already discussed the difficulty of making assumptions about pay levels when setting cash limits without a formally agreed incomes policy.

> Calculating the cash limits would entail forecasting future movements in prices, and to the extent that these forecasts were significantly wrong (whether too much or too little) spending programmes in real terms could no longer be implemented as planned[190].

Thus, the Treasury knew that the use of cash limits as control over expenditure would entail "disclosure of the pay and price assumptions on which it was based" and that such disclosure "would be embarrassing and would be better avoided"[191]. If any such pay assumptions were made public, the fear was that the trade unions would immediately dissent and see this as a challenge, as a form of bureaucratic overreach which was negating their right to collective bargaining. In such a circumstance, the unions would simply see the assumptions on pay levels as a target or as a minimum, rather than as a limit. In this sense, the agreement of a voluntary incomes policy with the trade union movement marked the perfect opportunity for the implementation of cash limits, as any assumptions surrounding pay could be based on publicly accepted policy commitments, rather than on Treasury assumptions. Furthermore, the imposition of cash limits not only allowed for a firm ceiling to pay negotiations with public sector workers, but also made the demand for higher wages *and* increases in

[190] TNA T277/3054, CCG to PCC, 'Cash Control', 25th February 1975
[191] Ibid

the social wage essentially incompatible. If public sector workers wished to push for a pay increase above what was allocated within the annual cash limit, the Treasury made clear that offsetting savings would need to be found elsewhere. This trade-off formed much of what was described as a more businesslike system for managing public expenditure. Thus, the axiomatic principle of this revolution through cash limits, was, as Hall argues, a simple one:

> Whatever the actual rise in prices, whatever the actual need for services and workers to provide them, no more money [would] be forthcoming. The political conflicts between the real level of services and public sector pay, on the one hand, and the amount of finance available, on the other, are thus automatically resolved in favour of finance: the workers and the public have to fit in as best they can (1983: 51).

This point was echoed by the Chief Secretary of the Treasury, who stated that cash limits would mimic the way private companies would "go bust if they pay too much" in terms of pay and prices[192]. Cash limits then, were an attempt to place a limit where before there was none. As the state could not "go bust", a mechanism that would produce an analogue to such a situation was required, an internal limit which was the conceit of state managers.

It is in this sense that one can understand cash limits as a form of depoliticisation. In Burnham's (2001) paper on depoliticisation, he states that the adoption of "binding credible 'rules'" form a key element of depoliticised governing regimes. Such rules, whilst themselves a result of policy decisions made by state managers, are designed to constrain discretion when it comes to decision-making. Cash limits are a near paradigmatic case of such a system of rules. Given that PESC allowed for additional public expenditure to meet any increases in pay and prices, cash limits were devised to create a credible rule which would prevent this. This rule, whilst developed domestically and enforced by political will, was presented as a technical fix which would restore credibility to the public expenditure system in the

[192] TNA T331/1077, Chief Secretary to the Treasury, 'Extract from Chief Secretary's Evidence to the Expenditure Committee', 19th May 1975

UK, both domestically and internationally (particularly in light of international financial skittishness at both the PSBR and wage levels in the UK). Cash limits could then be used as a dispassionate means of resisting any such increases in public expenditure by reference to the rule itself, rather than by reference to any substantive discussion as to the appropriate levels of public expenditure, in essence depoliticising the issue.

Concluding remarks

This chapter has demonstrated the motivating factors undergirding the introduction of cash limits. Discussion was given to the concerns surrounding inflation and absence of incomes policy, and the impatience of senior Treasury officials with the Labour government's progress on these issues. The work of the Cash Control Group was then examined and through their discussions on cash limits, the intentionality of state managers in introducing them was gleaned. Through this empirical examination, the orthodox account of the necessity and purpose of cash limits is disturbed. Instead, what comes across is a concern with issues much broader than simply 'control' over public expenditure. Instead, what is seen is a preoccupation with wages and the perceived credibility of the British economy to international financial opinion. As such, it becomes possible to place the discussion of cash limits within a political economic perspective, wherein their significance becomes clear. Rather than simply a technical fix to a breakdown in the PESC system, cash limits were instead seen as a revolutionary means of making the management of public expenditure more 'businesslike'. As a credible binding 'rule' they sought to depoliticise public expenditure and render it an exercise in meeting targets rather than meeting social need.

The following chapter will examine the effects of cash limits in their initial implementation and will reveal the impact of cash limits in terms of levels of public expenditure. It will be shown that cash limits had an immediate and significant impact on levels of public expenditure, resulting in the emergence of underspend across departments.

Chapter 5 – The Success of Control?

The first year in which cash limits were operative was 1976-77. In order to assess the impact of cash limits, therefore, it is important to examine the uptake of cash limits in the first year of their operation, as well as their performance as a control mechanism in subsequent years. For the time being, then, the focus will be on cash limits as a form of control over public expenditure and whether the desired financial discipline was achieved through the imposition of the limits. To this end, it is useful to return to Thain and Wright's (1995) work on cash limits.

The phenomenon of underspend: fortuitous accident or intended consequence?

In their discussion of cash limits, Thain and Wright (1995) argue that their imposition signalled a fundamental shift in public spending. They suggest that through cash limits, the Treasury achieved the institutionalisation of an 'underspend' norm as opposed to the 'overspend' norm of previous years. What this means, in essence, is that after cash limits were introduced it became typical for departments to spend less than their limit, whilst previously departments would often spend more than what was budgeted for them in the PESC process. Thus, before 1976-77, it was more common to encounter excess spending by the mid-1970s, due in no small part to pay and price changes resulting in a bid for extra funding later in the financial year. Such bids for extra funding abrogated financial discipline. This meant that, for the Treasury, a key determinant of the success (or failure) of cash limits was their ability to prevent overspending by departments[193].

Thain and Wright (1995) demonstrate a clear emergence – as a consequence of cash limits – of what they call the underspend norm. They document how there had been only two registered cases of overspend in the years between the introduction of cash limits in 1976 and the time of their writing (1995: 354). They go on to outline how underspend had become a consistent phenomenon, with more than 80 per cent of cash blocks being underspent each year, with between a quarter and a half of

[193] TNA T331/1076, Henley to Wass, 'Cash Control', 25th February 1975

these being underspent by 2 per cent (between £1-10 million) (Thain & Wright, 1995: 354). For Thain and Wright, this consistent aggregate underspend demonstrates conclusively that cash limits were established as firm limits, rather than targets, and that the financial discipline the Treasury hoped cash limits would bring had been achieved relatively early into the life of cash limits.

Thus, one might ask, what is left to discuss vis-à-vis the success of cash limits? It is empirically evident that financial discipline had been achieved from 1976-77 onwards (see Thain & Wright, 1995: 355). Whilst this is clear, it is important to probe more deeply. Descriptive analysis may be able to show whether an underspend norm had in fact been achieved, but it cannot answer questions of *intent*. Thain and Wright recognise this limitation, stating

> What is much less certain [than the incidence of underspend] are the causes of the underspending. Here the issue is the extent to which the Treasury has directly or tacitly encouraged underspending by central government departments. The Treasury admits only that it has acquiesced in that underspending. It rejects the notion of a tacit underspending norm… (1995: 359).

Thain and Wright did not have access, in 1995, to the documents pertaining to the conceptualisation, introduction and initial monitoring of cash limits that this thesis can now draw upon. Thus, this chapter treats the above uncertainty as a research question, asking 'to what extent did the Treasury encourage, directly or tacitly, underspend through the implementation of cash limits? What does this say about the Treasury's motives for developing cash limits?'. These questions will be answered below with reference to primary documents from the Treasury (and elsewhere when appropriate). Firstly, it is necessary to briefly outline, for context, the architecture of monitoring and maintaining cash limits as established in 1976-77.

The monitoring of cash limits and the visibility of underspend

The responsibility for ensuring that cash limits were stuck to, and treated as limits and not targets, fell naturally to the Treasury, who monitored the majority of cash limited expenditure. The CSD also had remit over certain cash blocks pertaining to manpower and administrative costs (Lowe, 2011). Thus, monitoring and intervention was a joint venture embarked upon by the Treasury, the CSD and the responsible departments.

The implementation of cash limits in 1976 required that the Treasury closely monitor, as best as possible, the actual spending of departments throughout the year. To do so, departments were requested to produce 'profiles' of expenditure for the year, which would outline the department's anticipated spending (its pace and extent). These profiles were developed by departments and given to the Treasury, who would monitor spending monthly to determine the performance of expenditure relative to the cash limits in place[194]. The purpose of such close monitoring, as one senior civil servant responsible for the monitoring of cash limits put it, was so that early detection and intervention of possible overspend could be detected[195] . Even initially, it was the avoidance of overspend that was the driving concern of the Treasury and CSD in monitoring departmental expenditure.

This system of monitoring monthly expenditure by way of comparing outturn to departmental profiles was known as the Forward Information System (FIS), which enabled early detection and intervention to curb any potential overspend[196]. This system was introduced along with cash limits as a necessary supplement to controlling expenditure and was a major step forward in expenditure monitoring (Lowe, 2011). Rather than quarterly reports, the Treasury could now keep tabs on expenditure on a monthly basis[197]. Unlike the PESC years, where the Treasury depended entirely upon departmental reports on expenditure for each quarter, the new FIS enabled the Treasury a great deal more information on the money *actually* spent by departments throughout the year(Lowe, 2011). Along with this, monthly

[194] Select Committee on Public Accounts, 'Third Report from the Select Committee on Public Accounts: Cash Limits', 23rd March 1977, Ev. 438-9
[195] Ibid
[196] TNA T371/90, Copeman to Anson, 'Cash Control and Financial Information Systems', 29th May 1975
[197] TNA T371/34, Aldred to Butler, 'Minutes of a meeting: Monitoring Cash Limits' 16th December 1975

reports on the performance of each cash block were compiled and circulated, enabling an overview of the performance of cash limits as a mechanism for control[198].

As it turns out, such information on spending against profiles would prove particularly useful for the Treasury when navigating the IMF bailout negotiations of 1976, an event which cuts across the first year of operation of cash limits. It is important to examine this event, as it gives an early indication of Treasury thinking on the success of cash limits and their attitude towards underspend.

The IMF and the operation of cash limits

The 1976 IMF bailout has been the subject of a great deal of academic debate and discussion, so the details need not be recapitulated here. However, a short summary of the events is necessary to contextualise the discussion of cash limits in relation to the IMF 'crisis'.

The IMF bailout of 1976 was precipitated by a significant fall in the value of sterling in the context of severe inflation (Burk & Cairncross, 1992). However, what the IMF crisis confirmed was that there were a constellation of macroeconomic problems confronting the British state at the time. Britain's economy was increasingly uncompetitive, facing continual pressures on its terms of trade and balance of payments (Burk & Cairncross, 1992; Clift & Tomlinson, 2008). Inflation was at an all-time post-war high, with both prices and pay accelerating significantly. Sterling, for years an international reserve currency, was facing mounting pressure from the oil-producing states, whose massive growth in funds had already created global financial instability (Ludlam, 1992). Domestically, the downward pressure on sterling was seen as a loss of confidence in British state management of the economy. Fiscal and monetary policy came under fire as exacerbating an inflationary situation, further eroding confidence (Burke & Cairncross, 1992). In short, all dimensions of state policy at the time came under scrutiny. Fiscal policy was seen to be too loose; wages were seen to be out of control; the British economy insufficiently competitive; and sterling over-valued.

[198] Ibid

Denis Healey had long been arguing in Cabinet for a reduction in public sector borrowing as a means of freeing up resources for export-based recovery (see Ch. 2; Clift & Tomlinson, 2008). He had often invoked the danger confronting sterling as a consequence of continued inflation and public borrowing, and the days leading up to the IMF bailout confirmed his fears that a run-on sterling, once started, might be difficult to halt. In Healey's mind, whilst sterling was indeed overvalued, a significant drop in its value due to a massive sell-off of sterling by oil-producers would create a hyper-inflationary situation. Thus, for Healey, recourse to the IMF was a sound option that would help steer the economy towards recovery (Rogers, 2009b). Politically, an application to the IMF was also advantageous, as it would provide international recognition of Healey's attempts to reduce necessary borrowing by curtailing public spending, combatting inflation and rebalancing the economy (Clift & Tomlinson, 2008). In a sense, therefore, application to the IMF was an opportunity to be grasped out of a crisis; namely, it would help halt the run-on sterling, would give international recognition to Healey's domestic policies, as well as enable the USA to stave off a deeper international monetary crisis (see Ludlam, 1992).

Of course, a major feature of the IMF crisis of 1976 was the much-discussed conditionality attached to IMF assistance (Clift & Tomlinson, 2008). For the IMF, Britain's high PSBR was cause for concern related to the government's supposed 'loss of control' over the domestic economy (Burke & Cairncross, 1992). Public expenditure, therefore, formed one of the "four areas of contention" between the IMF and the British government (Clift & Tomlinson, 2008: 562). The other three were the exchange rate (with divergent opinions on the (de)merits of depreciation); trade restrictions to which the IMF were deeply opposed, but which were being argued for by the likes of Benn in Cabinet; and monetary policy and domestic credit expansion (Clift & Tomlisnon, 2008: 562). It was around these issues that certain form of conditionality attached to funds would most acutely emerge. For the purposes of this chapter, it suffices to mention that regarding public expenditure the IMF wanted to see significant reductions as a means of containing borrowing. This was in line with Healey's preferences relative to public expenditure. Healey, in a meeting with Witteveen had stressed the role cash limits would play in

controlling expenditure in line with the IMF's concerns (Clift & Tomlinson, 2008). Therefore, discussion of the success of cash limits would come to form an important element in the negotiations with the IMF.

It is in the context of discussing public expenditure that cash limits were raised with the IMF. The Treasury, when giving evidence to the IMF on the measures taken to contain public expenditure, made much of the new system of cash control which had only recently been introduced and in which the IMF expressed interest. The Treasury furnished written answers to a number of questions put to it by the IMF on a range of macroeconomic concerns. Amongst these questions, there were ones pertaining directly to public expenditure and cash limits. In total, the IMF provided the Treasury with a list of twenty-two questions concerning the economic situation of the UK at the time. These were circulated by the Treasury in October of 1976. In particular, one question under the heading 'Financial developments and policies' related explicitly to cash limits, reading

> Please assess the experience to-date with the operation of the new system of cash limits. To what extent are the cash limits likely to reduce the volume of public expenditure in 1976/77 below the level planned in the April 1976 Budget? Are any such reductions likely to be carried forward to the next fiscal year? Are there any compensating changes in other items of public expenditure not subject to direct cash limits, in particular, expenditures by the local authorities? What are the total expenditures to-date in 1976/77 out of the contingency reserve?[199]

Responsibility for answering this question was given to the General Expenditure Control Division (GEP2) of the Treasury, under the eye of Mr. Beesley. The answer furnished to this question gives some insight into the Treasury's knowledge of, and concern with, underspend. In their final answer to this question, GEP2 stated that whilst it was too early to give a definitive assessment, they considered that the experience of cash limits in the first six months had "been generally favourable". They then go on

[199] TNA T371/24, HM Treasury, 'Annex A: United Kingdom: Preliminary List of Questions', 13th October 1976

to mention the operation of the FIS in providing monthly figures, and that these figures so far did "not reveal any general tendency to overspending." They then go on to answer the question as it related to reductions in volumes, stating that

> The cash limits seem likely to lead to some shortfall in the volume of the expenditure covered by them, compared with the level assumed when they were set; but at this stage it is difficult to give a precise estimate. Prices have generally risen faster than was assumed when the cash limits were fixed. The amount provided for pay, on the other hand, was determined by reference to the pay policy and hence is not affected[200]

So, after only six months of operation the Treasury foresaw shortfall due to the operation of cash limits, and that such shortfall constituted part of the "generally favourable" operation of cash limits up to that point. The above answer also reveals how such a shortfall had come about, namely that inflation projections built into the revaluation factors for cash limits had underestimated price inflation to a considerable degree. Further, it is evident that the tricky question of pay and cash limits had largely been satisfactorily dealt with by way of the incomes policy that the government had introduced. However, GEP2 did not stop at this general assessment. Instead, they go on to further elaborate on shortfall, stating the following

> …one can make a theoretical estimate of the possible volume reduction by recalculating the cash limits with revaluation factors derived from the latest price forecasts, and comparing these with the actual cash limits. On that basis it would appear that the volume reduction could be of the order of £200-250 million.[201]

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[200] TNA T371/24, GEP2 Division, 'IMF: United Kingdom Consultations November 1976: Answer to Question No 13', 29th October 1976
[201] Ibid

What this demonstrates is that the Treasury were aware, even at an early stage, of the possibility of shortfall emerging as due to cash limits. What is more, it is also conceded that such shortfall might be due to an underestimation of price inflation built into the cash limits at the beginning of the year. It should be borne in mind that the White Paper wherein cash limits were introduced stated that cash limits might be revised if inflation turned out significantly different from estimates used in the revaluation factors by which the cash limits were derived. However, in their response to the IMF, GEP2 further states that "[n]o relaxation [in cash limits] will be conceded until every possibility of absorbing or offsetting the additional costs has been fully explored. The general intention is to abide by the existing cash limits, with only such minor exceptions as may prove necessary."[202] This represented a significant tightening of the policy compared to the version presented in the White Paper[203] on cash limits, and clearance for such a policy change was given only days prior after the matter was pushed by the Treasury and its ministers in Cabinet. This change of policy was provided to the IMF before any public statement by the Chief Secretary was made.

Underspend and the tightening of cash limits policy

This projected underspend and the resultant decision to tighten policy in response to it, is significant in answering the outstanding question as to whether the Treasury implicitly or otherwise encouraged underspending. A major component of underspend, as recognised in an early report on the operation of cash limits, was what is termed volume shortfall. Such shortfall occurred because of a disparity between projected inflation used to derive the cash limits and the actual inflation experienced. As early as October 1976, GEP2 was aware of this disparity, stating in an early report on the monthly performance of cash limits, that

> …the price indices used for the non-pay, non-construction elements of cash limits are on average about 3% higher over the two years 1974/5 to 1976/7 than those used to set the

[202] Ibid

[203] Cash Limits on Public Expenditure (Cmnd. 6440)

> cash limits… Outturn figures for the second quarter of 1976 show that the overall revaluation index was about 1% up on that assumed in cash limits. This factor movement in prices should have started to show up in expenditure figures by now. That it has not done so indicates that the majority of blocks are substantially underspending on volume…[204]

The significance, therefore, of the decision to tighten cash limit policy in response to shortfall and underspend is instructive in understanding whether underspend was indeed encouraged by the Treasury. In light of knowledge concerning underspend due to an underestimation of inflation, the response as set out in the White Paper introducing cash limits stated

> If the rate of inflation were to turn out substantially higher or lower than that which has been allowed for, the Government would have to take stock of the position in light of all the circumstances of the time. But spending Departments will not be able to rely, as they have in the past, on supplementary provision if this would take their total provision for the year beyond the cash limits[205]

However, in light of the initial experience of cash limits and the clear underestimation of inflation by the Treasury, a Treasury civil servant stated in a letter that changing cash limits to reflect actual inflation would be "dangerous" and instead what was needed was "a firm and authoritative statement that Departments are not going to get more than their cash limits"[206]. The Treasury thus began drafting statements for the Chancellor which would express the government's determination to make the cash limits stick. In a letter to Mr. Pliatzky, a senior civil servant stated

> Departments are being told for the first time that they must plan on the basis of no more being forthcoming for general price increases. This tightens up on the provisions in the

[204] TNA T371/387, GEP2 'Cash Limits 1976-77: Voted Expenditure April-Sept 1976', 27th October 1976
[205] Cash Limits on Public Expenditure (Cmnd. 6440)
[206] TNA T371/147, Hansford to Sharp, 'Observance of 1976-77 Defence Cash Limit', 17th June 1976

> Cash Limits White paper and can only strengthen our hand on existing bids for cash limits increases[207].

This was later echoed by Ian Beesley, Second Permanent Secretary, and head of GEP2, who expressed dismay at any notion that a breach in cash limits was inevitable, arguing instead that key divisions within the Treasury needed to "be very keen to ensure that Departments are thinking in cash terms"[208]. Thus, a decision was taken to put it to the Chancellor that a public statement needed to be made to announce the tightening of cash limits in response to faster than expected inflation. A minute was sent to the Private Secretary of the Chancellor, written by Mr. Jones (a Treasury official), providing a draft statement that could be used in a public statement or debate[209]. This draft statement sought to explicitly rule out "the possibility of increasing the cash limits to take account of a higher rate of inflation than was allowed for when the limits were fixed."[210] This statement was agreed by the Chancellor; however, the Prime Minister was reticent to agree such a tightening of policy without going through full Cabinet first[211]. Joel Barnett – Chief Secretary of the Treasury – agreed with this approach, putting to the Chancellor that "we must be careful to avoid accusations from spending Ministers that we misled them into accepting levels of Cash Limits which they would not have accepted if we had said the limits would not be raised 'even if the general price level rises more than was allowed for'."[212] In conclusion, Barnett argued that if "we are to prevent charges being made of attempting to 'bounce' our colleagues, I think it is important to clear the new line either in Cabinet or Cabinet Committee"[213].

