

The Diary of a Political Nobody

Prime Minister - The conduct of policy under Harold Wilson and James Callaghan.

By Bernard Donoghue

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Reviewed by Stephen Berry

Which was the worst British government of the 20th century? This is a subject rich with possibilities, but I dare say there are many who give the palm to the Heath administration of 1970-74. 'The Grocer' had many accomplishments to his name - rocketing inflation, a draconian prices and incomes policy, full-hearted interference in the economy and industrial relations, and a disastrous Northern Ireland policy. Nevertheless, Heath is not going to get the title without a fight. Bernard Donoghue, Senior Policy Adviser to Wilson and Callaghan between 1974 and 1979, has brought forward much evidence to shake the confidence of those people who believed in the unique awfulness of the Heath government.

Dazzled by Their Own Brilliance

Donoghue is at some pains to stress how talented were the people in and around the Labour government. "In terms of ability and experience the Cabinet appointed by Mr Wilson in February 1974 was perhaps the most impressive in Britain this century." (p.48) It is possible to question this assertion. It was Jim Callaghan who said in 1966 that he would resign as Chancellor if the pound were to be devalued. He did not realise that it was not a matter for shame if the pound should fluctuate against other currencies. It was Roy Jenkins in the 1960s who restricted shotguns after the shooting of three policemen. Nothing much wrong with that you might say. Nothing, except that the policemen were shot with pistols. As Home Secretary he might also have been expected to know that tighter controls on firearms have gone hand in hand with increased use

of them by criminals. But, like Douglas Hurd after Hungerford, he had to be seen to do something, however useless. And it was Michael Foot, "the best rhetorician of his generation" (p.50), who proved between 1980-83 that he was the worst Labour Party leader of his generation. Indeed, Donoghue later in his discussion of the Winter of Discontent suggests that these geniuses might not have displayed the necessary qualities in a crisis. "Ministers were clearly demoralised. Moving among them as they gathered for Cabinet in the hallway outside the Cabinet room, their sense of collective and individual depression was overwhelming. There was none of the usual cheerful buzz and banter. In the committee discussions many of them, especially Michael Foot, appeared genuinely puzzled. Denis Healy was very tired, his normally strong face puffy and florid. Peter Shore was enigmatic. David Ennals was at time slightly emotional. It was felt that one or two ministers, particularly Tony Benn and John Silkin, were playing at politics in advance of a future party leadership contest. Others were clearly inhibited by their membership of, and parliamentary sponsorship by, the unions most damagingly involved in the current strikes". (pp.176-177).

Donoghue attempts to answer the obvious criticism of his idea that Camelot had come to Downing Street between 1974-79 – why so many disasters? – as follows. "If such a formidable Cabinet were not to succeed it was because of the force of events or the deadweight of Labour's antique ideological commitments rather than deficiencies of human resources". (p.50) Pasteur remarked that good fortune comes to him who is prepared. Similarly, the force of events sweeps away the people who were unable to anticipate these events or interpret them when they had arrived. Donoghue's description of the cabinet paralysis in the winter of 1979 shows that this judgement applied precisely to his talented colleagues. No matter how clever they were, inability to recognize the damage of state interference in the economy proved their undoing.

Previous governments may or may not have had command of the same talent as Wilson

or Callaghan but, because they did not intend to run the British economy from top to bottom. they also did not need it.

A Judicious and Pragmatic use of Mumbo-jumbo

Socialists often say that non-interventionists have 'no coherent industrial strategy'. What Socialists omit to say is that they don't have one either. As Donoughue makes clear, the choice is between non-intervention and piecemeal interference at the behest of special interest groups. *The Ryder Report* of 1975 suggested that the success of the British car industry could be assured if loss-making car firms could be amalgamated with the profitable ones and the whole lot subject to government control. The result was not as expected and the profitable were made unprofitable - Gresham's Law of nationalisation. Donoughue points out that "... BL then had 71 passenger models incorporating thirteen different engines in nineteen different sizes, together with three complete ranges of lorries, two of buses and two juggernauts. This was a far larger programme than that of Volkswagen and Fiat combined, although both were much bigger than BL." (p.52) Nothing was done to rectify this, Labour preferring to subsidise the losses of BL. Between 1975-79 import penetration of the British car market increased apace. Luckily, despite pressure, the government did not bring in import controls and by 1979 it was crystal clear how bad the situation was.