Thus, the "new line" was put to Cabinet for collective agreement on the 21st October[214]. In the meeting, a memorandum from the Chancellor outlining the case for toughening cash limits was discussed. In summing up, the Prime Minister stated that due to "the high level of the public sector borrowing

[207] TNA T371/147, Jones to Pliatzky, 'Chancellor's Statement: Cash Limits', 6th October 1976
[208] TNA T371/147, Beesley to Anson, 'Observance of 1976/77 MOD Cash Limit' 17th June 1976
[209] TNA T371/147, Jones to PPS Chancellor of Exchequer, 'Cash Limits', 6th October 1976
[210] Ibid
[211] TNA T371/147, Pliatzky to Isaac, 'Economic Debate – Public Expenditure', 8th October 1976
[212] TNA T371/147, Barnett to Chancellor of the Exchequer, 'Cash Limits', 6th October 1976
[213] Ibid
[214] TNA T371/147, 'Conclusions of a Meeting of the Cabinet, 21st October 1976

requirement, it was clearly necessary to take a firm stand"[215]. Agreement was therefore secured, though the public statement would have to wait until early November.

What, therefore, is the relevance of all of this? How does this assist in answering the outstanding question raised by Thain & Wright concerning the intentionality of underspend under the operation of cash limits? At this point, it is possible to provide a tentative answer to this question. It seems, from the above, that Treasury ministers and officials did not think that underspend was something that should have been corrected. On the contrary, it had become clear by October of 1976 that the revaluation factors used by the Treasury to calculate cash limits for 1976-77 underestimated inflation, creating pressures to underspend so that a breach of cash limits did not occur. In response to reasonably reliable information demonstrating this, the response of the Treasury was not to re-assess them, but to "make cash limits stick", full in the knowledge that due to higher than anticipated inflation there would be significant shortfall and thus underspending[216]. At this point, therefore, it is clear from the documentary evidence that the Treasury quite explicitly encouraged underspending by tightening cash limits policy after only six months of operation. Furthermore, according to answers given to the IMF, it seems that the Treasury was indeed hopeful that underspend would further contribute to the controlling of the growth of public expenditure. Taken together, the impression is that the Treasury were more concerned with making cash limits stick than they were with any underspend which had been, in essence, forced by cash limits. Such shortfalls therefore emerged as a consequence of administrative fiat and were then reinforced by ministers.

The continuation of underspend

By March 1977, 98 per cent of the cash limit total for the year 1976-77 had been spent[217]. At this point in time, it was possible for the Treasury to look at underspend as a whole for the year. In a report on central government blocks, it was noted that underspend had been £614m (around 2.6 per cent of

[215] Ibid
[216] TNA T371/147, Anson to Barnett & PPS Chancellor of the Exchequer, 'Cash limits', 15th October 1976
[217] TNA T371/387, GEP2, 'Cash Limit Monitoring: April 1976 – March 1977', July 1977

central government spending), and that the main areas which had been underspent were Employment, Defence, Industrial development, Motorway construction, Overseas aid, and Northern Ireland[218]. The only block that was overspent was under the Department of Health and Social Security. For the year in question, the revaluation factors used to set cash limits for price rises on pay and non-pay elements was 32 per cent, whilst actual price rises stood at 37 per cent, meaning that inflation assumptions were considerably lower than actual inflation[219]. In terms of the respective elements, pay and non-pay, pay performed very well as the government's incomes policy was widely observed. The main sources of inflationary pressure were from prices for necessary goods purchased by departments. This is worth remarking upon, as an early concern and object of cash limits was to help reinforce pay policy. In this, they seemed to be successful. Cash limits were also deemed successful in the sense that breaches of the limits had not occurred, and any considerable overspend had both been anticipated and corrected by way of offsetting savings, and further absorbed into the aggregate underspend across all cash blocks[220]. Thus, the first year of cash limit operation seemed a considerable success for the Treasury, and a significant step forward in winning back control over public expenditure.

That being said, there is an important caveat in terms of assessing the success of underspend. Whilst it is tempting to state that underspend was due, simply, to successful control it was also possible that the profiles to which spending was examined were in the first instance incorrect. This would mean that departments had over-estimated their spending for the year, meaning that actual outturn would emerge as 'underspend'. This was a concern for the Treasury and was discussed in questioning by the Public Accounts Committee. The Treasury were aware of this concern and continued to work with departments to ensure that profiles were indeed accurate. Furthermore, the overall consistency of underspend casts doubts upon the notion that underspend was due to profiles being overestimated. As Thain & Wright (1995) helpfully demonstrate, underspending continued into 1977-8 and 1978-9. In

[218] Ibid
[219] Ibid
[220] Ibid

1977-8, underspending was again 2.6 per cent for central government blocks and was 1.5 per cent in 1978-9. This underspend, though varying in size, would continue to be a constant feature of public expenditure well beyond the life of the Labour government, meaning that it was unlikely that it was primarily a result of any overestimation of spending by departments.

What further casts doubts upon the notion that underspend was due to a misalignment of profiles and actual spending is the unexpected, and quite phenomenal, success of cash limits in restraining local authority expenditure. In the early discussions on cash limits, constraining local authority spending was considered a difficult, perhaps intractable, goal. However, during the first years of cash limit control over capital spending and upon the RSG for local authorities, underspending also occurred.

Though Thain & Wright (1995) do not have figures for the 1976-77 underspend of local authorities, from monitoring reports for the year, this area also saw underspend on the majority of its blocks.

Given that underspending was occurring once more in the year 1977-78, it is instructive to examine attitudes towards its continued existence. Mr. Rawlinson, Second Permanent Secretary to the Treasury and assuming responsibility for controlling public expenditure, remarked in a letter to a Treasury division that

> underspending is subject to an overriding consideration: respect for cash limits as limits, not to be exceeded, is an objective of higher priority, to which action to counter underspending is subordinate. There can be some circumstances in which some overspend is not necessarily blameworthy, but the presumption is against it… Modest underspending reflecting an appropriate prudential margin in managing programmes against cash limits is unobjectionable.[221]

<u>Cash limits as limits: Inflation and shortfall</u>

[221] TNA T371/388, Rawlinson to COGPEC Members, ‘Treasury attitude to underspending against cash limits’, 24th October 1977

As can be seen from both primary documents and existing secondary literature (i.e., Thain & Wright, 1995), underspend became a consistent feature of public expenditure within the cash limits system throughout the entire period. Furthermore, it appears from the primary documents that Treasury officials anticipated underspend and even considered it a positive feature of the cash limits system, particularly when considering the endemic and persistent problem of overspend which was characteristic of the PESC system[222]. However, to fully address the issue of underspend, it is necessary to examine the exact mechanisms by which this was achieved. To do so, a distinction between underspend and what is termed 'shortfall' must be made and clarified. In doing so, it will be further discovered that due to the phenomenon of shortfall being the major component of underspend, that cash limits effectively translated into a cut in expenditure for most departments without being acknowledged as such. A cut, typically, is determined by government and thus accounted for explicitly as a reduction. However, shortfall is seen as the consequence of cash planning in the context of a volume-based system (PESC) in an inflationary situation. Examining shortfall enables one to see the real significance of cash limits as an effective depoliticised means of constraining public expenditure without an explicit change in policy direction set out by the government.

In discussing a draft monitoring report on cash limits for 1976-77, Treasury officials set out clearly the distinction between 'shortfall' and 'underspending', so it will be useful to start here in discussing the two distinct but related phenomena.

> …the term 'shortfall' would only be used when referring to volumes, and 'underspend' when referring to cash expenditure.[223]

Shortfall, therefore, was a phenomenon which occurred due to the awkward co-existence of the PESC system with cash limits. As discussed in Chapter 3, PESC was a volume-based system of expenditure planning, which looked to the expected need for resources (volume) that a programme or department

[222] TNA T277/3054, Henley to Wass, 'Cash Control', 28th February 1975
[223] TNA T371/387, K. Aldred, 'Meeting held on 11 May 1977 to discuss the draft cash limits monitoring report for 1976-77' 11th May 1977

would require. This meant that expenditure was determined by resource considerations which were then translated into constant survey prices. Survey prices, therefore, were based on securing the underlying volume irrespective of increases in the cost of these volumes (whether in terms of prices or wages). Cash limits, on the other hand, were monetary in nature and thus were conceptualised in terms of current prices which would take into consideration inflation for the year. It is plain, therefore, that a discrepancy between volume totals and cash limits could emerge, by the very nature of the prices used for the calculation of each.

It is here, in this discrepancy, where the crux of cash limits as a disciplinary mechanism can be found. Given that cash limits were based on forecasts for inflation in the year ahead, if inflation turned out higher than anticipated it would mean that programme volumes would become too costly to secure without offsetting reductions. Such offsetting reductions might be a halt to recruitment, or a reduction in scope for provision of a service[224]. Therefore, underspend began to emerge in almost all cash limited expenditure because inflation forecasts were often set lower than the actual outturn for prices and wages. Therefore, the cash provided to departments would not be enough to secure the full volume total and shortfall would be experienced[225]. This would exert a strong counter-inflationary attitude in spending departments who were fully aware that if inflation were to run ahead of projections, their spending would need to be reconsidered[226]. Combined with the heavy signalling from the Treasury and the government that cash limits would be made to stick, it starts to become clear that this shortfall was a necessary outcome of operating cash limits in an inflationary context.

As previously argued, the Treasury approached inflation forecasting in a cautious manner. They were acutely aware that forecasting higher levels of inflation may well have been a self-fulfilling prophecy whereby employers and workers targeted that higher rate when considering price or wage increases. Therefore, there was an element of 'targeting' in setting inflation rates and such targets would buttress

[224] TNA T331/1086, Glover to Wiggins, 'Expenditure Committee twelfth Report: Cash Control of Public Expenditure, Memorandum by the Treasury' 25th September 1975
[225] TNA T331/1088, Glover to Anson, 'Public Sector Inflation Assumptions: Cash Limits', 23rd September 1975
[226] TNA T331/958, Henley to Baldwin, 'Expenditure on Public Sector Pay', 27th January 1975

incomes policy and therefore be set at a level agreeable with government. In such a context, volume shortfall was almost guaranteed, as inflation consistently ran ahead of Treasury 'targets'. Thus, the cash limit would begin to bite on the volumes, creating shortfall and therefore underspend[227].

On shortfall and underspend

In the most complete analysis of cash limits to date, namely Thain and Wright's (1995) text, the focus on assessing the success of cash limits has rested upon the attainment of underspend. To recapitulate, underspend occurred when departments spent less cash than allowed for within their cash limit. The consistent and near universal emergence of underspend as a result of the emergence of cash limits certainly demonstrates that programme managers had spent cautiously, conscious as they were of the new system of control and the Treasury's efforts to make the limits stick. Underspend, therefore, stands as a testament to the fact that cash limits had inspired the psychological impact desired by Treasury officials when the system was developed and implemented.

However, underspend – whilst an important part of the story of cash limits – is only one dimension of the impact cash limits had. In order to assess cash limits as effective weapons in the battle against inflation, the category of shortfall comes to the fore. Whilst receiving scant treatment in existing accounts, the scale of shortfall – along with its anticipation on the part of senior Treasury officials – gives a clear indication of the importance of cash limits as a counter-inflationary mechanism.

In discussing a draft monitoring report on cash limits for 1976-77, Treasury officials set out clearly the distinction between 'shortfall' and 'underspending':

> …the term 'shortfall' would only be used when referring to volumes, and 'underspend' when referring to cash expenditure.[228]

[227] TNA T331/1088, Glover to Anson, 'Public Sector Inflation Assumptions: Cash Limits', 23rd September 1975
[228] TNA T371/387, K. Aldred, 'Meeting held on 11 May 1977 to discuss the draft cash limits monitoring report for 1976-77' 11th May 1977

Shortfall, then, is the difference between the price of a programme in constant (survey) prices as contained within the Budget, and the amount that could be bought within the current price terms of cash limits. In essence, shortfall refers to the amount of a programme that could not be bought within the existing cash limits. And the emergence of shortfall would therefore be a result of Treasury inflation forecasts being more optimistic than reality would allow.

As discussed previously, the initial presentation of cash limits included that caveat that they would be revised in inflation for the year turned out to be significantly greater than anticipated by the Treasury when setting the limits. However, over the first year of their operation, inflation turned out significantly higher than accounted for. In 1976-77, the first year of cash limits coverage, the inflation allowed for within all programmes taken together when setting the cash limit was 32.0%, whilst the inflation experienced across all programmes turned out to be 37.0%[229]. Therefore, within the first year the Treasury significantly underestimated actual inflation, resulting in an aggregate shortfall across all programmes of £700m (approx. £3.3bn in 2021 prices). Even for the category of wages and salaries, inflation allowed for in the cash limits was 32.7% whilst the inflation experienced was 35.1% even in spite of the Government's incomes policy[230]. Therefore, across the board, the Treasury had failed to get inflation right.

However, as discussed in previous chapters, this underestimation of inflation was precisely the point when cash limits were seen as weapons in the battle against inflation. For cash limits to be counter-inflationary, they would have to 'bite' into the underlying volume of public expenditure, meaning that shortfall would be a necessary feature of public expenditure under cash limits if their counter-inflationary credibility was to be demonstrated beyond doubt. In this sense, 1976-77 was an incredibly successful year for the operation of cash limits, as it allowed to Treasury to prevent the spending of

[229] TNA T371/387, 'Cash Limit Monitoring: April 1976 – March 1977', July 1977
[230] Ibid

£700m. In effect, such shortfall should be considered a real term cut to public expenditure, albeit one that was essentially hidden from sight.

When taken together with underspend for the year – namely, the amount of cash that was allowed for but which had not been spent by programmes, the aggregate total shortfall for 1976-77 was £1300m (approx. £7bn in 2021 terms). This is a significant shortfall in terms of public expenditure and demonstrates the true scale of 'savings' made in 1976-77 simply by way of the counter-inflationary design of cash limits. Over half of the savings for the year came from the underestimation of inflation, whilst the other came from the caution which seems to have been instilled in the minds of programme managers.

In many respects, this shortfall is even more remarkable than underspend, particularly when considering the counter-inflationary intent behind the introduction of cash limits. Thain and Wright do not appreciate the true significance of shortfall due to their orthodox focus on cash limits as a means of reimposing Treasury control over public expenditure. When one takes a different view, namely that cash limits were a means of introducing a counter-inflationary mechanism into the management of public expenditure, shortfall becomes the true measure of efficacy. And as outlined above, the first year of operation of cash limits can be considered a substantial success; shortfall was significant and due entirely to the fact that the Treasury had set expectations for inflation at a much lower rate than inflation turned out for 1976-77. And as discussed in previous chapters, such an approach should not be considered an 'error' in Treasury forecasting, but rather a feature of the system of cash limits and an inherent source of strength when considering the counter-inflationary impact of them. In short, shortfall was a feature of the system of cash limits, not a defect in the system. This can be seen in the widespread refusal by both Treasury officials and Ministers to revise the cash limits considering higher than anticipated inflation[231]. Given the introduction of FIS, the Treasury had unparalleled knowledge and foresight when it came to public expenditure relative to expenditure profiles, meaning that

[231] TNA T371/147, Jones to Pliatzky, 'Chancellor's Statement: Cash Limits', 6th October 1976

forward knowledge of shortfall was available. This is evidenced in the monthly reports on cash limits[232]. And yet, despite previously stated intentions, the Treasury and its Ministers, in light of higher inflation, decided to tighten policy rather than change assumptions about the rate of inflation.

Shortfall, then, demonstrates the counter-inflationary intent and function undergirding cash limits. What it also demonstrates is that cash limit control, rather than sit harmoniously alongside the PESC system, was now actively supplanting it. As previously discussed, the purpose of PESC was to plan based on the volume of necessary and available resources. One might say that this was the essence of social democratic public expenditure, namely that public expenditure was there to deliver the programmes required by the populace. What cash limits signalled, as early as 1976, was that such a substantial and concrete basis for public expenditure was being eroded in favour of counter-inflationary credibility (Heald, 1983). The Treasury and its Ministers, as well as the Government of the day, were willing to sacrifice the delivery of public programmes in favour of a system which 'automatically' cut expenditure in the context of inflation. This was a clear signal both to international markets and to domestic political actors that the Government was firmly committed – above all else – to tackling inflation and, therefore, ensuring that pay no longer increased at a rate inconsistent with reductions in public sector borrowing and international competitiveness. And again, such conclusions elude the likes of Thain and Wright (1995) due to their focus on the issue of control over expenditure, rather than seeing cash limits in the context of a global economic crisis where the restructuring of state activity needed to take place (Marazzi, 1995). Under the pretext of the IMF bailout, Healey had won the argument about the necessary reduction of the PSBR, as well as the necessity for strict control over the rate of wage increases. Cash limits were how these arguments would come to reality in the public sector (Rogers, 2009b).

[232] TNA T371/34, 'Public Expenditure: cash limits; monitoring expenditure 1976-77', January 1975 – December 1976

The other benefit of the cash limits system is that by way of shortfall and underspend, the Treasury had significantly held back public expenditure without having to announce further austerity policies. Instead, by way of administrative changes which very few members of the public were aware of, public expenditure was reduced by double times the amount of the officially announced public expenditure reductions in response to the IMF Crisis (Hall, 1983; Ludlam, 1992). Such a reduction was not presented to the public as cuts, nor – importantly – were they presented as cuts to the TUC and other unions with whom Labour had agreed a general expansion of the social wage. However, this stealth compression of the social wage by way of cash limiting public expenditure would not go unnoticed for long. In matter of fact, cash limits would contribute to the upheaval of public sector trade unions in the latter part of the 1970s. Not only were these unions at the sharpest edge of incomes policy due to the operation of cash limits, but they were also the most keenly aware of the serious impact which shortfall would have on the social democratic state infrastructure that had been developed since the end of WWII.

The shortfall norm – foreseen and encouraged or fortuitous accident?

To echo Thain & Wright's question concerning underspend, that is whether it was anticipated and encouraged by the Treasury, we can ask the same of shortfall. The answer to such a question would allow one to gauge the degree to which the Treasury anticipated or intended shortfall because of cash limits. The answer to this question, judging from the archival evidence, is unambiguous. As early as 1973, when the Treasury were in the early phases of discussing the idea of extending cash control over public expenditure, the following was noted about the outcome of cash control if introduced alongside PESC:

> "The spending Department would cease to have an agreed physical programme to be achieved regardless of price movements, but would instead have a cash allocation within which it would be expected to live. In practice something like the

> desired result could be achieved by simply denying any further (or only very limited) increases in cost limits…"[233]

It seems rather straightforward to suggest, therefore, that senior Treasury officials were clearly aware of the potential of creating shortfall on volumes if a system of cash control were to be introduced. However, the degree to which this was considered a beneficial feature of a system of cash control, or an unwanted defect, cannot be gleaned from the above. However, as of 1974 Douglass Henley and his team of Treasury officials had developed their thinking on cash limits and quite clearly saw the emergence as shortfall as a beneficial aspect of cash limits

> "If, on the other hand, the forecast incorporated in the determination of the cash limit proved to be incorrect, so that the cash made available was insufficient to pay for the programme in real terms, then again a beneficial discipline would be exercised upon programme managers, on the assumption that the cash limit could be held in face of the pressures that would be brought to bear upon it."[234]

What this demonstrates is that the senior team of Treasury officials who would be responsible for drafting and implementing the system of cash limits were aware of the possibility that shortfall would emerge as a consequence, and that such shortfall would in fact be an example of 'beneficial discipline'. So even at this early stage in development, the Treasury were aware not only of the potential for shortfall but saw it as beneficial. Furthermore, they also clearly understood from that cash limits, if placed alongside volume planning, could have a counter-inflationary impact by suppressing spending in the case of inflation being higher than anticipated. As discussed in Chapter 4, aiming low for inflation, and then refusing to uprate cash limits in the event of higher inflation was not the result of forecasting errors, but was seen as a means of constraining spending. Therefore, it becomes increasingly clear on

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[233] TNA T277/2863, Note by the Secretaries, 'Control of Public Expenditure: Resources or Cash?', 11th October 1973

[234] TNA T331/1075, 'Note of a meeting in Sir Douglas Henley's Room, Extending Control by Cash Limits', 18th December 1974

the weight of the evidence that the Treasury were quite content to forecast inflation at a lower rate than which would occur in the year, insofar as discipline could be maintained and cash limits held regardless.

As discussed earlier in this chapter, the IMF bailout and attendant crisis in the value of sterling presented the perfect opportunity for Treasury officials and Ministers to tighten cash limit policy regarding changes to the limits in light of inflation. Whilst the original White Paper pledged changes in the limits if inflation were considerably out of line with forecasts, the eventual stance of the Treasury and Government was that cash limits should be maintained. The argument was won by way of Healey and Barnett stressing the importance of reducing the PSBR in light of the significant run on sterling which occurred in 1976. Therefore, an under-appreciated dimension of the 1976 IMF crisis was that it was used as an opportunity to tighten cash limits policy and constrain public expenditure in the context of inflation. The result, as mentioned, was that significant sums of public money were not spent due to inflation, which in turn facilitated a change in attitude vis-à-vis public expenditure. The so-called 'revolution in attitudes and systems' appeared to have been a considerable success.

Concluding remarks: Cash limits contra Keynesianism

Whilst the emergence of the underspend norm is significant, the ubiquity and depth of shortfall raises further questions regarding the purpose of cash limits. Shortfall, that is, the disparity between the PESC planned volumes and the cash granted to secure them, demonstrated a clear shift in the purpose of public expenditure away from the Keynesian indicative planning upon which its management was previously based (see Clarke, 1988). The stated intention by Treasury officials was that if a programme could not be fully 'bought' by the cash limit allocation, the onus would not be on the Treasury and Parliament to find and authorise extra spending, but on the Department to make savings. As Henley stated

> the cash limit would not initially be used as a deliberate mechanism for reducing the programme in volume or constant price terms. But if thereafter, as it worked out, some

> of the real content of a programme was in fact lost there would be no automatic adjustment in the following year. The onus would be on the Departments to make a case for the cash allocations for their programmes in each successive survey, taking account of the outturn of previous years in both cash and volume terms.[235]

As demonstrated in this chapter, as it worked out, real content of programmes was in fact lost by way of the imposition of cash limits, with shortfall emerging year on year. Such an eventuality was indeed foreseen and, as argued, considered a beneficial aspect of cash control. What this demonstrates, therefore, is that the rationale of public expenditure management was not to purchase programmes in full according to the indicative planning carried out during PESC. Rather, what was now a predominant concern was financial discipline and the identification of savings as a result of any incapacity of a department to procure the volumes necessary. As such, the directive of public expenditure management became meeting the limits rather than providing the service. The containment of public expenditure took priority over providing necessary resources for the public sector, marking a significant shift in the logic of governance.

As Clarke (1988) argues, the PESC programme was introduced as part of an institutional apparatus of Keynesian indicative planning, which sought to integrate the working class into an ever-expanding market economy. Full employment, consistent economic growth and consequent increases in public expenditure became the norm in the 1960s and into the 1970s. The aspirations of the working class towards greater financial security and the receipt of enhanced public services were integrated into the institutional framework of the capitalist state as a means of maintaining consent for a capitalist society and ensuring that political upheavals were limited to the horizons of capitalist social relations. The PESC system exemplified this compromise, based as it was on constant prices which insulated public expenditure from the negative aspects of inflation. In essence, PESC ensured public expenditure remained inflation proof, and thus crystallised the logic that public programmes were funded

[235] TNA T331/1077, Henley to Chief Secretary, 'Cash Control of Public Expenditure' 13th May 1975

according to their resource requirements expressed in volume-terms. To reiterate Hall's framing, whenever a conflict emerged within the public sector between concerns regarding financing and concerns regarding pay and the real level of services, under PESC the latter considerations tended to win out. However, with cash limits this was reversed; concerns regarding sound finance would of necessity always win out over questions of service provision and pay.

Therefore, the underspend norm and the shortfall norm stand as evidence not only of the effectiveness of cash limits in managing the levels of public expenditure, but also of a fundamental reversal of the logic governing public expenditure decisions. Financing public expenditure now became the paramount concern, with levels of service and of pay subject to these constraints. As Heclo and Wildavsky (1981) warned, cash limits heralded a shift wherein implementation of substantive public policy was no longer the priority for public expenditure management, instead the overriding policy was now the policy of financial restraint and spending within prescribed limits. The notion of working-class aspirations being integrated into the state was being reversed in what could be termed a form of *deproletarianisation* of the institutions of the capitalist state (Bonefeld, 2017: 106-7). Public expenditure would no longer rise to meet the needs of an aspirant worker, but instead would be held back to ensure wage discipline, a reduction in inflation and a reduction in the PSBR. This – in the minds of state managers – would demonstrate the financial credibility of the British economy to external financial actors, and the seriousness of the Labour government both domestically and internationally.

It is in this sense that cash limits can be understood as a means of unmaking the Keynesian indicative planning in the context of a crisis of capitalist accumulation. Given that economic growth was not sustaining the ever-increasing levels of public expenditure, it became increasingly arguable that it needed to be cut back significantly. However, as Treasury officials pointed out, there had emerged an expectation on the part of the public and of programme managers that public expenditure would continue to rise. Labour had done little to expel this expectation, elected as it was on the basis of an

agreement to expand the social wage in return for restraint on incomes. As the government's White Paper 'Public Expenditure to 1979-80' stated

> Popular expectations for improved public services and welfare programmes have not been matched by the growth in output – or by willingness to forgo improvements in private living standards in favour of those programmes. The oil crisis intensified this gap between expectations and available resources. The second problem is that of cost inflation which has become acute in the last few years, and has added an extra dimension of difficulty[236]

From the point of view of both the government and senior officials, the Keynesian formula of economic growth and increased public expenditure had run aground. Low productivity, high prices and wages, a growing trade deficit, a decline in sterling and an investment strike by capital heralded an end to the notion that working class and capitalist interests could be effectively harmonised through institutional forms such as the NEDC, the Price Board and PESC. The economic foundation of the Keynesian compromise – the accumulation of capital – had stalled and thus the institutional forms associated with this strategy needed to be reformulated. However, around such institutions certain expectations had begun to emerge on the part of working people. As stated above, expectations surrounding public services and welfare had crystallised, as had certain expectations regarding the maintenance of real wages. This frustrated the government's stated solution, which was to build an export-driven recovery, as workers would not accept any cuts to wages which might otherwise have reduced costs for capital and thus enhance competitiveness globally. This was a clear concern for the central executive during the 1970s, as recommendations were made that

[236] Public Expenditure to 1979-80 (Cmnd. 6393)

> [t]he public must be persuaded that their main contribution to the crisis [of inflation] should be to accept less than full compensation for the increase in the cost of living[237]

This notion that people should be prepared to accept less than full compensation for inflation was meaningfully transformed into policy by way of cash limits and incomes policy. Cash limits allowed for an intervention on the terrain of expectations precisely because it limited both public expenditure and wage increases, thus institutionalising real-term cuts to both pay and public provision. Therefore, cash limits were not only useful in terms of real discipline, but also in terms of expectations management. Returning, therefore, to the question of norms – particularly the underspend and shortfall norms which emerged due to cash limits – one can argue that the emergence of such norms is indeed evidence of the success of cash limits in terms of expectations management. Underspend, for example, emerged due to a conservative (or 'businesslike') attitude on the part of programme managers who spent more frugally so as to avoid breaching limits. The expectation that any overspend would be met with compensation with Supplementary Estimates was vanquished overnight. With regard to shortfall, expectations that programmes could be fully procured regardless of inflation were also defeated as it became increasingly clear that inflation would curtail the ability of programme managers to purchase the necessary volumes. As such, the very emergence of these norms can be taken as evidence that cash limits succeeded in revolutionising both *attitudes* and *systems*.

The next chapter will examine the response to this revolutionising process set in motion by cash limits by the trade union movement generally, and public sector unions specifically. It will be demonstrated that whilst cash limits certainly succeeded in squeezing public expenditure, such a process was not without contestation. The following chapter will therefore emphasise the inherently political (and contested) nature of any attempt to depoliticise something such as public expenditure. The chapter will also examine the way cash limits turned trade union demands for higher wages into demands

[237] TNA CAB 134/3929, Ministerial Committee on Economic Strategy, Cabinet Office report 'Export Performance, 10-1-1975: 4

made against levels of public service provision as a means of dividing working-class organisations, before concluding with a discussion of the ‘winter of discontent’ and the role played by cash limits in creating it.

Chapter 6 – The Response to Cash Limits

As can be seen from the previous chapter, the implementation of cash limits and their initial years of operation had been a tentative success. Growth in public expenditure had been held steady and incomes policy had overall been adhered to by way of trade union consent. However, the real test of both incomes policy and cash limits was to come in the final years of the Labour Government, particularly in 1978 and 1979, where incomes policy was severely undermined, and where cash limits had to be adapted to contain the very large wage claims being made by public sector unions. The primary difficulty that will be confronted in this chapter is discerning the impact of cash limits on the final years of the Labour Government, and whether cash limits had any impact on the veritable explosion of wage claims within the public sector. A lot of ink has already been spilt on the so-called 'winter of discontent', but scant attention has been given to the role of cash limits in this period, and whether cash limits contributed to the public sector militancy which came to be a defining aspect of the strike actions in 1978/9.

Given the prominent role played by trade unions in the end of the Labour Government, it is necessary to examine the relationship of the trade union movement with the Government for the years preceding. This chapter will examine the attitudes of public sector trade unions to the introduction and imposition of cash limits, and the way these were received both by public sector unions and the TUC more broadly. It is by tracing this relationship over the life of the Labour Government that we can come to a clearer interpretation of the role cash limits played in the breakdown the relationship between trade unions and the Labour Government, and whether cash limits can be said to have at all contributed to the militancy of public sector strikes. Therefore, it is necessary to first step backwards before moving forwards.

Trade unions and the Labour Government: a modus vivendi

As has been touched on in previous chapters, the election and maintenance of the Labour Government in this period was heavily contingent on the support of trade unions. A major motivating factor in

union support for the Labour Government was the repeal of the Industrial Relations Act that had been introduced by Heath, and the common goal of implementing the 'Social Contract' (Dorey, 2001). A central motivation for the TUC and trade unions generally was the restoration of free collective bargaining and the end of statutory incomes policy – things that were promised by Labour whilst in opposition (Coates, 1980). It is therefore unsurprising that the reintroduction of incomes policy, though voluntary, was a particularly sensitive political manoeuvre that would require the assistance of General Secretaries of some of the major unions. It was by way of an admixture of an extremely pessimistic presentation of economic realities on the part of Denis Healey, and a desire to re-establish a solid manufacturing base to the British economy from the likes of Jack Jones, that enabled a compromise on incomes policy. Whilst the trade union movement wanted to see an unambiguous commitment to free collective bargaining, it also recognised that the rates of inflation, balance of payments deficit and run on the pound were unsustainable phenomena if an export-led recovery based on solid manufacturing was to be realised (TUC, 1976). Furthermore, and most germane for the purposes of this thesis, both Healey and the leaders of the trade union movement seemed to accept the premise that a high level of public sector borrowing was essentially an indication that resources required for investment were being crowded out by public spending. As Jones (1986) stated in his memoir:

> Some public spending has to be restrained to help convert our candy-floss economy into a thriving industrial society. The key battle is not about public expenditure – it is the battle for the very industrial heart and life of Britain.

The notion that resources claimed by the public sector would therefore be resources denied to the private sector was one espoused by not only the Chancellor, but by Jack Jones who made use of such an argument to urge the TUC to accept incomes policy (Ludlam, 1994).

As a result of these arguments, and the influence of figures such as Jones within the TUC, the trade union movement subjected itself to successive years of incomes policy. These years would prove to

be some of the most successful in terms of wage restraint imposed by any government and allowed the TUC and the Government to claim that they were winning the war on inflation through cooperation and solidarity (Holmes, 1985). However, this compromise was built on shaky ground. In essence, the Government demanded wage restraint without delivering any real increase in the 'social wage'; something that it had promised in return for restraint on pay. The TUC, by and large, were willing to accept the highly publicised cuts to public expenditure on the basis that resources freed up by reductions in public spending would be ploughed into manufacturing and thus create jobs and boost exports (TUC, 1976). For some of the major unions in the TUC, taking cuts on the chin and accepting wage restraint was the 'patriotic' thing to do to save the country from economic ruin (TUC, 1976).

However, not all unions felt the same way when it came to the issue of public expenditure. Throughout the 1960s/70s, there was considerable growth in the size and influence of public sector unions which, in turn, began to shape out a sectoral cleavage within the trade union movement (Ludlam, 1994). Evidence of such a cleavage could be seen as early as 1976, as the National Union of Public Employees' (NUPE) acceptance of wage restraint was considerably more begrudging than some of the other unions precisely due to empty promises on the 'social wage' and attempts by the Labour Government to curtail growth in the public sector (TUC, 1976). It was the public sector trade unions which had most politicised the issue of public expenditure cuts, and when it came to the issue of cash limits, it was the public sector unions that led opposition to them. It is to the public sector unions that this thesis will now turn.

<u>Public sector unions: an overview</u>

By 1974, employment in the public sector was reaching its peace time peak. With around 5 million in the public services and a further 2 million in the nationalised industries, the Government was responsible for nearly 30% of all UK employment due to the labour-intensive nature of much of the public sector (Heald, 1983). Additionally, the public sector was approximately 80% unionised (Brown,

1991), dwarfing density of the private sector (Fryer, 1989). By 1979 public service workers represented around 40 per cent of trade unionism (around 5 million workers), with an overall union density of 81.7 per cent (Fryer, 1989: 18). This compared with 15 per cent in 1911 (Shepherd, 2013: 106), a density of just 28.2 per cent. This huge growth in trade union membership and density throughout the 20th century was partly fuelled by a massive growth in the public sector. At the beginning of the 20th century, the public sector accounted for only 5.8 per cent of total employment, whereas by 1979 it accounted for 21.4 per cent (an increase of 15.6 per cent).

As mentioned, much of this growth was spurred on by the substantial increase in the public sector as a whole. However, it is also important to recognise other factors which contributed to the growth in public sector trade unionism throughout the post-war period. Firstly, the very nature of public sector employment played a role in stimulating trade union growth and development. The public sector in the UK was organised in a very centralised manner and pay negotiation was developed within the Whitley system, which codified national agreements on a range of issues including pay, bonuses, shift work, health and safety, working hours, etc. (Gill-McLure, 2018). Given the fundamental purpose of a trade union is to mobilise around collective bargaining, this machinery facilitated the work of trade union officials within the public sector. Secondly, there was the growth of the shop stewards movement within the public sector (Darlington & Upchurch, 2012). Shop stewards developed late in the public sector compared to the private sector, and even more so amongst white-collar workers. However, by the 1970s local representation in public sector unions had grown substantially which aided not only in local bargaining, but recruitment and branch organisation. For instance, NALGO already had a substantial network of shop stewards by 1970, even though the union only formally adopted the shop steward system in 1977, by which time they had at least 30, 000 stewards within its ranks (Fryer, 1989: 29). The growth in shop stewards not only facilitated greater recruitment at a local level, but also contributed to increased militancy against the traditionally strike-reticent public sector unions. Again, NALGO – despite having formally become a trade union in 1920 – had their first official strike in 1970 (Seifert & Ironside, 2001: 44).

The pattern of trade union growth is also worth examining, as the increases were by no means uniform across the different sectors within the public services. For instance, between 1911-1979 growth in trade union membership amongst post and telecommunications around four-times, whilst membership in the railways grew only two-fold over the same period. Contrast this to union membership in health which grew thirty-fold, and local government and education which grew twelve-and-a-half fold (Fryer, 1989: 19) and it is evident that there were significantly sharp increases in areas of the public sector that were not traditionally organised into trade unions. Therefore, the importance of public sector unions also grew, as did their influence. These public sector unions would come to have pointed disagreements with private sector unions, particularly those covering manufacturing, as the Labour Government continued to cut public expenditure in the name of export-led recovery (Ludlam, 1994), as well as having a considerable political impact on the Labour Government when a new wave of militant public servants went on strike at the end of the decade. However, for now it is important to briefly introduce a few of the key trade unions within the public sector in the 1970s.

The contradictions of the public sector and the peculiarities of public sector unionism

Whilst public expenditure in the UK for much of the 20th century was comparable, or at least not substantially higher, than other developed capitalist economies, the public sector was distinctive in the sense of the sheer levels of people employed. By 1980, the share of employment in general government services in the UK stood at 21.7% of total employment, the third highest share within the OECD (Heald, 1983: 206). This share of employment was markedly higher than countries such as the Netherlands which had a higher level of public expenditure shares. As Heald (1983) notes, this was due to specific policy decisions in the construction of the post-war welfare state in the UK, primarily concerning the direct provision of health and education services. A consequence of this high level of public employment in the UK meant that developing a suitable framework for collective bargaining was particularly important.

Thus, due to the scale of the public sector workforce in the UK, the state had taken upon a contradictory "dual role" relative to its own employees. Traditionally, with respect to collective bargaining within the private sector, the UK state was content with its role as adjudicator, leaving the actual negotiations to both management and workers. Whilst the state did on occasion intervene in industrial disputes, particularly during the highpoints of labour militancy in the early 20th century, overall state actors preferred to stand as a referee rather than active participant (Aris, 1998). However, in respect to the public sector, no such 'value-neutral' role could even be feigned. The state could not 'step back' from negotiations between management and workers when it was itself an employer of nearly 30 per cent of the total workforce (Fairbrother, 1994). As such, the state developed a model of 'good employer' in respect to the public sector which predominated industrial relations throughout the 1950s and 1960s. This model – developed by way of the Priestley Commission in 1957 – comprised

> …stability and continuity of employment and [consultation] with representatives of […] employees upon changes that affect their renumeration and their conditions of work. [The provision of] adequate facilities for training and advancement [and] a range of practices which today constitute good management, whether they be formalised in joint consultation […] or not (Beaumont, 1981)

A further meaning to the notion of 'good employer' – which would come to conflict with the above – was that the state would also set a good example for the private sector when it came to employment practices and collective bargaining. It was this latter meaning which gradually came to predominate industrial relations in the public sector, as successive governments implemented incomes policies to set a leading example in the rates of pay that were acceptable given economic circumstances. This raises the importance of pay determination and its peculiarity in the public sector.

Pay determination in the public sector was established by way of 'comparability' both within different branches of the public sector itself, and with the private sector. Comparability was another key

outcome of the Priestley Commission and had by the 1970s been custom and practice for public sector pay across the board (Beaumont, 1978). However, yet another contradiction emerged in the course of the late 1960s and 1970s with regard to the state as a major employer. As the state was both employer and financier of the public sector, efforts to control the growth of public spending meant an inevitable clash with the demands of public employees (Fryer, 1989). By the 1970s, comparability came under strain due to the overriding need to control growth in public expenditure, much of which went on wages. Successive rounds of incomes policy, which always squeezed public sector workers harder than those in the private sector, began to slowly erode comparability (Elliot & Fallick, 1981). However, this dynamic was set into overdrive in the 1970s during the incomes policies of 1975 onwards. The incomes policies of the Labour Government were a somewhat astonishing success relative to other incomes policies, aided by the development of cash limits as a buttressing mechanism. Heald (1983: 226) puts it clearly

> The initial years of cash limits (1976/77, 1977/78, 1978/79) coincided with the Labour Government's incomes policy. Given that this was adhered to fairly closely in the public sector, the Treasury could build well-based assumptions about pay into the cash limit factors, with the latter providing a non-arbitrary basis for the implementation of the former. Cash limits and incomes policy thus neatly complemented each other.

As discussed in previous chapters, this complementary action of cash limits and incomes policy was envisaged and planned by both Treasury officials and Government ministers. The Government gained a stronger basis upon which to enforce incomes policy without recourse to legislation, whilst the Treasury gained legitimate and non-arbitrary grounds for the prediction of pay rates for public sector employees. Together, incomes policy and cash limits were successful in constraining pay to a considerable degree. Across the whole economy (public and private), in the first year of incomes policy (1975-76) the agreed norm for wage inflation was 12 per cent. The preceding 6 months had seen wage

inflation of 32.7 per cent, whilst during the policy wage inflation was held to 18.6 per cent (Blackaby, 1980). In the public sector the settlements were closer to 15 per cent, demonstrating the efficacy of the initial round of incomes policy in the public sector (Blackaby, 1980). Until the breakdown of pay policy in 1978, incomes policy held firmly in the public sector with the assistance of cash limits ensuring that pay demands fell within the proscribed limits. Essentially, this meant that relativities were frozen between public and private sector. However, due to the stricter adherence to pay policy within the public sector due to the operation of cash limits, comparability began to erode. Given the centrality of comparability to the determination of pay and conditions within the public sector, its erosion would begin to exert significant tension on both incomes policy and, as shall be discussed later, cash limits.

However, comparability was not the only concern of the trade union movement at the time. Due to the operation of cash limits alongside the publicly announced cuts to public expenditure, public sector unions began to lead a political campaign against the cuts. Through the campaign against cuts, cash limits would be politicised as an underhanded tactic for further reducing public spending at a time of acute crisis.

Public sector unions and opposition to the 'cuts machine'

Given the massive growth in employment in the public sector, and the labour-intensive nature of the work done in much of the public sector, there was considerable growth in public sector wages from 1973-76, with the total public sector wage bill in 1974 accounting for 32% of all income from employment. However, from 1976 onwards pay in the public sector was restrained quite successfully under incomes policies. As Ormerod (1991: 61-2) shows, when considering CPI, wages for central government employees saw a considerable real-term decline at a rate that significantly outpaced the private sector:

Year/quarter	Central government	Private sector
1974/2 – 1975/2	11.9	4.6

1975/3-1976/2	-3.8	-0.6
1976/3-1977/2	-5.2	-3.6
1977/3-1978/2	-5.0	-0.3
1978/3-1979/2	1.8	3.8

(Source: Omerod, 1991)

To a degree, this is not surprising. In a review of the history of incomes policies in the UK, Beaumont (1978: 17) concludes that all forms of incomes policy through the 1960s and 70s had been applied more effectively in the public sector than elsewhere. Given the government's role as employer, it is perhaps common sense that incomes policy would hit public sector workers the hardest, particularly when the government is attempting to 'lead by example' as the Labour Government were in the 1970s. However, this does not diminish the overall importance of the mechanism of cash limits as introduced in 1976 as a means of buttressing incomes policy in the public sector. As discussed in previous chapters, cash limits were seen as a means of strengthening an otherwise voluntary incomes policy to instil confidence in the Government's management of the inflationary crisis. In this context, cash limits were seen as a useful mechanism for pre-emptively denying excessive wage claims to an increasingly militant public sector workforce under the auspices of sound fiscal management at a time of acute crisis and market uncertainty. Cash limits were a concrete means of transferring greater leverage to programme managers when it came to wage negotiations, providing an "incentive and stimulant to Departments to take a more robust attitude to prospective pay and price increases"[238] and thus enhance the "political will" of negotiators to resist excessive pay claims[239]. As Treasury officials made clear during the early stages of cash limit discussions

> In the case of pay there would be no presumption of automatically increased amounts of cash to meet the extra cost of exceptional pay increases. At a minimum any extra cash…

[238] TNA T331/1075, Henley to Baldwin, 'Control of Public Expenditure by Cash Limit', 11th December 1974
[239] TNA T331/1077, HM Treasury, 'A note of a meeting: cash control of public expenditure' 25th April 1975

> in such circumstances would be scored, properly, as a real increase in expenditure to be offset by reductions in expenditures or increases in taxation elsewhere.[240]

The main form of leverage in terms of enforcing incomes policy in the private sector was through price control and sanction. The Labour Government formally committed to sanctioning any employer who settled over the agreed income norm, though the actual usage of this sanction occurred only once in respect to Ford who settled with employees during the final year of incomes policy (this will be returned to later). In terms of actions on prices, Healey had long recognised the limited utility of any price restraint in response to excessive wage demands, as such action would put serious pressure on companies already struggling with squeezed profit margins. In essence, the Government could only really exercise restraint on public sector workers and would have to rely upon General Secretaries of the major unions holding up their end of the bargain when it came to the private sector.

Overall incomes policy held both within the public and private sector from 1976 to 1977. The Government was successful in maintaining cash limit control over public expenditure, and due to the pay assumptions for cash limits being predicated upon the incomes policy, public expenditure was kept at a relatively stable rate. However, the very success of the restraint of incomes and public expenditure was to prove the undoing of the Labour Government. The scale of publicly announced cuts to expenditure caused a significant mobilisation amongst public sector unions, who also were more than aware of the use of cash limits as a depoliticised technique for compounding these cuts by a significant degree.

Cash limits as 'secret' cuts

As has previously been discussed, the Labour Government was initially elected based on a quid quo pro with trade unions named the 'Social Contract'. A major element of the Social Contract was the proposal to enhance the social wage in return for industrial peace. This would entail public

[240] Ibid

expenditure not only on benefits, but on expanding the public delivery of services. The importance of the social wage was stated strongly by union leaders such as Jack Jones, who stated that spending on the social wage was as “vital to our real standard of living as cash in our pockets” and was seen as a key promise by public sector unions in return for accepting incomes policy. However, as early as 1975 NALGO were warning of the severity of public expenditure cuts and raising concerns that the Government were not delivering on their side of the Social Contract.

The reason given by the Labour Government for the almost immediate reneging on the social wage was the dire economic circumstances of the day. It was quickly decided that rather than expanding public spending it would instead need to be significantly reduced. After the resignation of Wilson in May of 1976, Callaghan and Healey went to the TUC General Council to tell them that public expenditure would be cut significantly more than had been announced in February in order to reduce the PSBR by £1bn (Callaghan, 1987; Taylor, 1987; Healey, 1989). This decision had come without consultation with the TUC membership and contradicted previous agreements between the Labour Government and the TUC that public expenditure would remain stable (allowing for increases only due to inflation) until 1980 (Taylor, 1987). The argument for reductions was based upon the notion that an expanding PSBR would be increasingly difficult to finance, that high public spending was inflationary and that resources absorbed by the public sector would consequently be denied to the private sector upon which economic recovery depended (Taylor, 1987). Whilst this caused disquiet amongst the TUC General Council, due to fears of continued increases in unemployment as a result, their arguments against the cuts did not sway Healey who went ahead with the cuts regardless. The most that the TUC did in retaliation was publish a letter written to the Chancellor which outlined the General Council’s discontent regarding the cuts and the way they were ‘sprung’ on them without consultation.

This episode resulted in a heated atmosphere at TUC Congress in September of 1976. Public sector unions in particular charged the Government with reneging on its end of the social contract with the

swingeing cuts to public expenditure. However, despite dissatisfaction shared across unions, leaders of some of the largest unions in the TUC defended the Government on the basis that public expenditure could not be financed without, in the words of Len Murray, “a healthy growing economy based ultimately on improving our manufacturing investment” (Dorfman, 1979: 127). This was an expression of a popular narrative at the time, namely that public expenditure fundamentally sapped resources that otherwise be available for the private manufacturing sector that would ultimately lead to a recovery of the British economy by way of a strong export market. This narrative was utilised, particularly by leaders of the larger manufacturing unions, as a means of justifying the cuts made to public expenditure by the Government which had the benefit of allowing continued loyalty to the Labour Government despite U-turns on public spending (Jones, 1986). This approach was taken most notably by significant leaders amongst the Neddy 6, such as Hugh Scanlon, David Basnett, Len Murray and, of course, Jack Jones.

As Ludlam (1994) argues, the idea that public spending was ‘crowding out’ manufacturing was one shared amongst the industrial trade unions of the day, as well as by the Chancellor and Prime Minister, and that such an argument resulted in a division (or sectoral cleavage) between public sector unions and industrial unions. Whilst the industrial unions were able to accept public expenditure cuts due to a misplaced commitment to the ‘crowding out’ hypothesis, the public sector unions increasingly took aim at this argument and were at the forefront of an anti-cuts campaign. NUPE and NALGO, the fourth and fifth largest unions in the country respectively, led the anti-cuts action picketing both the Labour Conference and TUC Conference in 1976 (Fryer, 1979). Subsequently, these two unions spearheaded the founding of the National Steering Committee Against the Cuts (NSCAC), an unprecedented form of trade union activity that’s sole concern was the defending of public services from the agenda of cuts embarked upon by the Labour Government (Fryer, 1979).

NSCAC was founded in 1976 and quickly attracted the affiliation of 11 other public service unions, including later the NUM. Despite this, other significant unions refused to affiliate, including the public

sector steelworker's union (ISTC), the rail and postal workers unions, and the TGWU and GMWU (Fryer, 1979). The argument of NSCAC was relatively straightforward, namely that the only remedy for increasing unemployment was the expansion of the public sector. Of course, such a prescription did not gain traction amongst industrial unions whose emphasis was on the restoration of the manufacturing base of the national economy as the remedy to unemployment. Therefore, a significant division between the public service unions and the industrial unions, as well as those unions more loyal to the Labour Government, emerged. Despite condemnations from the TUC General Council about proposed cuts to public expenditure, in general support was given to the Government's efforts as a means of securing increased investment in manufacturing (Ludlam, 1994). It was the ambivalence of the General Council that necessitated the forming of the NSCAC as a means of coordinating effective action against public expenditure cuts.

Such division is reflected in the trade union response to cash limits. Initially, the response to cash limits was one of hostility. However, even this hostility was muted amongst the TUC General Council. During the Special Conference on the Social Contract in 1976, the General Council noted the worrying proposals to cut public expenditure in coming years but emphasised the ongoing relationship with the Government and the hope that such a relationship would enable the trade union movement to push for an avoidance of excessive cuts (TUC, 1976). No mention was made, however, of cash limits. Whilst one can speculate on how or why the General Council largely ignored cash limits despite their recent announcement, what is evident is that the TUC failed to recognise the impact cash limits would have, particularly on public sector workers and public expenditure generally.

As noted in the previous chapter, the outcome of the first year of cash limits was the emergence of considerable shortfall and underspend. Such underspend alone accounted for more savings than the publicly announced cuts to public expenditure. As such, the ability for cash limits to essentially cut public expenditure by fiat rather than by decision was proven. As shown by Hall (1983), the percentage

cut from annual budgets by way of the operation of cash limits in an inflationary context were considerable:

	1976-77	1977-78	1978-79	1979-80
Defence Underestimate of inflation	-3	0	-3	-4
Under/overspend	-1.1	-1.5	-1.9	-1.6
Total squeeze	-4.1	-1.5	-1.9	-1.6
Other Services Underestimate of inflation	-3	0	-3	-4
Under/overspend	-3.1	-3.0	-2.3	-1.9
Total squeeze	-6.1	-3.0	-5.3	-5.9

(Source Hall, 1983: 108)

What this serves to demonstrate was the double effect of cash limits in terms of cutting expenditure. Firstly, the underestimation of inflation for each year left spending departments with less cash than was necessary to fully fund their programmes; and secondly, the previously discussed tendency towards underspend meant that even with this reduced amount of cash, programmes were still not fully spent. Combined, the accumulated squeeze for all public services under cash limits was significant. However, the key difference to announced budget cuts was that these savings could be passed off as the unintended consequences of a new system of control the publicly stated aim of which was to better enhance control and oversight. As such, the Labour Government could avoid having to publicly announce further and deeper cuts, and instead pass off any savings as the successful operation of cash limits.

However, whilst the Government may have found a credible mechanism for denying their culpability in swingeing cuts to the public sector, trade unions were not so readily fooled. Following the initial year of operation of cash limits, the trade union movement began to make much more negative statements about them. At the 1977 TUC Conference, a motion to oppose cash limits was overwhelmingly carried, despite evidence of division amongst the General Council on the issue, with the likes of Len Murray warning delegates that the public purse was not bottomless (Ludlam, 1994). The overwhelming concern of the trade union leaders with combating inflation and limiting the growth of the PSBR, along with the presentation of cash limits as a means of controlling public expenditure, seemed to convince some of their economic importance. Again, in 1978 the TUC noted the concerning emergence of underspend because of cash limits and the impact this was having on the public sector (Ludlam, 1994). However, by the end of the 1970s, the TUC thinking of cash limits was conclusively demonstrated. In the 1981 TUC Economic Review, the cash limits system was referred to as "simply a method for providing the finance needed to implement spending programmes" (TUC, 1981). By this point, leaders in the TUC seemed to have accepted cash limits as a means of providing sound public finance. Despite Conference in 1980 and 1981 passing motions calling for the abolition of cash limits, TUC leaders seemed to accept their necessity. This was evidenced in February 1982 when the TUC provided evidence to the Treasury and Civil Service Select Committee where it said

> [T]he TUC wishes cash limits to be set to allow for forecast inflation… and for any shortfall to be made good through supplementary estimates and roll-over provisions. Cash limits should not be used as a means of cutting public expenditure, or attempting to contain inflationary pressures, but as an instrument to help fulfil expenditure programmes (in Hall, 1983: 89).

So how does this chequered history on the TUC's relationship to cash limits inform an understanding of cash limits? In essence, it demonstrates that cash limits were indeed successful in the sense that they were finally accepted by the TUC as a technical means for controlling public expenditure. It also

demonstrates that the trade unions were split on this issue. Public sector unions and their leaders saw cash limits as a means of implementing cuts by stealth, without approval from Parliament. Industrial unions saw them as a necessary evil in freeing up resources for the manufacturing sector. TUC leadership in general saw them as a means of bolstering the delivery of programmes in the public sector. Such a division in opinion regarding cash limits amongst the trade unions shows that cash limits were not immediately perceptible as a weapon for enforcing incomes policy, nor as a counter-inflationary mechanism. However, due to the public sector unions being directly under the thumb of cash limits, their opposition to them became increasingly militant to a point where public sector trade unions would embark on the largest wave of industrial action they had ever mounted. The contention of the remainder of this chapter is that such militancy was compounded by the operation of cash limits not only as a means of making stealth cuts to public expenditure, but for enforcing incomes policy to a degree that was impossible in the private sector, something which would directly contribute to the explosion of trade union activity at the end of the 1970s that would ultimately bring down the Labour Government.

Cash limits and public sector pay and conditions

As mentioned above, two of the largest public sector unions – NUPE and NALGO – were at the forefront of opposition to attempts by the Labour Government to renege on its commitments to expanding the social wage. The reasons for this are relatively straightforward; in the public sector the Government is the employer, and the conditions which pertain in the public services are those which will be confronted by trade unionists seeking to better the lot of their members. By the 1970s, the public sector unions had grown significantly in both size and confidence, and by 1976 the public sector unions had developed the most sophisticated critique of the Labour Government's record on public expenditure. They were also the only unions to take direct aim at the operation of cash limits, arguing that they needed to be wholly replaced with a system for public expenditure management that was consistent with growth of the public sector. Furthermore, NUPE by 1978 targeted cash limits

specifically as part of its pay campaign with the aim of breaking the cash limits in the public sector. It was this campaign that culminated in the bitter dispute between NUPE and the Government in 1979.

As discussed in previous chapters, the Treasury and the Chancellor saw cash limits as an opportunity to enforce greater wage discipline in the public sector. Given the lack of direct control over private sector pay, and the dangers of utilising the price code to enforce such control, the Government turned to its role as employer in the public sector to enforce discipline and maintain the incomes policy though leadership by example. The consequences of this were a sharp reduction in public sector pay relative to private sector pay, especially after 1976 when cash limits were introduced. This led to a gradual build-up of pressure as pay relativities were distorted not only by way of incomes policy but by the strict adherence to incomes policy in the public sector due to the cash limit system. This resulted in a long and sustained erosion of public sector relative pay performance, and with that the increasing pressure to restore relativities through a return to free collective bargaining. The effect of these sharp reductions was felt much more keenly in central government, where cash control of public expenditure was strongest.

The pressure in the public sector was perhaps most felt in terms of workload relative to staffing numbers. As discussed, cash limits often resulted in the deferral of spending into future years, meaning that new hires within the public sector were paused or abandoned altogether. Generally, over the period of the early operation of cash limits, growth in the public sector employment was held back (Hall, 1983). This resulted in a considerable shortfall of staff in relation to workload and thus an intensification of the workday for those who had to pick up the slack. As identified by Hall (1983), there was considerable and consistent shortfall of staff relative to workload in central government. He uses figures sourced from government published documentation and presented as percentage of annual budgets to highlight this workload squeeze.

	1976-77	1977-78	1978-79	1979-80	1980-81

Staff cuts required by cash limit assumptions	-1.0	-1.3	-2.5	-5.0	-2.5
Underspend below cash limits	-5.2	-5.4	-3.7	-4.5	-1.3
Gross squeeze	-6.2	-6.7	-6.2	-9.5	-3.8
Offset by excess provision for staff in Estimates	+2.1	+1.9	+1.3	+1.1	+1.0
Net squeeze	-4.1	-4.8	-4.9	-8.4	-2.8

(Source Hall, 1983: 111)

This workload squeeze further served to undermine the ‘good employer’ model that the state had long maintained, and whilst workloads increased pay remained constrained within the incomes policies operative during 1976-78. Cash limits, therefore, had a significant impact not only on workload but renumeration. Whilst this situation held for a few years, by 1978 the strain resulting from incomes policy buttressed by cash limits in the public sector finally began to manifest itself in a breakdown of the fragile compromise between the Labour Government and the trade unions.

Cash limits and the ‘winter of discontent’

The makings of the ‘winter of discontent’, as well as the vicissitudes of the period itself, have been well documented elsewhere and thus will not be recapitulated in full here. However, it is still necessary to run through the circumstances to cast relief on the role played by cash limits, and issues around public

expenditure and public sector pay, in the breakdown of the compromise between organised labour and the Labour Government. Incomes policy played a significant role in the eventual breakdown of this compromise, so background into this issue needs to be covered.

Throughout 1976 and 1977 the trade unions held firm on wage restraint. Even so, the precipitous decline in the value of sterling in 1976 along with the IMF loan had meant that inflation still soared well above 10 per cent despite the sacrifices made by the trade union movement. By 1977, the TUC had largely acquiesced to the deflationary programme of the Labour Government, despite continued opposition from the public sector unions (Dorfman, 1979; Dorey, 2001). TUC economic reviews continued to argue for reflationary budgets, but to no avail. The highpoint of Government-trade union cooperation had passed, and as time went on the TUC began to realise fully, and resent, their declining influence over macroeconomic policy. Even stalwarts such as Len Murray, who had done all in their power to win continued support for the Labour Government throughout deflation and devaluation of the pound, told the Prime Minister that the trade unions were unlikely to accept another year of wage restraint unless the Government significantly changed course elsewhere (Dorfman, 1979: 130). The concern amongst leaders in the TUC was simply that they would be incapable of convincing their members to go along with another year of restraint, particularly when local bargaining threatened to undermine national wage discipline at any moment (Dorey, 2001).

Therefore, during Phase II of incomes policy, the TUC declared a need for an orderly return to free collective bargaining once the Phase II had come to an end (Dorey, 2001). Despite these calls, Healey still declared a need for a pay norm in order to control for inflation and thusly announced a 10 per cent norm for Phase III, which would last from August 1977 to July 1978 (Dorey, 2001). This was met by disquiet in the trade union movement, particularly amongst rank-and-file trade unionists who were leading calls for a return to free collective bargaining. Even the General Council of the TUC had been expressing doubts about further income restraint from the very beginning of 1977 (Dorfman, 1979). In a meeting with Healey in February, the Economic Committee of the TUC stated plainly that the

Government's strategy on pay would not hold out much longer. The response from those at the top of the Labour Government was therefore to essentially sidestep the TUC and rely more on consultation with the Neddy 6, amongst whom support for the Government was firmer. Ultimately, the 10 per cent norm that was set for Phase III was announced despite increasing concern from trade union members (Dorey, 2001). Rank and file members continued to pass resolutions against pay restraint and in favour of a return to collective bargaining (Taylor, 1987). Even the TGWU, Jack Jones' union, rejected another year of pay restraint. All in all, it seemed that the Social Contract had run its course and was now being roundly rejected by trade unionists in all the major unions.

Cabinet met in December of 1977 to discuss the future of incomes for the period after the ending of Phase III of the Social Contract (which ran from August 1977 to July 1978). Several prescient points were made in this meeting, which foreshadowed the events which were to occur at the close of 1978. Whilst the successes of incomes policy were recognised, it was also raised that

> incomes policies had never worked for very long, if at all, in the past and that previous attempts by a Labour Government to sustain a pay policy over a long period had been politically disastrous[241].

And initially, such a return was given on the basis that the TUC could moderate claims for pay increases within the bounds of the agreed social contract. However, this did not last long. With unemployment growing and inflation soaring, several unions began to agitate for significant pay increases (some as high as 30 per cent). This agitation for high wages expressed the contradiction at the heart of the trade unions at that time; namely, that the TUC, whilst worried about a wage explosion in the context of rampant inflation, still had some of its more conservative union leaders pushing for greater wage increases as part of a new norm in wage bargaining (Dorfman, 1979: 115). What is particularly surprising about the Cabinet discussion at the end of 1977 is the belief that wage restraint could be

[241] TNA CAB 128/62/19, 'Conclusions of a Meeting of the Cabinet', 22nd December 1977

continued beyond Phase III[242]. Rank and file unionists, along with a number of influential trade union leaders, had rejected continued incomes policy before Phase III had even been implemented, and the TUC in 1977 demanded a return to free collective bargaining (TUC, 1977). Clearly opinion had shifted against further restraint, and this shift was supported by a belief that Labour would be calling a general election in 1978 on a fresh platform and a renewed mandate (Rodgers, 1984). However, this was not to happen. Not only was Callaghan resolute about the continuation of incomes policy, that Cabinet as a whole seemed to accept that such a policy was now a permanent feature of modern governance[243]. Given the 1977 TUC arguing for a return to free collective bargaining, and the increasing strength of feeling on this, the notion that pay restraint could continue in cooperation with the trade unions seems naïve at best, totally wrongheaded at worst.

In the midst of the breakdown of incomes policy in 1977-78, cash limits came into contention. Despite the intention that cash limits would depoliticise cuts to public expenditure, the use of cash limits to buttress incomes policy brought them back to the centre of attention. As discussed previously, the Government sought to use cash limits as a means of enforcing pay restraint in the public sector, whilst the Treasury sought to depoliticise restraint on public expenditure. This meant that cash limits were stretched between two incompatible goals; firstly, to disguise further cuts to public expenditure as simply an extension of rational control over public money; and secondly, to serve as a weapon to enforce voluntary pay restraint in the public sector. Whilst the Treasury wanted to extend control and create a shift in attitudes that would see public expenditure restrained, the Government utilised cash limits as a convenient buttress to its incomes policy so that it stood on firmer ground without statutory limitations. This contradiction brought cash limits into debate by the TUC as it was seen as essentially a public sector pay policy (Taylor, 1987: 99). This meant that any challenge to incomes policy by the trade unions would also mean a challenge to cash limits. However, it can also be said that the depoliticising efforts of the Treasury also faltered. The special nature of public sector employees meant

[242] Ibid
[243] Ibid

that they knew first-hand that cash limits were being used to cut public expenditure by 'stealth'. This reality was raised to public consciousness by the trade union-led NSCAC and was an argument made stridently by NUPE (Ludlam, 1994).

Importantly, however, it was the role of cash limits as a de facto pay policy which ultimately led to the trade union movement rejecting them at TUC. As detailed above, for the first few years of the Labour Government, trade unions and the TUC were willing to accept cuts to public expenditure on the promise of a redirection of resources to the manufacturing sector. As such, cash limits as a mechanism for cutting public expenditure by stealth was not as contentious as the role they played in maintaining a public sector pay policy by fiat. The public sector unions, with NUPE the most militant amongst them, increasingly called for a rejection of pay restraint and a return to free collective bargaining (Ludlam, 1994). However, this also meant a rejection of cash limits, as any such limit would preclude free collective bargaining by definition. In essence, cash limits and free collective bargaining were seen to be incompatible with each other (Taylor, 1987). Therefore, by 1978 the TUC voted overwhelmingly to reject the 5% pay limit (Shepherd, 2013). However, the dam would not be burst by the public sector unions, but by the private sector. The irony here is that cash limits would ultimately be defeated, along with incomes policy, because of the actions of private sector workers who had no hard constraints on their ability to bargain.

The Ford Strike and the wage explosion

In the July 1978 White Paper 'Winning the Battle Against Inflation' the Government made clear that the remarkable progress made on containing inflation since 1974 was primarily due to "the firm pay policies over the past three years, and the responsible co-operation by employers and trade unions in observing them"[244]. However, it was precisely this White Paper that would spell the end of this responsible cooperation. Later in the document, the tone is less conciliatory to the trade unions, stating that due to high unit labour costs and low productivity, the gains made over previous years

[244] Winning the Battle Against Inflation (Cmnd. 7293)

risked being undermined. The problem of inflation was still placed front and centre, and, in this context, the White Paper announced that the "Government has therefore decided to adopt a pay policy to apply from 1 August 1978 in which the guideline will be set at 5 per cent"[245]. In addition, it was also made clear that a return to free collective bargaining was not one of the Government's priorities:

> It is the Government's view that the country should aim at a long-term approach in which collective bargaining is based each year on a broad agreement between Government, unions and employers about the maximum level of earnings which is compatible with keeping inflation under control in the following 12 months. The policy for next year has been shaped so as to permit a transition to such longer term arrangements.[246]

Such a pronouncement certainly reflected thinking within the Cabinet that incomes policies were now a permanent feature of modern governance. However, such an announcement was totally out of touch with the sentiment that was predominant amongst the trade unions, who unequivocally called for a return to free collective bargaining (Dorey, 2001). It was precisely this combination of a wildly optimistic 5 per cent wage limit alongside a seeming long-term commitment to incomes policy which broke the fragile compromise which had been hitherto sustained between the Labour Government and the trade unions.

Despite the popular assumption that the 'winter of discontent' concerned public sector unions, the initial strike wave was sparked by a strike in the private sector. In August of 1978, union members within Ford factories across the UK submitted a claim for a £20 per week increase on a 35-hour week, totalling a demand for a 25 per cent increase overall (Shepherd, 2013). Ford management retorted with the stipulated 5 per cent offer (Dorey, 2001). As such, in September Ford workers downed tools

[245] Ibid
[246] Ibid

and over 15, 000 members joined strike action. Primarily members of the AUEW and TGWU, the strikes soon gained formal recognition by both unions and by October Ford management offered a series of deals, all of which broke the 5 per cent limit (Shepherd, 2013). The first offer was for 8 per cent, followed by 12.5 per cent and then 16.5 per cent. By November, workers settled for the 16.5 per cent. The only option on the table for the Government was to attempt to sanction Ford, as there were no formal means of enforcing restraint. However, proposals to sanction Ford by banning Government purchases of Ford products were defeated in the Commons, meaning that Ford got off without rebuttal (Shepherd, 2013). The Government's 5 per cent limit had had hardly lasted more than 4 months and was now in tatters.

The Ford strike proved to be the opening salvo in a barrage of wage claims which followed soon after. In December 20, 000 bakery workers went on strike, winning a 14 per cent claim. 7, 500 journalists also struck and won 14%. 20, 000 railway workers staged intermittent strike action along with damaging unofficial strikes (Shepherd, 2013). However, it was when the public sector workers began to make wage claims that the true test of the Government's mettle would emerge. In theory, public sector wage claims should have been more straightforward to resist, given the existence of cash limits – the much vaunted 'weapon' in the hands of programme managers. In many respects, public sector wage claims above the 5 per cent would prove the most strenuous test of cash limits to-date, as they would now need to enforce an incomes policy where agreement with the unions had broken down.

Public sector strikes

The first public sector strike that had significant impact was closely related to the damaging petrol tanker and road haulage drive strikes which began in January. These strikes, which were officially recognised by the TGWU on the 11th of January caused mass disruption during a particularly severe winter (Holmes, 1985). They also interacted with an ongoing dispute within local authorities which meant that roads were not gritted. The local authority dispute culminated in a massive one-day national strike on the 22nd of January, which saw over a million local authority workers – represented

by several unions – walk out followed by a period of work disruption (Shepherd, 2013). The chaos caused by these disruptive strikes resulted in a significant win for petrol tanker and road haulage drivers who settled between 15-20 per cent.

What is particularly notable about both major strikes were that they both involved primarily TGWU members. Prior to Moss Evans becoming General Secretary in 1978, the TGWU was led by Jack Jones who was a ferocious supporter of the Labour Government and had been key in securing wage restraint previously in the Social Contract. Several accounts of the winter of discontent, including Callaghan's (1987) own account, place a great deal of emphasis on the changing of the guard at the top of both the TGWU and AEUW as causes of the chaotic winter. However, as explained by Taylor (1993: 252-257), it was unlikely that either Jones (TGWU) or Scanlon (AUEW) would have been able to prevent the wave of militancy experienced in 1978-79. The cause was deeper than an issue with leadership. Rather, it was due to the supremacy of shop stewards at the top of the TGWU which resulted in them becoming the "spearhead of a frontal attack on the Government" (Rodgers, 1983: 173). The leadership of TGWU failed to contain the more militant sections of shop steward leadership, exemplified by the inability of Evans to call a stop to the road haulage strikers who had resorted to secondary picketing and other disruptive tactics without redress (Taylor, 1993: 256). The situation within TGWU was in essence a microcosm of the broader developments within the major unions; namely, whilst union officials were close to, and generally supportive of the Government's aims, the rank-and-file had simply run out of patience with incomes policy.

And this lack of patience was to be further demonstrated by the widescale public sector strikes which started with a National Day of Action on the 22nd of January, which saw the participation of over 1.5 million workers (Shepherd, 2013). Organised jointly by several unions, with NUPE in the lead, workers from local government, the health service, and other parts of the public services sector began industrial action in pursuit of a £60 a week minimum wage (Dorey, 2001). This campaign sparked off a series of strikes throughout the public services sector which lasted until March, which were responsible

for the images most strongly associated with the period; namely refuse uncollected in the streets, the dead unburied in Merseyside, and pickets outside hospitals turning away patients (Hay, 2010). The moral outcry and general condemnation of these strikes is well documented elsewhere (Hay, 2010). What is pertinent here is that this was an attempt to improve the pay of the lowest paid workers within the public service, many of whom had not benefitted greatly from the years of wage restraint, despite promises that incomes policies would help the lowest paid. As examined by Steele (1981: 141), successive rounds of incomes policy had "hardly even led to a maintenance, let alone an improvement, of the relative position of low-paid industries". In fact, throughout the 1970s, where specific exception clauses for low paid workers were included, incomes policies were "singularly unsuccessful in helping the low-paid". Furthermore, incomes policies (and flat-rate policies in particular) had served only to compress wage differentials within sectors, rather than generate any wage-charity or redistribution effect. The consequence of this meant that whilst the low paid had not particularly gained from incomes policy, the compression of differentials loaded the spring in favour of a restoration of these differentials within sectors, contributing to the massive wave of 'catch-up' wage claims in 1979.

As such, whilst moralising did occur regarding the public sector strikes, it is evident that the economic demands around wages of these low-paid workers were in fact justified. Throughout the period covered by the Labour Government, there had been a 123 per cent increase in people in full-time work earning less than the poverty line (Shepherd, 2013: 100). And given the strict adherence to incomes policy within the public sector, helped by the implementation of cash limits, it was low-paid public sector workers who felt keenly aggrieved. Combined with the pauses on recruitment due to cash limits and the concomitant increase in workload, it is no surprise that public sector strikes were marked by the rancour with which they were carried out. Paralysed by the scale of the action taking place across the country, the Government conceded a 9 per cent pay increase to local authority workers in February, along with a deal on comparability.

In total, the public sector strikes which were carried out between January and March of 1979 saw around 1.5 million workers involved over 80 calendar days of strike action and over 3 million working days lost (Beaumont, 1982: 24; Butler & Butler, 2000: 398). Whilst significant in their own right, the impact of these strikes on cash limits was not as pronounced. For local authority cash limited blocks, changes totalled increases of around £32 million for 1978-9 and a significant reduction of £523 million for 1979-80. Importantly, despite the upward revision for 1978-9 to adjust for pay claims, there was still an overall underspend of £537 million on cash limited expenditure. Much of this is due to the timing of the industrial action of the public sector, whose claims could be absorbed in the 1978-9 limit due to the timing of the financial year. However, what is clear is that industrial militancy in the public sector had forced an upward revision in the cash limits.

Civil service strikes and central government expenditure

The situation for the central government cash limited expenditure is far starker. Whilst it was normal throughout the period from 1976 for slight upward adjustments to be made to the cash limits, this was often more than offset by the underspend experienced across central government. As such, the net effect of cash limit control was still a considerable saving on the Planning Total for each year. However, for 1979-80 – the financial year which reflected a sizable portion of civil service pay claims and Clegg Commission pay awards – the cash limit revision was huge. For 1979-80, the cash limit was revised upwards by £6, 084 million compared to around £143 million the year previous. Further to this, the net outcome for the Planning Total for that financial year was a huge net addition of £5, 852 million; unprecedented for the entire lifetime of cash limits as a system both prior and afterwards. This was due, in large part, to unprecedented industrial action taken by the civil service unions.

Traditionally quiet and reasonable, the civil service unions by the end of the 1970s had seen a significant rise in militancy. Civil service unions, like unions elsewhere, had seen an increase in shop steward-like organisation which tended to undercut the efforts of traditionally collaborationist national union leaders. The first stirrings of civil service militancy had been expressed early on in the

decade, namely in February of 1973, where SCS and CPSA staged a one-day strike for improved pay. Whilst this strike was resolved by way of the Whitley Councils, it was seen as a definitive moment in terms of a change in attitudes and tactics on the part of civil service unions. When speaking of civil service unions, some peculiarities owing to the Whitley system need to be noted. The staff associations and trade unions of the civil service were coordinated into the National Staff Side of the National Whitley Council (NSS) which sought to harmonise the demands of the multiple unions (such as the CPSA and SCPS) in negotiations with the official side of the Whitley Council. The NSS was, in essence, a coordinating body for trade unions within the civil service as represented within the National Whitley Council. They would face off against the Official side, who would represent the numerous departments in which the unions had members. The NSS was typically hostile to the TUC and preferred to build consensus and compromise than join industrial action. However, by 1979 the NSS was in crisis. A number of selective strikes were called by the CPSA and SCPS in February and April of that year, which saw over 400, 000 civil servants take action. Walkouts and industrial action carried on into March of that year, with disruption caused to computer centres, prisons, RAF bases and tax collection efforts. Threats were made by these unions to further escalate action in order to disrupt the budget, Easter air travel and social security payments. These actions found great success. The initial pay offer was 7 per cent, which following strike action had grown to a 25 per cent award which was offered after the April strikes.

These strikes, and the clear victory they achieved, were important for two principal reasons. Firstly, they completely disrupted incomes policy and clearly broke cash limits within central government which had provisioned only 5 per cent for pay. Secondly, they upended Whitleyism and the collaborationist approach of the NSS. Whilst consensus and negotiation had proffered a 7 per cent offer, strikes and disruption had won a 25 per cent award. The Official Side of the National Whitley Council, which had been increasingly dominated by the Treasury and their exhortations to keep pay squarely within the cash limit, had made consensus impossible. When put to the test of mass civil

service militancy, the cash limits gave way and, along with awards later promised by the Clegg Commission, had decisively broken the discipline of cash limits on the wage question.

And this latter point regarding the Clegg Commission requires some attention. The Clegg Commission was announced by the Government to look at public sector pay relativities and provide awards for the public sector that were based on evidenced examination of the labour market. The hope on the part of the Labour Government was that this Commission would bring about industrial peace and salvage what was left of the relationship between Labour and the trade unions. Whilst the Commission clearly failed in this sense, it did have time to draw up a number of awards to be paid out to the public sector.

The Standing Commission on Pay Comparability led by Clegg was set up in March 1979 and had to first deal with ongoing strikes by local government manuals, ancillary hospital workers and nurses. Whilst a 9 per cent offer had already been given to these workers, the Government referred them to the Clegg Commission to top-up the 9 per cent with whatever the Commission agreed was in line with comparability. Whilst the Clegg Commission was too late to save the Government, it did lock in a number of wage increases far beyond the 5 per cent limit for the rest of the financial year (1979-80), thus contributing to a significant (and never repeated) breach of the cash limits to a tune of £500 million. However, as of May 1979 this fell to the Conservative Government of Margaret Thatcher to manage, and whatever offsetting savings could be found, a breach in the cash limit for the remainder of the financial year was inevitable.

Concluding remarks

In accounting for the final years of the Labour Government and its management of cash limits, there are some important takeaways. Firstly, discontent within the public sector and civil service were a considerable factor in the eventual collapse of the Government. The damage done to the credibility of trade unions and the Labour Government were considerable. The cooperation which had served the Labour Government throughout its tenure dried up, and the resentment of several years of effective pay restraint exploded in a mass of pay claims way in excess of the hastily announced 5 per cent. In

terms of the object of this inquiry, the important conclusion relates to cash limits, and there are two important components of this conclusion.

Firstly, cash limits – announced as a buttressing weapon to incomes policy – buckled under the weight of mass strike action against incomes policy. It would seem, therefore, that incomes policy was in fact doing the heavy lifting in terms of ensuring pay restraint within the public sector. Cash limits may have functioned as a threat for a time, but the gradual politicisation of cash limits, as well as a determination to return to free collective bargaining, meant that cash limits could not – in the end – contain the wage demands made by public and civil service workers at the end of the decade. Without a fixed pay norm that was adhered to by the trade unions, it was inevitable that the cash limits would have to be significantly altered to accommodate the large pay awards given ain 1978-79.

Secondly, and perhaps more interestingly, despite this breakdown in terms of discipline on wages, cash limits still managed to generate aggregate underspend. Even for the financial year 1979-80, where the largest uprating of cash limits occurred for central government spending, an aggregate underspend of £232 million was still achieved. Whilst much smaller by comparison of preceding years, what this underspend reveals is that in spite of wage pressures, cash limits had still inculcated an attitude amongst programme managers of caution and frugality when it came to their budgets. Whilst cash limits failed to buttress and support incomes policy at the time of its greatest challenge, they still managed to achieve stealth cuts of the equivalent of nearly £1.3 billion by modern standards.

However, it should be noted that the failure of cash limits to hold the line on pay was an outcome of public sector workers and unions consistently politicising cash limits from the beginning. Whilst the TUC would prove to be inconsistent on the question of cash limits, public sector unions like NUPE were unequivocal about their role as a de facto pay policy and attempt to reduce public expenditure by fiat. Therefore, it is unsurprising that public sector workers, who had laboured under cash limits and seen closer adherence to pay norms therefore, also sought to completely ignore or smash these limits when

it came to pay. Given Labour's reluctance to truly discipline the Labour movement through mass layoffs and further cuts, the cash limits had to give.

Thus, in assessing the trade union response to cash limits there are three main conclusions. Firstly, the public sector unions were never convinced by the efficacy of cash limits as a mechanism for the rational allocation of public money. From their very introduction, public sector unions opposed cash limits as both a means of strictly enforcing pay policy and as a means of cutting public expenditure by stealth. Whilst the TUC would eventually accept the need for cash limits, their introduction was not without challenge. Secondly, the trade union response to incomes policy at the end of the decade demonstrates the amount of weight borne by incomes policy in maintaining cash limits rather than the other way round. In essence, so long as incomes policy was adhered to by nature of the relationship between the Labour Government and trade unions, the Treasury could be confident that the pay element of cash limits would not be exceeded. However, when this relationship broke down cash limits were exposed to the full brunt of industrial action in the public sector and buckled.

Finally, despite the failure of cash limits to uphold incomes policy at the moment of greatest challenge, the ability for cash limits to still generate considerable aggregate underspend demonstrates that a significant change in the norms governing public expenditure had been achieved. Whilst the trade unions may not have been afraid of the consequences of pushing the cash limits to breaking point, programme managers clearly were and thus continued to maintain a buffer between money spent and money allocated. In this sense, cash limits found their greatest success in creating what Douglas Henley described as a "revolution in attitudes and systems" which had finally put an end to overspending of public money. The Treasury, despite the failure of incomes policy, had effectively changed the landscape of public expenditure planning and control in a way which could not so easily be undone.

Chapter 7 – Discussion of Findings

Over the course of the last four chapters, an empirical account of the inception, implementation and early outcomes of cash limits has been presented. Throughout the account, several key themes emerge as central to understanding cash limits which need to be recapitulated briefly here.

Firstly, there is the initial period when cash limits were introduced. The discussion in the public realm at that time was focused on the seeming deficiencies of the PESC system in the context of high inflation, relating particularly to Wynne Godley's 'discovery' of the 'missing billions'. Cash limits, therefore, we presented as a way of remedying the crisis of Treasury control over public expenditure which had emerged publicly due to the inflationary crisis of the 1970s. Cash limits were argued to remedy the PESC system's inherent tendency towards inflation, and thus provide better overall control on the amounts of money spent by Government. Therefore, cash limits were presented as a corrective measure in response to two macroeconomic concerns: rampant inflation and an attendant fiscal crisis of the state. Concerns were raised by Government Ministers, Civil Servants and the media about the impact inflation was having on the PSBR, as more money needed to be raised to meet needs of spending departments. Cash limits were seen as a means of more effectively monitoring and controlling for the impact of price and pay increases in the public sectors, and thus presented a credible means of checking the deleterious impact of inflation.

Cash limits, then, were presented as a clear, rational policy response to macroeconomic problems. Whilst cash limits could not solve inflation, they could at least control for the impact inflation was having on the public purse. However, an importantly for our narrative, cash limits were also introduced as a key counter-inflationary weapon in the context of voluntarily established incomes policy. Rather than a technical means of controlling for inflationary pressures within public expenditure, cash limits were explicitly politicised by the Labour Government as a means of buttressing voluntary incomes policy. Cash limits, therefore, were also used to lend credibility and

project toughness in respect to an incomes policy which was not reinforced by any real statutory measures.

This dual role of cash limits – as a means of enhancing control over public expenditure and buttressing incomes policy with a clear cash limit on pay – indicates a more complex picture in the policy-making networks responsible for cash limits. When examining archival sources, it becomes clear that cash limits had been a long while in the making and were seen to not only improve control over public expenditure in the aggregate, but importantly to transform attitudes within spending programmes. Senior civil servants were hopeful that cash limits would serve an important disciplinary function regarding programme managers and – importantly – state employees. Cash limits were not simply a policy designed to enhance control, but a mechanism through which to enforce fiscal discipline across the public sector both in terms of central government, and local government and nationalised industries. By way of examination of the historical records, what is revealed is a particular concern not only for the levels of public expenditure, but the amount of public expenditure spent on wages. As is well known, inflation has two main expressions – in prices, and in wages. The preoccupation, not only for Government, but for Treasury officials was that of the cost of labour rather than the cost of commodities.

Additionally, cash limits were acknowledged to be a potential source of serious economies in government spending. From the earliest discussions of cash limits within the Treasury, it was clear to those devising cash limits that a general tendency towards spending less than the allotted limit would be an outcome of strict cash control. Unlike the preceding PESC system, where price and pay increases would be granted without restriction, cash limits were a clear indication that if programmes overspent on these then offsetting savings (i.e., cuts) would have to occur. It was only when cash limits were implemented for 1976/77 that the true scale of this potential was observed. Cash limits, by inculcating programme managers with a propensity to spend below the allotted limit, created aggregate underspends that dwarfed the amounts saved by way of conventional (that is, publicly announced)

cuts to public expenditure. It is arguable that these unofficial cuts were the real success of cash limits, as they enabled huge savings in the public sector without the political disadvantage of introducing cuts to Parliament and gaining assent to them. However, the implementation of cash limits cannot be reduced to a single reason. Rather, cash limits were introduced in response to a variety of issues confronted by the British state at the time. Such a multifaceted account, as demonstrated throughout the discussion so far, is made possible primarily by access to the historical archives. With this said, it is important to state that this point is not simply a methodological one. Rather, the methodological choices made in studying cash limits for this thesis also generates novel theoretical conclusions which incorporate salient elements of the various secondary accounts of cash limits which have hitherto been written.

Therefore, what follows is an outline of the three main explanatory models for cash limits so far available as well as an indication of their limitations and how these limitations can be overcome by way of the empirical account so far provided. The three explanatory models are: policy-oriented; institution-oriented; and system-oriented. Each of these contains important aspects of the truth of the matter, which can be demonstrated by reference to the empirical account provided throughout this thesis. However, each model also omits important dimensions necessary for a fuller understanding of cash limits. Therefore, the following discussion will attempt to be a synthesis between the already existing explanations of cash limits and the discoveries gleaned throughout the empirical investigation conducted for the purposes of this thesis.

Policy-oriented explanations

Policy-oriented explanations are discussed as such due to the way they adhere to the immediate policy-context of cash limits and explain them in terms of this horizon. The predominant narrative here tends to follow the chronology of the early work of the Expenditure Committee and place the importance of this work in the discussion about the supposedly inherent weaknesses of the then-established PESC system. As discussed in Chapter 1, a watershed moment in this narrative came with

the 'discovery' of the 'missing billions' by Wynne Godley. The importance of this moment for the policy-oriented accounts cannot be understated. What the case of the missing billions served to highlight was the alleged dysfunctionality of PESC, particularly in the context of higher-than-normal inflation (Pliatzky, 1982). The automatic paying of the inflationary cost of public expenditure by way of Supplementaries essentially negated any effort to meaningfully plan the real growth in public expenditure, resulting in significantly higher spending than anticipated (Barnett, 1982).

As such, PESC was cast as a central element in the loss of control by the Treasury over the public expenditure process. Therefore, as the explanation goes, a policy innovation – that is, cash limits – was introduced as a means of correcting for this failure of control in a bid to reassert Treasury oversight and limit unanticipated and unchecked growth in public expenditure (Wass, 2008). In many respects, this is the 'conventional wisdom' when discussing the introduction and implementation of cash limits in the 1970s. Inflation is discussed, but the causes are not elaborated. Rather, the focus is on a change in policy to correct a defect in the system of planning which the state had long adopted. In many respects, therefore, change is seen as motivated by way of exogenous shocks to a system which could no longer tolerate them. Cash limits were introduced as an immediate corrective, with the public explanation being one of enhanced control and oversight of public expenditure.

Central to the policy-oriented accounts is also a concern with the issue of the PSBR, which at the time was argued to be growing too much and too quickly (Pliatzky, 1982; Pliatzky, 1985; Wass, 2008). Without adequate control over public expenditure, the growth in the PSBR would turnout substantially higher each year than projected. As a result, concerns were raised about the sustainability of government borrowing even though there was no consensus on how much was too much in terms of the PSBR. Cash limits, therefore, were also posited as a means of ensuring that growth in the PSBR was kept under control and would thus combat the fears that borrowing by the government was getting out of hand.

The policy-oriented narrative gains credence and support for this interpretation by the analysis of the IMF crisis in 1976. The conventional account was that the IMF had to bailout the UK due to the precipitous decline in the value of sterling, which was in turn caused in no small part by excessive government borrowing to finance expenditure (Ludlam, 1992). As Pliatzky states "measures to restore confidence therefore had to be considered" and that such measures necessarily had to focus on public expenditure and borrowing as "it was the size of our expenditure programmes and of the borrowing to finance them which, in the eyes of the financial world, were at the heart of our problem" (1982: 144). As such, cash limits are framed as an essential policy change that could, in part, restore the confidence of financiers in relation to the UK economy[247][248].

This concern with the PSBR and overall levels of public expenditure were certainly at the forefront of the Labour government's agenda also[249] (Healey, 1989). Their concern with inflation and Healey's oft-repeated concerns that the public sector was using up excessive resources within the economy, further cemented the notion that cash limits were – in essence – a means of enhancing control over the growth of public expenditure in an inflationary context, as a means of checking the growth in public sector borrowing and, therefore, restoring confidence in the UK economy.

This argument does find empirical support, particularly when examining the documents concerning the IMF audit during 1976[250]. The IMF were very concerned about public sector borrowing, and the Treasury proudly presented cash limits as a mechanism for controlling public expenditure and exerting downwards pressure on borrowing[251]. So, whilst the policy-oriented account certainly accords with a significant part of the picture concerning cash limits, the deficiencies of this means of explaining them lie more in omission that incorrectness. What is implicit in this account is several institutional and structural questions which are, by and large, left unaddressed. Whilst the conventional accounts of

[247] TNA T 277/3056, Rawlinson to Barratt, 'Overseas Banking Opinion' 20th June 1975
[248] TNA T371/24, GEP2 Division, 'IMF: United Kingdom Consultations November 1976: Answer to Question No 13', 29th October 1976
[249] TNA CAB 128/183/13, Chancellor of the Exchequer, 'Public Expenditure Survey 1975', 19th May 1975
[250] Ibid
[251] Ibid

cash limits do indicate a breakdown in a previously established system, there is no real discussion of how cash limits would transform norms and rules in a fundamental way. Rather, cash limits are seen as a form of problem-solving that met an immediate issue concerning the inflationary nature of public expenditure (Bevan, 1980).

However, as the empirical account thus far has demonstrated, the genesis of cash limits lay in earlier discussions concerned the inherent problems of PESC[252]. Cash limits, however, were not viewed simply as a problem-solving measure, but rather as a means of fundamentally transforming institutional norms, attitudes and rules which the Treasury believed abrogated effective counter-inflationary policy from being implemented PESC[253], whilst identified as a clear problem, was seen as part of a general diffusion of indiscipline within the state on the part of those managing programmes. Whilst the conventional policy accounts are not necessarily incorrect – as cash limits certainly were a response to an immediate problem with public expenditure policy – the explanations do not go far enough in examining the intended institutional changes which cash limits would seek to bring about. Therefore, it is not the case that policy-oriented explanations are incorrect, but rather insufficient in depth and scope. Therefore, what one could term a 'revisionist' literature concerning cash limits did emerge in response to the change in policy heralded by cash limits. Such approaches sought to examine more deeply the institutional changes brought about by cash limits and, as a result, would heighten the significance of cash limits in terms of state management of public expenditure.

Institutional explanations

The paradigmatic works in the institutionalist tradition remain Heclo & Wildavsky (1981) and Thain & Wright (1995). Whilst the former are known primarily for their account of the PESC system, their analysis of cash limits in later iterations of 'The Private Governance of Public Money' highlight an important theme for the institutionalist analysis; namely, how both PESC and cash limits, or perhaps

[252] TNA T230/1059, Levitt to Atkinson, 'Cash Limits to Public Expenditure, 2nd June 1969
[253] TNA T331/1077, Henley to Chief Secretary, 'Cash Control of Public Expenditure', 15th August 1975

more accurately the logics and norms associated with each, would be able to co-exist, or whether the PESC system itself was effectively supplanted with the introduction of cash limits. Thain & Wright (1995), whilst relying on the policy explanations given, deepen the understanding of cash limits by way of a discussion of fundamental changes to the rules and norms governing public expenditure management. They discover what they term the 'underspend norm' which came to replace the 'overspend norm' which had emerged from the PESC structure (Thain & Wright, 1995). Here, the emphasis is very much on what Hedley termed the 'revolution in attitude and systems' brought about by the effective implementation of cash control.

It is by way of the institutionalist explanations of cash limits that two important points are confirmed: one, that the implementation of cash limits clashed fundamentally with any notion of resource-based planning of public expenditure[254]; and two, that the implementation of cash limits created a phenomenal tendency to underspend by which the Treasury affected deep expenditure cuts on top of those officially announced by the government (Hall, 1983). The discovery of the underspend norm, along with empirical investigation into the conceptualisation and initial implementation of cash limits as presented in this thesis, lead to the conclusion that Treasury officials were aware of the possibility of embedding an 'underspend norm' in place of ubiquitous overspend, and that this was an intentional aspect of cash limits. In many respects, the institutional explanations, when complemented by the empirical analysis presented heretofore, allow an understanding of cash limits as a means of impacting behaviours, changing norms and altering expectations amongst those responsible for the implementation of public programmes. Senior Treasury officials certainly desired a more cautious attitude on the part of programme managers and sought to find ways of making public programmes more economical in terms of overall spend[255].

[254] TNA T277/3054, Henley to Wass, 'Cash Control', 28th February 1975
[255] TNA T331/1082, GE Division (Treasury), 'Supplementary Briefing: Cash Limits to Public Expenditure', 1974

As such, the institutional explanations of cash limits are both important and, in many instances, correct when considered alongside empirical evidence. The advantage of the empirical analysis provided herein is that lingering questions within the institutional explanations have been somewhat answered. Primary amongst them is the question dealt with in Chapter 5 of this thesis concerning the intentionality of creating underspend on the part of the Treasury because of cash limits. The empirical evidence examined for this thesis certainly suggests that on balance underspend was both anticipated and considered as something fortuitous and necessary for the effective management of public expenditure.

However, what is lacking in the institutionalist account is an appreciation for the systemic or structural factors at play more generally. In terms of motivations for cash limits, institutionalist approaches do not diverge a great deal from policy-oriented or orthodox accounts. Cash limits were about control, they were about the PSBR, and they were important in tackling the inflationary biases of the PESC system (Heclo & Wildavsky, 1981; Thain & Wright, 1995). Their genesis was due, in large part, to the much publicised 'missing billions' and their implementation was a means of correcting for this. Institutionalist accounts give a better analysis of how this change materialised, how cash limits operated within the institutional framework of public expenditure management, and how they had a lasting impact on the rules and norms of expenditure management (Thain & Wright, 1995). However, there is no real critical engagement with the political economy of cash limits; or rather, the political economic context within which cash limits operated and through which a clearer indication of their wider significance can be gleaned. Both policy-oriented and institutionalist accounts fail due to a lack of theorisation of either the state or what it is the state presides over or seeks to govern. Whilst this is to be expected of the policy-oriented approach, which take up the ready-made categories of the British state and use them, uncritically, to discuss cash limits; the revisionist approach has space for a more critical engagement with the state and the systemic pressures confronting it but fails to do so. As a result, the institutionalist explanations are perhaps better understood as tertiary developments of the policy-oriented analysis, rather than something that is qualitatively distinct. The discussion of

immediate cause and response (as in the policy-oriented approach) is supplemented and deepened with a discussion of cash limits as a mechanism and the change in rules and norms they brought about. However, a critical accounting of the significance of cash limits within the overly political and economic context of the British state in the 1970s is not pursued.

It thusly falls to what is here described as the 'radical' approach to cash limits where discussion of the wider political and economic factors shaping the implementation of cash limits is to be found. These explanations owe a great deal to Marxist theoretical categories as well as socialist political motivations, with some key accounts emerging from the left-wing of the trade union movement in the UK at the time cash limits were introduced. It is to these accounts, and their strengths and deficiencies, to which we now turn.

Radical explanations

The primary account which deals explicitly with the question of cash limits from what can be termed a radical position is the one provided by (Glyn & Harrison, 1980) who present an analysis of the decline of the British economy along Marxist lines. For them, cash limits are a significant dimension of state restructuring made necessary by what they call a crisis in the production and realisation of surplus value, or more straightforwardly, a crisis in the profitability of British capitalism.

Glyn & Harrison (1980) are distinctive in the sense that they deal directly with cash limits in their account of the 1974-79 Labour government and the difficulties encountered by it in the course of economic and political management. For the authors, cash limits are introduced for a relatively simple reason: to implement significant cuts to public expenditure. After a brief outline of cash limits as a system of control, they point to the fact that the aggregate underspend created by cash limits turned out to have an even greater impact on public expenditure levels than the official cuts announced by the government. However, what is novel – and most important – about their contribution is the reasoning as to why public expenditure needed to be cut in the first place.

As we have seen, concerns surrounding the PSBR and growth in public expenditure concerned those at the Treasury and is accounted for in policy-oriented explanations. However, the reasoning often given as to why public expenditure needed to be cut was either financing the debt was becoming too expensive (Pliatzky, 1982), spending was fuelling inflation[256], or that public spending was crowding out private investment (Healey, 1989). Glyn & Harrison (1980), on the other hand, discount these surface level explanations and look to the issues of capitalist valorisation (that is, it's ability to grow via the generation of profits) as the root cause for these cuts. As they rightly point out, it seems at first illogical that capitalists would be against public expenditure, as this creates conditions for profitable exploitation of labour by providing infrastructure and reproduction of workers. Also, public borrowing provides a safe avenue for capitalists to invest and gain interest, as they buy up state bonds. However, according to Glyn & Harrison (1980), the traditional explanation of the benefits of public expenditure to national capital had collapsed by the 1970s, as profit rates had slumped (Roberts, 2018), and costs continued to rise. In an inflationary context, British capital was concerned with one thing above all: the rising cost of labour in respect to prices.

Given the central tenet of the Marxist critique of capital is the role of labour in the production of value, Glyn & Harrison (1980) provide a more nuanced view on the issue of inflation and the role played by public expenditure cuts as enforced by cash limits. In their analysis, inflation per se is not a concern for capitalists. If inflation were confined to simple rise in prices, then British capital at the time would welcome it. In the context of lower profits overall, higher prices enable capital to claw back a greater share of surplus value and thus somewhat negate the impact of the falling rate of profit (Cleaver, 2000). However, insofar as labour-power – that is workers – pre-empt and negate these increases in prices, then capital is unable to take advantage of rising prices (Glyn & Sutcliffe, 1972). What was taking place in the 1970s was widespread workers' resistance to inflation in the form of wage demands

[256] TNA T331/1076, CCG to PCC, 'Cash Control', 19th February 1975

which kept pace with inflation in prices (Coates, 1980). As such, prices were rising but importantly so were *costs* – in particular, the cost of labour-power. As Glyn & Harrison put it

> The worry for capital is that workers react to a higher cost of living [price inflation] by claiming correspondingly higher pay. Profits are prevented from rising and competitiveness is damaged by the increase in costs (1980: 126).

In their view, this was exactly the dynamic of the 1970s inflationary situation. As such, cash limits played an important role in constraining public expenditure which, for Glyn & Harrison (1980), reduces the aggregate demand for labour and thus increases pressures towards unemployment. Unemployment has the beneficial (for capital, at least) effect of weakening the bargaining position of labour and thus allows for a cheapening of labour power and a restoration of profitable accumulation.

The most immediate issue with this explanation is that whilst pressures towards unemployment certainly continued to increase throughout 1974-79, the supposed impact of this on the bargaining power of labour was not realised in the immediate term. Union strength was still considerable, in spite of increased unemployment. One could therefore level the charge of functionalistic bias in Glyn & Harrison's analysis, in the sense that they ascribe a function to public expenditure cuts within capitalist society (to create unemployment), which then allows for improvements in profitable accumulation. However, this analysis underestimates the strength and political influence of trade unionism during the 1970s, which allowed for the maintenance of relative strength in wage bargaining, clearly exemplified by the wage militancy at the close of the decade. Glyn & Harrison (1980) do point to two important dimensions of cash limits which are missing from the accounts outlined thus far. Firstly, that cash limits were effective cuts that were, in a sense, unofficial; and secondly, that the issue of labour discipline was central to public expenditure management in the period.

In dealing with the first dimension – that of cash limits as cuts – further analysis to support this interpretation is given by David Hall (1983). Hall's interpretation of cash limits is largely concerned with the role they play in enforcing cuts to public expenditure in a manner which is somewhat shielded

from public scrutiny. Unlike publicly announced cuts, the impact of cash limits was more automatic and less subject to political scrutiny. He describes cash limits as part of an 'administrative squeeze' which "erodes services, jobs and conditions without any open political decision to do so: it all takes place automatically…" (1983: 53). Hall thus clearly indicates that cash limits were important insofar as they were a depoliticised means of fundamentally reducing the public sector. However, the question stands as to what end? For Hall (1983: 54), cash limits were about "giving priority to finance, discounting the value of services, disciplining workers, and limiting the opportunity for contrary influences." Whilst Hall is less explicit about the function of cash limits for the ends of profitable accumulation of capital, he sees them as an important aspect of a fundamental transformation of the state away from the satisfaction of social needs, towards the appeasement of narrow business interests. For the likes of Hall, the welfare state marked an important step forward in terms of a socialistic organisation of society, and its gradual erosion by way of the state becoming a 'cuts machine' indicated a retrograde step away from the satisfaction of needs towards the promotion of business and profit. Whilst this is certainly more of an ideological assessment of cash limits, associated most clearly with the left-wing of the trade union movement, it has the benefit of pointing out the importance of depoliticization in the implementation of cash limits, as well as the importance of a fundamental transformation in the very logic governing public expenditure. Hall gestures towards the importance of the "revolution in attitudes and systems" which came with cash limits, and thus opens the way for important institutionalist considerations in the space of a more radical critique.

Finally, there is the assessment of cash limits provided by the CSE State Group (1979), who provided a relatively early radical explanation. In the book 'Struggle over the State' the CSE State Group argue that the introduction of cash limits served two main functions alongside the achievement of significant 'unofficial' reductions in public expenditure. Firstly, cash limits altered the balance of power and accountability when it came to public expenditure decisions. By establishing the Treasury as the centre of decision-making on public expenditure, the responsibility for maintaining discipline is then passed down to departments. Rather than a joint exercise in ensuring cost efficiency, now the Treasury set

the standard and expected departments to meet it themselves. Failure to do so would then rest squarely with the department in question, which would then be subject to Treasury discipline (offsetting reductions, etc.). Secondly, cash limits played an important role in the enforcement of pay restraint in the public sector. They argue

> …cash limits are an additional means of enforcing pay restraint. A forecast growth in pay is built into the cash limit, but such forecasts may represent more the policy target of the government than the expected general growth in pay. In this way the Treasury puts pressure on the various departments to keep settlements lower than they would otherwise be, or to finance settlements above the target rate of increase by cutting the level of services (1979: 34).

This role for cash limits in enforcing pay restraint was, as has been revealed with archival evidence, a central dimension of their conceptualisation and implementation. Given the Labour government's own view of inflation as being pushed by worker demands for pay, and the knock-on effect wage increases would have throughout the economy, wage restraint in the public sector was essential. There are two reasons for this as gleaned from the archival evidence: one, that the state had to lead by example in the battle against inflation; and second, because effective control over wages in the private sector was beyond the scope of direct state control. With the former, the prevalence of a theory of inflationary psychology when it came to wage increases motivated the belief that when one concession was made on wages (Jones, 1973), further wage demands would emerge, and it would then be difficult to refuse them. In this sense, a breach in pay policy in the public sector would not only signal a failure of the state to lead the battle against inflation but would also be the harbinger of further and accelerated wage demands elsewhere. In reference to the latter, Cabinet discussions evidence the fact that the government was largely powerless when it came to enforcing wage restraint in the private sector[257]. The only avenue open to the government in this regard was action on price

[257] TNA CAB128/57/1, 'Cabinet Conclusion: Counter-Inflation Policy' 1st July 1975

control, or the use of sanctions. However, as the case with the Ford strike in 1978 demonstrates, any such action would be difficult to bring about (Shepherd, 2013). Therefore, cash limits were important in pay restraint mainly because they allowed the state to regulate the price of labour for those it employed directly; in short, there was a convenience to cash limits when it came to pay restraint overall.

In conclusion, there are several key strands to the radical explanations of cash limits. Firstly, there is the central argument common to all accounts that cash limits were a means of implementing cuts to public expenditure. Such cuts were deemed necessary due to the decline in profitability of British capital and the need to create discipline by way of unemployment (Glyn & Harrison, 1980). Second, and related to the first, is that cash limits were a depoliticised mechanism for introducing cuts that were far greater than those publicly announced by the government (Hall, 1983). By means of administration of public expenditure, billions of pounds went unspent without this being a direct result of any policy or public discourse. Thirdly is the idea that disciplining the workforce was important not only in terms of creating unemployment to curtail the bargaining power of organised labour, but to enforce incomes policy by ensuring public sector workers could not achieve pay increases that were beyond the scope of the agreed norm used when calculating the cash limit. Tying this all together in the radical explanations is a concern for the decline of the welfare state and what might come after. Importantly, the decline discussed in the radical accounts comes from a general state of crisis for British capitalism, rather than any institutional malpractice, which was the culmination of a general tendency for the profitability of British capital to fall in the context of intensified international competition after the Second World War (Yaffe, 1973). As such, these accounts attempt to point towards the *necessity* of state restructuring as anchored within the dynamics of the British economy. Rather than explain cash limits by way of immediate policy problems, or institutional anachronism, the radical accounts attempt to ground the introduction of cash limits in the wider dynamics of capitalist crisis and restructuring in the 1970s (CSE, 1979). These accounts therefore gesture towards the emergence of what has now been described as the

‘neoliberal’ phase of capitalism, predicated on low wages, low trade union density, a dwindling public sector, privatisation and an abandonment of any commitment to full employment.

Discussion

As can be seen from the above account of different explanations of cash limits, much of what existing literature discusses is both relevant and important to an understanding of cash limits. However, rather than resort to a simplistic confirmation/falsification, the aim of this thesis could be better described as synthetic. Explanations within social science always come with the caveat that they are all always “relatively incomplete, approximate and contestable” (Sayer, 1992: 232). This is due in no small part to the fact that the ‘object’ of social sciences are often open systems that are inherently ‘messy’. In reference to the state particularly, we could refer to it as a ‘structured mess’ which presents innumerable difficulties to the production of complete and unassailable explanation (Sayer, 1992: 234).

However, the empirical account provided in previous chapters provides a reasonably solid empirical base against which theoretical considerations can be examined. Theoretical questions can, therefore, be critiqued and transformed by recourse to empirical findings, whilst empirical findings can better situate the validity of the differing accounts. Therefore, on reflection it should become clear to the reader that the various accounts of cash limits have a sort of bounded validity, in the sense that the explanations proffered are useful in terms of the limited analytic level at which they are pitched. For instance, the policy-oriented explanations offer important insights to the immediate context and justifications of cash limits which, after empirical study, hold up to scrutiny. However, what is missing is a meso-level analysis of exactly how cash limits operated, why they had to operate in the way they did, and the lasting institutional impact which they had in respect to public expenditure management. Likewise, the radical analysis – which tends to focus on the systemic or structural motivations owing to the necessity to restructure capital accumulation in the 1970s – provide a meta-level analysis but

with almost total neglect of both policy and institutional questions. Therefore, each existent level of explanation when it comes to cash limits is partial and incomplete.

It is by recourse to predominantly empirical investigation that this thesis attempts to build a coherent account of the implementation of cash limits, against which the existing accounts can be examined. Rather than this empirical account providing some definitive confirmation/falsification of existing accounts, it points to the necessity of a multifaceted understanding of cash limits which can take account of the various, sometimes competing, motivations and logics behind them. The policy-oriented explanation provides a coherent account of public-facing justifications to the implementation of cash limits, whilst also providing several claims regarding their implementation that can be critically examined by way of archival records. In many respects, the policy-oriented explanations are the starting point for a deeper analysis, as they provide a strictly surface level explanation. Institutionalist approaches represent a deepening of analysis, as they examine the long-term norms and rules of public expenditure and how they cash limits transformed these in a substantive manner. Systemic or radical analyses provide important socio-economic contextualisation, which posits the implementation of cash limits within broader questions of the political economic management of the British capitalist state in the 1970s. The benefit of this level of analysis is that they integrate a coherent theorisation of the British state and the imperatives which motivate its activity.

Cash limits – a revolution of attitudes and systems against organised labour

The enduring legacy of cash limits is also the consideration that first motivated their implementation; that is, the creation of a trade-off between wage increases and service-provision[258]. By mobilising the provision of services, a key element of the welfare state, against demands for wage increases the state effectively turned the trade union movement in the public sector against itself. By demanding offsetting savings by way of cuts to services, cash limit control allowed wage demands to be construed

[258] TNA T331/1086, Glover to Wiggins, 'Expenditure Committee twelfth Report: Cash Control of Public Expenditure, Memorandum by the Treasury' 25th September 1975

as antithetical to the full provision of services by the public sector. This was seen as a key dimension in the leverage cash limits would grant to programme managers in their negotiations with the trade unions and was seen as a mechanism by which the logics of the private sector could be imported – synthetically – into the public sector[259].

This shift emerged from the institutional change wherein cash limits took precedence over PESC plans. As discussed in the first empirical chapter, PESC was a system of planning based around resource considerations. In terms of the welfare state and the provision of public services, this made sense. However, in the context of inflation – brought about by the decline of British capitalism – such provision was seen at odds with sound economic policy. What mattered was not resources provided, but how much money was actually spent (and therefore borrowed). Again, the in the words of Heclo & Wildavsky (1981), increasingly the 'numbers' became the policy, rather than the numbers (i.e., prices) being a means to deliver policy. Therefore, cash limits represented a fundamental break with the historic commitments of the welfare system in the UK, which was built and managed based on resource considerations (Heald, 1983). In a sense, the implementation of cash limits was an attempt to rekindle a pre-Keynesian orthodoxy around public spending, in that the Treasury should only commit to spending within the means available to the state (Peden, 1984).

Therefore, we have a fundamental restructuring of the welfare state in the UK that is often underappreciated. Whilst privatisation and deindustrialisation are often – understandably – emphasised, cash limits heralded an essential transformation in the manner that public money was managed. Therefore, this thesis posits that cash limits were a response to the increasingly intractable contradictions of the welfare state in the UK.

Contradictions of the welfare state and the place of cash limits

[259] Ibid

As previously mentioned, policy and institutional analyses of cash limits are incomplete, primarily because they do not place the implementation of cash limits within a broader systemic analysis of the state and capitalism in the 1970s. Whilst radical accounts tend to emphasise the necessity of restructuring owing to capitalist crisis during the period, these explanations under-theorise the welfare state form in particular and the importance of public expenditure reform in the course of the development of the contradictions of this form.

In Habermas (1976) points out in 'Legitimation Crisis', the increasing pressure of the contradiction of the welfare state – or what he calls organised or administrative capitalism. Over the course of the development of the welfare state, large sections of labour were employed as part of the public sector which produced use-values for a restive population. In the UK, for example, there was the massive and unprecedented expansion of the National Health Service, the civil service at all levels, local Government and even state-owned enterprises. These services provided necessary use-values for the population of labourers for a dual purpose: firstly, to reduce the direct burden on private capital to reproduce the worker at a level and skill sufficient for accumulation of profit; and second, to legitimise the state in the eyes of workers so that grievances would not become demands for complete societal change. In the context of the Russian Revolution of 1917, and the subsequent rise of the Soviet Union and the socialist alternative, capitalist states considered it necessary to provide a certain level of living standard which would see off the threat of socialist transformation (Clarke, 1988). Furthermore, the increased massification of production, as well as intensified international competition after the second world war, placed emphasis on skilled labourers. In a real sense, the quality of labour power became a key concern in terms of capitalist competition, and the state socialised the cost of ensuring workers were sufficiently trained.

Therefore, a large public sector gradually emerged which served the needs of the population, which were now seen as integrated into macroeconomic management. However, as Habermas (1976) points out, this meant an increased portion of capital being pre-empted for the cost of producing non-

commodified use-values (education, healthcare, housing, municipal services, etc.) for the reproduction of workers. Such a de-commodified form of production exists in necessary tension with the overall drive under capitalism to subsume all use-value under the logic of exchange (Habermas, 1976). This tension manifested in several ways. Firstly, use-value production was divorced from considerations of capital accumulation in the private sector, though dependent upon this very sector for their continued production; secondly, the enhanced reproduction of workers at a higher living standard and educational level meant labour was becoming more expensive to maintain; thirdly, the decommodification of certain aspects of life meant that the threat of unemployment was no longer a sharp disciplinary mechanism (given social security systems, etc.). Therefore, a clear and stark contradiction began to intensify as policies had to be "measured both by the exchangeability they produce for labour and capital *and* by their promise to satisfy the needs of people through alternative, non-market means of social production" (Offe, 1984: 144).

This tension can be directly observed during the development and implementation of cash limits. As outlined, the PESC system was unique in the sense that inflation in both goods and services were automatically paid for by the state when it came to public expenditure. This was because constant prices were used for managing public expenditure which signified resource considerations rather than immediate monetary ones. In essence, PESC partially de-commodified the provision of public services by detaching spending decisions from the consequences of inflation in the market. What this meant in practical terms was that public expenditure would increase just to accommodate higher costs for goods and services and, most importantly, workers. PESC had no mechanism within itself to resist increased wages within the public sector, meaning that wages were no longer impacted by the logic of the market, but by the assessment of the state concerning the level of existent need for services and the necessary resources to meet these needs (Heald, 1983). At the very centre of the capitalist state's structure – that is, its use of money to achieve outcomes – was a partially de-commodified form of spending which insulated public expenditure from the consequences of capitalist crisis. It was this partial insulation from market conditions that cash limits sought to remedy within the public

expenditure system by supplanting constant prices with current prices, which would take into account targeted inflation levels within the economy and limit public spending accordingly. As a result, a logic shift occurred almost overnight: rather than the public expenditure exercise being concerned with providing a certain level of service to the public, it became about the macroeconomic concern with inflation and the need to counter it. No longer was public expenditure to be thought of as providing for needs and being fully resourced as a consequence; instead, it was seen as yet another aspect of state activity which needed to be directed by market conditions. Again, as Heclo and Wildavsky (1981) put it public policy became about the numbers, at the expense of all else.

The certainty with which one can posit this almost overnight change can be found in Thain & Wright's (1995) discovery of the 'underspend norm' which replaced the overspend norm of the PESC days. Underspend is a distinctly irrational outcome when seen from the point of view of the provision of services, but an eminently rational outcome when seen from the point of view of imposing market discipline on the public sector. This mimicking of the private sector brought about by cash limits was not only something seen as necessary by Treasury officials, but openly used to justify their implementation[260]. Such a change in the fundamental process of managing public expenditure can only be made sense of it posited within the general crisis of the Keynesian indicative planning state form which had emerged since post-war reconstruction (Clarke, 1988; Clarke, 1992). The PESC system was designed to facilitate increased public expenditure predicated on a Keynesian commitment to GDP growth. The working class had been integrated into the state by way of Keynesian welfare state forms and promised increased wages by way of incomes policies and increased social wage by consistent growth in public expenditure (Clarke, 1988). In short, the welfare state had institutionalised a certain historical and moral component of the cost of labour power (Lebowitz, 2003). The class compromise which the welfare state exemplified built in a tendency to socialise the cost of reproducing labour through increased public spending and higher wages, thus ensuring an inflationary

[260] T331/1077, Henley to Chief Secretary, 'Cash Control of Public Expenditure', 15th August 1975

pressure. PESC was the appropriate institutional form for this compromise, as it facilitated price and wage increases without restriction.

However, by the 1970s this compromise was coming undone. British capital had long struggled to compete internationally with capital which had been restructured substantially following the Second World War (Clarke, 1988). Productivity of British capital, as a result, was low relative to other countries. The pressure of competition meant a need not only to rationalise production – something that was resisted by both capital and labour in Britain – but to reduce the costs of production so that profits were not squeezed (Glyn & Harrison, 1980). The primary means of doing so was to target wages. However, wage determination had been long institutionalised within the state apparatuses of Keynesian class compromise, both in terms of actual wages and public expenditure (or the social wage). The institutionalisation of wage bargaining at a national level – by way of incomes policies – had integrated the determination of the value of labour power within the Keynesian planning system (Clarke, 1988). In this important sense, the discipline of the market no longer set the standard for the cost of labour power employed in production. Market logic had been abrogated in favour of Keynesian planning.

This is vital for a proper understanding of cash limits. As (Marx, 1970) argued in 'Wages, Price and Profit', a major aspect in the determination of the value of labour power was what he called a 'historical and social' element. The 'historical and social' element of the determination of the value of labour power refers to the expansion of needs on the part of the working class. The inherent tendency of capital is to force wages down to their "physical minimum" necessary for simple reproduction of the worker (Marx, 1970). The logic of the market and of competition is to diminish the 'historical and social' determinants of wages in favour of physical limits. The worker, on the other hand, pushes in the opposite direction – that is, to the maximum possible expansion of wages as deemed sufficient to achieve a particular living standard (Lebowitz, 2003). The Keynesian compromise steps into this contradiction to mediate it; that is, to accommodate rising wages with rising profits. The Keynesian

compromise, therefore, was predicated on institutionalising rising expectations on both the part of the capitalist and the worker (Clarke, 1988). Once this institutionalisation had been achieved, it became increasingly difficult to unpick it. This resulted in a working class which refused to show restraint in terms of their demands for wages and increased public expenditure, even if capital could no longer accommodate these demands. The physical limit had – in essence – been suspended by an institutionalised expectation of continued increases in wages. This meant that even increased unemployment throughout the 1970s did little to blunt the militancy of the working class.

PESC is clear example of this institutionalisation of rising expectations. Public expenditure plans were made in accordance with available resources, rather than monetary considerations. Constant prices were a form of institutional fact appropriate to the Keynesian compromise, where public expenditure would continue to rise regardless of inflation, and any inflation in prices and wages would be automatically paid for by way of Supplementary Estimates. The result was a huge disparity between planned expenditure and actual expenditure which continually exceeded planned amounts. Due to the political sensitivity around taxation, as well as the added inflationary pressures that such tax increases would bring about, public borrowing became the means by which ever-growing public expenditure was to be financed. Therefore, the state's spending of money was no longer dictated by market conditions, but by the institutionalised expectations of constant increases in spending which were institutionally insulated from inflation.

Returning to the issue of wages, a large and growing proportion of public expenditure was on wages for the public sector. Given the limits on rationalisation within the public sector, it remained labour intensive. Therefore, the drive to increase wages on the part of public sector workers was creating substantial pressure to increase public borrowing. The fiscal stability of the state was directly threatened by the public sector worker who demanded wages consummate with a standard of living which had been institutionally determined by the Keynesian compromise. Wages were expected to keep rising, and with them public expenditure. Therefore, in a context of limited profitability on the

part of British capital, the unproductive state sector was growing without limit. Cash limits, therefore, were an important opening move in disintegrating this dynamic. Incomes policy in the 1970s – rather than ensuring consistent pay increases – had now become deflationary. Incomes policy was devised on the basis of counter-inflationary targets which cash limits then sought to fix in place within the public sector. Price stability and restraint on wages were what cash limits were intended to produce for the public sector, and they succeeded in doing so. As has been previously discussed, the success of cash limits far exceeded expectations. For the first time in the post-war period the growth in public expenditure had been slowed. Public sector wages were maintained within the cash limits set for them until the pivotal conflict at the end of the decade meant inflationary pay increases across the board.

Cash limits were also successful in navigating the tensions of the welfare state in the sense that they allowed for much larger public expenditure cuts than those agreed – with difficulty – in Parliament. As discussed previously, the Social Contract entered into with the trade union movement was based on promises around the social wage. Wage restraint in the workplace would be met by increased commitments to public expenditure. However, as the Labour government reneged on this compromise, it had to force through unpopular cuts to public expenditure which put strain not only on its relationship to the trade union movement, but on its own majority as backbenchers were reluctant to accept cuts (Benn, 1989). Cash limits, by way of the underspend norm, allowed large savings to be made in public expenditure without these difficulties. Underspend was not policy, but an anticipated outcome of the implementation of cash limits. This saved the government the embarrassment of having to push through further cuts in Parliament and allowed plausible deniability when it came to trade union criticism. This depoliticization of cuts to public expenditure allowed the government to further reduce public spending without having to fight the issue directly. However, the public sector unions did much to point out that cash limits were being used in this way (Fryer, 1979). Rather than assuage the trade unions, cash limits served to aggravate public sector unions and resulted in them mobilising against public expenditure cuts and cash limits throughout the period (Ludlam, 1994). This continued integration of working class demands by way of the trade union

movement, alongside clear attempts to curtail the demands of the working class through incomes policy and cash limits, was a modus vivendi with limited viability. The state was attacking the living standards of the organised working class whilst at the same time courting their cooperation in the exercise. Such a circumstance hinged entirely on the relationship of the Labour Party with the trade unions and was as such especially vulnerable to collapse (Coates, 1980). In short, maintaining the integration of the working class within the Keynesian apparatus whilst also attempting to limit and curtail their demands proved to be an unworkable state of affairs. This was clearly demonstrated with the 'winter of discontent' and the complete breakdown of both incomes policy and cash limit discipline.

The aspirations of the working class and divisive quality of cash limits

Perhaps the most compelling conclusion when it comes to understanding cash limits is the one gestured towards by Simon Clarke, who is worth quoting in full. In his seminal text *Keynesianism, Monetarism and the Crisis of the State* Clarke agues

> Cash limits were much more than a mechanism of financial control. They had fundamental implications for the form of public administration in subordinating political and administrative discretion to the rule of money, ensuring that the provision of services according to centrally determined bureaucratic and political criteria would be confined within rigorously enforced financial constraints, rather than expanding in response to social need expressed at the point of provision. Thus cash limits ensured that expansion in one branch of provision could only be secured at the cost of deteriorating services and working conditions and of cuts in employment, thereby opening up divisions between workers within the public sector and between the producers and consumers of public services (1988: 317).

Clarke's argument hinges on the acknowledgement that the Keynesian indicative planning state, with its attempted integration of the working class into its administrative institutions, was at a crisis point.

In essence, workers' aspirations for a better standard of living had begun – by the 1970s – to outpace the capacity for the state to legitimately mediate them in a Keynesian form (Clarke, 1988). This dynamic can be directly observed when examining the pressures PESC had developed in the context of wage and price inflation, and the subsequent attempt to regain discipline through the imposition of cash limits, which would make the rule of money the determining factor in the allocation of public funds. The insidious logic of cash limits, as highlighted by Clarke, is arguably the most relevant legacy of cash limits. The ability to turn demands by public sector workers against the full provision of services, essentially allowed the state to present public sector wage claims as claims on the resources that would otherwise be provided to the public (Ludlam, 1994). Such a division was already visible within the trade union response to cash limits and public spending cuts (see Chapter 6) and is a logic that has endured throughout the time since the implementation of cash limits.

It is here that depoliticisation becomes a vital concept. As Burnham (2001) put it, depoliticisation involves the placing at one remove the political nature of decision-making. Cash limits can be seen as a form of achieving this outcome regarding public expenditure and also incomes policy. Cash limits were a form of 'rules-based' depoliticisation (Burnham, 2001b), wherein a technical limit was placed upon the amount of expenditure which could be allowed for in any given programme. As such, political demands for increased spending, either to fully purchase underlying volumes or to meet the demands of public sector trade unions, could be negated by reference to a new binding rule – namely, that cash limits would stick, even in the case of inflation being higher than anticipated. This imposition of cash limits is an example of the eminently *political* nature of depoliticisation, as such a decision to withhold spending represented a significant shift in the logic of governing public expenditure away from resourcing public provision towards 'meeting the targets'. As such, demands for increases in provision or increases in wages could be pre-empted by cash limits which were predicated upon a particular target for inflation. Therefore, the political discussion about priorities regarding public expenditure – whether it should be subservient to the needs of the population, or whether it should be subservient to the demands of the market – became decided by cash limits. The assessment of international

financial opinion and the perceived credibility of the British state's counter-inflationary programme became paramount concerns when deciding on public expenditure, and thus the logic of the market was reintroduced as a primary motivator for allocations of public funds.

Hitherto, no literature has touched upon the depoliticising elements of cash limits. This thesis, however, has demonstrated the political economic role played by cash limits during a period of crisis for the British state. In this sense, the thesis has demonstrated that the imposition of cash control, rather than a technical solution to an institutional failure, was in fact motivated by the need for counter-inflationary credibility in the eyes of international financial opinion, which desired lower wage costs and lower public borrowing. However, cash limits also demonstrate the *intercurrence* of (de)politicisation (Warner & Luke, 2023); that is, the coexistence of both politicising and depoliticising dynamics within the same policy area. As discussed in Chapter 4, the Treasury sought to depoliticise their role in setting cash limits for prospective pay increases for the year, preferring instead to bounce the government into introducing an incomes policy. This incomes policy thus allowed the Treasury to estimate pay increases on the basis of a fixed norm which had been decided with the goal of counter-inflation in mind. Responsibility, therefore, for pay restraint within the public sector fell on the government and the TUC, which the Treasury simply enforced with strict discipline. On the other hand, the Labour government sought to *politicise* cash limits as one of its sanctions for breaches of incomes policy, in response to a lukewarm response to the voluntary £6 limit. Their desire to politicise cash limits meant that they were introduced quicker than anticipated by the Treasury and that they were subsequently targeted by militant public sector unions in the build-up to the 'winter of discontent'.

That said, the outcome of cash limits was clearly a depoliticisation of the governance of public expenditure during a time where levels of public spending and the issue of public sector wages was of paramount concern. The legacy of cash limits is precisely in this depoliticising effort. Whilst cash limits were initially targeted by the trade union movement, resistance to them soon faded. As such, the logic which they introduced – that public expenditure decision-making should be concerned primarily with

financial discipline at the expense of provision and worker pay – was maintained and, with the election of Margaret Thatcher's Conservative Party in 1979, became further entrenched through the development of full cash planning (Thain & Wright, 1995).

Conclusion

This thesis has examined the conceptualisation, implementation, management and response to cash limit reforms to the governance of public expenditure under the 1974-79 Labour government. It has done so by way of an examination of hitherto unexamined primary archival evidence collected from the National Archives in Kew, London. The primary evidence has enabled this thesis to shed new light on the motivations, intentions and outcomes of cash limits and, as such, to provide a corrective to extant literature on the issue. Through analysis of the primary evidence, in tandem with theoretical concerns with the management of capitalism in the post-war period as well as the deployment of depoliticisation strategies, the thesis has demonstrated the importance of cash limits as a political weapon by which decisions regarding public expenditure were depoliticised so as to better achieve financial discipline and to better resist public sector pay demands made by an increasingly militant trade union movement in the context of unprecedented levels of peace-time inflation.

The thesis has achieved this by way of a discussion primarily focused on an empirical account of cash limits from inception to early operation, with an additional discussion as to the response to cash limits by the trade union movement and the eventual breakdown of the Labour government in 1978-79.

The thesis began with a literature review which examined not only general accounts of the circumstances facing Britain in 1974-79, but also theoretical accounts of both the decline of the British economy and the so-called breakdown of the post-war Keynesian consensus. The literature review then went on to give a brief account of extant literature on cash limits, categorising this into three broad approaches: the orthodox policy-oriented approaches; the revisionist institutionalist accounts; and the radical approaches which placed cash limits in the context of a crisis of capitalism and of state management of capitalism in the 1970s. The relative strengths and weaknesses of these approaches were discussed prior to the empirically driven corrective which would follow. It was concluded that each of the three approaches have merit but that, in themselves, were insufficient for an understanding of cash limits. A notion of depoliticisation and its relevance to an understanding of cash

limits was introduced in this literature review and would become a theme revisited throughout the thesis as a salient dimension to cash limit reforms hitherto unacknowledged.

The thesis then provided a breakdown of the theoretical presumptions brought into the analysis. The theoretical chapter outlined the broad contours of a Marxist approach to examining the British state. This was done by way of a discussion of Marx's foundational theorisation of capitalist social relations, and then an extended discussion of the role of the state vis-à-vis these relations. Marx's view of the nature of capital is one of a system necessarily preoccupied with the accumulation of capital in the form of profit. Such profit comes at the expense of the worker, whose labour-power is exploited both in absolute and relative terms. However, the tendency of capital is for profits to decline over time, necessitating the intervention of the state to ensure conditions for the growth of capital over time. It was explained that the state manages capitalist social relations to this end, albeit in a contradictory manner. Demands concerning accumulation of capital and legitimation in the eyes of an enfranchised electorate were shown to be in tension, something that was readily apparent during the Labour government of 1974-79. A discussion of depoliticisation in light of this fundamental tension was then provided, as depoliticisation provides the state with a means to implement reforms that are good for capital, but unpopular with the electorate (who are predominantly workers who sell their labour-power).

Following this, the thesis then turned to an empirical account of cash limits based on primary archival documentation, predominantly documentation concerning the Treasury and Cabinet (and other relevant elements of the central executive). Chapter 3, the first empirical chapter, provided historical context regarding public expenditure management in the post-war British state. A discussion of the pre-PESC traditional system of public expenditure management was provided as immediate context for the introduction of PESC in the 1960s as an attempt to modernise, rationalise and expand public expenditure in step with assumptions regarding economic growth and wage growth. The traditional system was shown to be more of a non-system, with annual cash control being the primary means by

which expenditure was managed. The lack of forward-planning for public expenditure was increasingly seen as a liability, leading to the Plowden Committee being formed at the outset of the 1960s. The Plowden Report found the traditional non-system for managing public expenditure to be out of step with so-called Keynesian revolution in public finances, resulting in recommendations for a system which integrated forward-planning into public expenditure management. The discussion then turned to the PESC system, which emerged from Plowden. Its main features – primarily the five-year timescale for plans and the constant price basis of the system – were outlined before an account of the breakdown of the system was given.

Considering Godley's infamous 'missing billions' revelation to the Expenditure Committee in 1975, discussion emerged as to the potential correctives to PESC's tendency to allow for unaccountable overspend, particularly in light of record levels of inflation. This was seen as particularly problematic due to the increase in the PSBR which such increases created, an issue which those convinced of tight control of the money supply were keen to point out. As such, cash limits were presented to the Expenditure Committee as a potential solution and were formally announced as upcoming policy in 1975. The chapter then gave a brief outline of cash limits in terms of their underlying principles; namely, that a cash ceiling for each year of expenditure would be fixed in place above which any public expenditure would not be allowed to rise. This was presented to the public as a prudent measure to restore the apparent loss of control over expenditure by the Treasury, meaning that cash limits were largely seen as an administrative measure to better control public expenditure levels in accordance with plans formulated in the course of the PESC process. This involved the transformation of PESC constant prices into current prices, which contained assumptions relating to probable inflation levels for the year. Therefore, counter-inflation became a key objective of cash limits and – by extension – of public expenditure. By fixing annual cash limits in current prices, the Treasury could bake in assumptions relating to the movement of pay and prices, thus allowing for cash limits to essentially target a level of inflation and fix this into allocations for public expenditure.

At the close of the chapter, greater detail was given on the role of cash limits vis-à-vis wages and the PSBR. This section discussed the role of perceived market pressures in bringing about cash limit reforms, as well as the concern with wage settlements which were above inflation in prices. This economic rationale for the imposition of cash limits went beyond a narrow concern for levels of public expenditure, and rather touched upon a range of political and economic concerns, primarily inflation, wages, the PSBR and the international perceptions of the British economy which – at that time – was manifesting in significant pressures on sterling with significant holders of the currency signalling intent to diversify away from sterling and towards the dollar. The chapter concluded with this discussion, making way for a deeper analysis of the conditions within the state which facilitated the emergence of cash limits as a significant reform.

Chapter 4 concerned itself with the introduction of cash limits as a significant step in the 'battle against inflation' which was waging by 1975. The account begins with a discussion of the 'mandarin revolt', detailing the impatience of senior Treasury civil servants with the government's approach to inflation. The main concern of the civil servants was, unsurprisingly, Labour's Social Contract with the trade unions and the issue of incomes and the lack of a substantive incomes policy. The 'mandarin revolt' essentially signals the end of official support from within the Civil Service for Labour's 1973-74 programme. Senior Civil Servants demanded a change in direction, with them urging tough action on wages in the form of a statutory incomes policy. The issue was that the trade unions had been 'bought off' with commitments to increase the social wage in return for restraint on wages. However, by 1975 the prospect of the efficacy of such a quid pro quo was thoroughly in question. Commitments to increasing public expenditure with seemingly no commitment on the part of trade union members to exercise restraint on wage demands presaged a change in direction for policy. It was at this point that the promised radicalism of the Labour government came apart. Cash limits were raised in this context as a means of squaring an impossible circle; namely, cash limits could reduce expenditure *and* limit wage growth without the introduction of a statutory incomes policy.

The chapter then went on to outline the fact that cash limits had been in development for quite some time prior to 1975. Proper development began in 1974 with the establishment of the Cash Control Group within the Treasury under the leadership of Douglas Henley. The discussions of this group around the issues of inflation and wages in particular contextualised the early debate around whether cash limits should be actively or passively instrumentalised in the battle against inflation. From this came the growing appreciation that cash limits could indeed be used as a means of placing downwards pressure on wage demands within the public sector, effectively enabling cash limits to support – explicitly or otherwise – an incomes policy. Furthermore, it was clearly acknowledged by the Treasury that if cash limits were predicated upon optimistic inflation forecasts, then in the event of excessive inflation corrective pressure would be applied to programme managers who would – due to higher costs – be no longer able to fully implement their programmes. In this way, it was hoped that cash limits would have a substantive impact on expectations regarding the consequences of inflation, in that public expenditure would no longer be inflation-proof. Therefore, cash limits were conceptualised as a means of bringing about a more 'business-like' mentality on the part of programme managers and therefore the public sector. Henley described this as a "revolution in attitudes and systems" which, as the chapter then demonstrates, became the primary motivation for the implementation of cash limits going forward.

The chapter concluded with an account of the immediate circumstances leading up to the introduction of cash limits. Rather than the sanitised and linear account based upon the notion of a loss of control and the introduction of a necessary corrective, the picture is much messier. As the chapter outlines, Healey's concern with continued high levels of inflation and a potential run on sterling, combined with the perceived breakdown of the Social Contract with the trade unions and the so-called 'mandarin revolt', resulted in the agreement and announcement of a voluntary incomes policy with the trade unions. However, due to Cabinet fears that the incomes policy would look too weak to appease international market pressures, Healey wanted to introduce cash limits early as a means of buttressing incomes policy without resorting to a statutory model. Therefore, Healey and the Prime Minister

agreed the announcement of cash limits before Civil Service discussions had fully fleshed out the details. Therefore, a rough and ready approach was adopted, along with a wait-and-see attitude in regard to the effectiveness of cash limits as a method of control.

Chapter 5, therefore, explored the immediate impact of cash limits for the early years of their operation. The chapter opens with a discussion of Thain and Wright's analysis of cash limits, particularly their analysis of what they called the 'underspend norm'. Both the primary evidence and Thain and Wright's analysis of the impact of cash limits demonstrate the unequivocal emergence of an underspend norm almost immediately, with departments spending conservatively in response to the new regime. The outstanding question which Thain and Wright could not answer in their original analysis, namely whether underspend was an intentional element of cash limits or rather a fortuitous accident, was then addressed within the remainder of the chapter. Firstly, the chapter discussed the establishment of a robust monitoring system for cash limits which gave the Treasury advanced warning of any potential underspend. It was possible for the Treasury to compare initial limits with spending on a month-by-month basis, allowing them to compare cash limited expenditure with initial plans as enshrined in the PESC programme. In 1976, in the context of the IMF negotiations, the Treasury made use of this information to confirm to the IMF that underspend was occurring due to cash limits and that this was a positive feature of the new system. On the basis of the primary evidence, therefore, it certainly seemed as though the Treasury not only anticipated underspend very early on in the operation of cash limits, but also saw this as a desirable outcome given the need to reduce public expenditure. The IMF negotiations placed additional pressure on the Treasury to ensure that public expenditure was under control and that it could be meaningfully reduced, and cash limits were used as a boon in their arguments with the IMF that this was indeed possible.

The chapter then went on to outline the ongoing nature of underspend throughout the remainder of the decade, confirming the underspend norm and the manner in which this was perceived by the Treasury as a desirable aspect of cash control. Importantly, the chapter also discussed the importance

of not only underspend, but also shortfall. Underspend relates to cash limits totals, meaning that underspend emerged when a department spent less than the limit in real terms. Shortfall relates to the underlying volumes budgeted for in the PESC exercise and the extent to which allocated cash within the limit could purchase the volume. As the chapter notes, due to optimistic inflation forecasts (or rather inflation *targets*) cash limits, even if not underspent (which they were), would still not prove sufficient to purchase the underlying volume of spending agreed through PESC. This meant that cash limits, by design, were creating shortfall wherein the programmes as budgeted could not be realised. The consequence, therefore, of the coexistence of both underspend *and* shortfall was a significant reduction in public expenditure, especially when comparing the cash spent and the original PESC-derived budget allocations.

This particular outcome – both underspend and shortfall – points to a significant change to the overall governance of public expenditure. Rather than PESC planning determining necessary spending on public programmes, spending now determined the extent to which a PESC plan could be realised. As such, indicative planning as a principle for the management of public expenditure was usurped in favour of financial discipline. As such, the entirety of the cash limited public sector was governed by a rationale of meeting financial targets rather than planned volumes. Whatever sense one could speak of Keynesian indicative planning in relation to public expenditure had now been overturned by way of annualised cash control the object of which was to constrain spending, combat inflation and control wages rather than provide public services to fit the expanding needs and expectations of the country.

Chapter 6 therefore examined the reception of cash limits by a major constituency effected by them, namely those public sector workers whose wages were now constrained by cash limits and the trade unions which represented them. The chapter began with a recapitulation of the importance of the relationship between the Labour government and the trade unions who, in essence, were key to Labour's electoral success in 1974. The main plank upon which cooperation was secured in 1974 between Labour and the trade unions was the *quid pro quo* of restraint on wages in return for

concessions such as an extension of industrial democracy, further nationalisations in the economy and – importantly – a gradual increase in the social wage to make up for any loss in real wages incurred by workers who showed restraint in their collective bargaining. However, as discussed previously in the thesis, this *modus vivendi* broke down as wages, inflation and public expenditure continued to rise without any real restraint on the part of trade union members. As such, Labour not only needed to secure pay restraint, but also reduce public expenditure at the same time. This set the scene for not only incomes policy but also large and unpalatable cuts to public expenditure. Public sector unions in particular were skewered on both horns of this dilemma, as incomes policy meant cuts to real wages whilst cuts to public expenditure meant potential job losses and further intensification of work for already beleaguered public sector workers. As such, public sector workers became a pivotal constituency around which the issue of incomes policy and cash limits would revolve until an eventual breakdown in cooperation with the Labour government at the end of the decade.

As such, the chapter then gave a brief overview of public sector workforce and its trade union representation, before outlining the peculiar circumstances within which public sector unions found themselves in the period 1974-79. This peculiarity emerged primarily due to tensions within the TUC between public sector unions and the large manufacturing unions which dominated the TUC. Generally, those unions representing industry were prepared to make sacrifices to public expenditure insofar as this would result in more resources for industry. This division was sown and made use of by the Chancellor, who often couched his arguments for a reduction in public expenditure in terms of 'freeing' resources up for an export-led recovery based on traditional industry. The chapter then went on to examine the reception of cash limits by the trade union movement, particularly the public sector trade unions. The relationship between incomes policy and cash limits became a particular point of contention for public sector unions, as cash limits essentially imposed the so-called 'voluntary' agreement on wages. Cash limits for each year were calculated on the basis of the incomes policy targets for wages, meaning that any pay awards exceeding the limit could then be met by demands for additional savings elsewhere. The impact this had on public sector pay, particularly in relation to

private sector pay, was significant and substantially undermined the public sector workers' position relative to their counterparts in the private sector. This relative degradation in public sector pay not only demonstrates the success of cash limits in holding down wage demands, but also contributed to the tensions which led to the 'winter of discontent' and the explosion of public sector militancy at the close of the decade. Furthermore, by imposing cash limits on pay in line with targets derived from an incomes policy, demands for higher wages and demands for increases in public expenditure became incompatible with each other, which negatively impacted trade unions for whom increased public expenditure was a key priority.

Furthermore, this chapter detailed the manner in which cash limits functioned as secret cuts to public expenditure. Alongside the much-publicised cuts to public expenditure announced by the Labour government during the period, the imposition of cash limits achieved further savings which dwarfed the official cuts by a substantial degree. Trade unions led the way in exposing cash limits as 'secret cuts' to public expenditure, which resulted in friction between public sector unions and the Labour government. Such activism on the part of trade unions revealed the manner in which the demands for a social wage were being undermined whilst incomes were also being held back, which was interpreted as somewhat of a betrayal by Labour of its trade union partners. The chapter then drew on research published during the period on the significance of the cuts achieved by cash limits, before examining the impact cash limits had on the working conditions of public sector workers. Here the chapter examined cuts to staffing levels necessitated by cash limits, which clearly demonstrated the purpose of cash limits in reducing the public sector and constraining its growth. The chapter concluded with a discussion of the role cash limits played in the 'winter of discontent'. Here the chapter argued that due to the significant impact of cash limits on the public sector, particularly relative to the private sector, public sector unions rapidly radicalised in terms of their appetite for industrial action and wage demands in excess of incomes policy guidance. The success of cash limits very much contributed to the souring of relations between the Labour government and public sector unions, which resulted in a veritable explosion of industrial action in 1978-79, which not only saw a breakdown in cash limit

discipline but also the total breakdown of the government as a whole. Due to a distortion of relativities created by cash limits, wherein public sector pay could be determined by government policy whereas private sector pay could not, public sector trade unions with decidedly conservative histories in respect of industrial militancy, mounted significant industrial action that resulted in pay awards way in excess of what was initially planned by the government and wished for by the Treasury. Therefore, this chapter concluded that cash limits are an under-appreciated aspect of the dynamics at play which led to the winter of discontent and the collapse of the Labour government.

Finally, chapter 7 provided a conceptual discussion of the importance of cash limits in light of the empirical investigation of the previous chapters. The chapter begun with a critical re-examination of the orthodox, institutionalist and radical approaches to cash limits as outlined in the literature review. The orthodox approaches were shown to be wanting in terms of an adequate assessment of the real intentionality of cash limits in respect to issues around organised labour. Rather, orthodox accounts fixate on the issue of controlling public expenditure in a narrowly understood sense. In light of the empirical investigation, the chapter concludes that such an explanation is incomplete and unsatisfactory as cash limits emerged in response to a much wider set of concerns held by state managers in relation to inflation and the crisis of capitalism at that time, particularly in relation to the size and organisation of the public sector workforce. The institutionalist literature was then revisited and found to be lacking an appraisal of cash limits in the context of the political economy of public expenditure during the period. A focus on rules and norms to the detriment of an understanding of wider structural forces limits the institutionalist literature to a discussion of process, without adequate understanding of intent in the context of political and economic pressures facing state managers during the period. Finally, the conceptual chapter reiterated some of the strengths of the radical approaches to cash limits, in that such accounts focus more on the political and economic factors motivating the restructuring of public expenditure management. An appreciation of the structural limitations brought about by a crisis in capitalism, as well as an understanding of class struggle, elevates such approaches.

The chapter then outlined the weaknesses of the radical approach to cash limits. Primarily, radical approaches were seen to be lacking in terms of an adequate understanding of the politics of public expenditure, and the way the state was attempting to discipline labour by way of depoliticising public expenditure as a field of policy. Depoliticisation is then brought into discussion with the radical accounts, providing a view of cash limits as a form of rules-based depoliticisation which lifted the question of public expenditure out of public deliberation and into the realm of Treasury discipline. The conceptual chapter thus concluded that cash limits were significant as a revolution in attitudes and systems regarding public expenditure in direct response to the difficulties of managing a restive working class, a great proportion of which was directly working for the state in the 1970s.

In conclusion, cash limits therefore can be said to constitute a significant reform in the context of the unmaking of the Keynesian indicative planning state. The integration of working-class aspirations into state planning, throughout the post-war period, particularly in terms of public expenditure, was reversed by the imposition of cash limits which sought to externalise and discipline these aspirations. This constitutes a form of rules-based depoliticisation, as it placed public expenditure decision-making and financial discipline within the remit of the Treasury and central executive, thus insulating public expenditure from popular demands for its expansion. Cash limits therefore cannot be understood simply as a technical means of improving control over public expenditure, nor as a novel institutional change to the management of public money, but rather as a fundamental step towards the restructuring of the capitalist state in a way in which the aspirations of the working class were expurgated from the state form. Such restructuring would gather pace after 1979 with the election of Margaret Thatcher's Conservative Party and would result in the emergence of the contemporary modus vivendi of capitalism known widely as neoliberalism.

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