Donoughue realises that between 1974-79 the Keynesian consensus was rapidly breaking up. "However, the changing intellectual climate in economics mattered greatly and the strong campaign by the Friedmanite monetarists definitely added force and conviction to the Thatcherite critique of Labour and also began to capture the intellectual power centres of decision-making ... For example, although Whitehall never fully believed the whole monetarist mumbo-jumbo ... there was a realisation that Keynesianism was not working." (p.80) But mumbo-jumbo was clearly gaining ground. "As Keynesianism lost favour, the advantages to the Labour government of judicious and pragmatic use of stricter monetarist policies became more

apparent."(p.81) Certain members of the government still resisted the inevitable however. Denis Healey "brought an impressive muscular intelligence to economic affairs and was unlikely to be brainwashed by mumbo-jumbo of any kind ... Mr Healey's Treasury officials were very mixed in their views, although all of them were rightly opposed to allowing hyper-inflation." (p.83) Phew, what a relief. It is comforting to know that when talented people get together to govern Britain they are willing to take courageous stands against hyper-inflation.

But finally mumbo-jumbo triumphed. Donoughue does us a service by making it clear that 'Thatcherism' predated Thatcher, or to be more precise, the ideas which brought Thatcher to power and have sustained her there were already being sampled by Labour. "The first major push took place during the (IMF) crisis to secure a massive switch of resources from the public to the private sector. The broad policies which are now characterised as 'Thatcherism', together with the now familiar language, were in fact launched in a primitive form at Mr Callaghan in 1976 from the Treasury, from the Bank, and above all from the IMF and sections of the US Treasury." (p.94) Donoughue points out that "By the autumn of 1976 the crisis was not, politically speaking, about the principle of whether to have a further big package of cuts in public expenditure. A majority of the Cabinet were agreed on that issue; all but the small group of left-wing ministers agreed on the principle. The question was about the scale of such cuts." (p.95) Much of what presently constitutes 'Thatcherism' is a truism. Ultimately governments cannot spend more than they tax and there are limits, economic and political, to the amount which can be taxed. Most governments reluctantly face up to this truth and the Labour government was no exception. Thatcher is slightly novel in that she makes a virtue out of the necessity of cutting the coat according to the cloth. But it is a necessity all the same.

More interesting was the setting of the background of monetary targets. Donoughue merely refers to the campaign by the monetarists, but that was not the whole story. From the post-war Bretton Woods agreement

until the early 1970s the Western World operated on fixed exchange rates. Currencies were tied to the dollar which was in turn tied to gold. If the British government tried to inflate, the prices of domestically produced goods and services would start to rise, as would the price of British exports. But, because the pound was fixed against other currencies the UK price of imports would not rise. Before inflation really took off, the current account would go into deficit and the pound would come under pressure. The government would then bring in a package of measures to try to rectify the situation. British governments did not always understand that the balance of payments constraint was in reality an inflation constraint – a fixed exchange rate was hindering inflation rising above that of Britain's international trading partners. After the collapse of Bretton Woods, Heath and Barber believed that they could solve the 'balance of payments problem' by allowing the pound to fall. With the pound floating, they pumped money into the economy not fearing that exports would become too expensive and imports too cheap.

The consequences are history. By 1975 inflation had hit 27%, government borrowing had risen to almost 10% of GDP (getting on for £30 billion in today's money) and in the following year the British economy ran into its greatest post-war crisis. The disappearance of the system of fixed exchange rates meant that any government would have had to become concerned with monetary figures in the 1970s. Donoughue and his friends in the policy unit - (wait for it) "... three remarkable economists Gavyn Davies, Andrew Graham and David Piachaud. I always recruited acknowledged policy experts of intellectual distinction ..." - did not seem to appreciate this.

The Winter of Discontent

This is a real problem for Donoughue. What was wrong with public sector workers? The Cabinet made many concessions in order to win TUC support for a fresh round of incomes restraint. "Most important and worrying because of its long-term impact on inflation, was the fact that the principle of comparability of pay (although not, of course, of work effort) was conceded to the

public sector" (p.169) But things only got worse. "There was a curious feverish madness infecting industrial relations and in some cases unions actually went on strike before their pay claims had been submitted." (p. 171) And after it was all over and the fate of the next general election decided, poor Donoughue was still at loss. "Public expenditure rose 9 per cent between 1974 and 1979, whereas the GDP was only 2.5 per cent higher. The public sector thus received a much bigger share of the national cake. Within these general figures was the redistribution of resources in line with Labour's announced priorities.

"Expenditure on defence was reduced by 10%, while there was increased provision on housing of 56 per cent, on social security of 25 per cent and support for industry of 75 per cent. Unemployment, which rose inevitably as the Western world slipped into the post-oil-shock recession, was deliberately kept out of the public sector and left to be inflicted almost wholly on private industry ... Yet the public sector was clearly not happy and wreaked dreadful damage on the Labour politicians who had devoted their lives to the support of the public services. It is little wonder that Ministers looked so bemused in the winter of 1979." (pp.188-189)

Is this wholly fair? As a result of inflation and the various prices and incomes policies, workers were disturbed about the purchasing power of their wages. (We now know that real wages fell between 1974 and 1977) Workers wanted to get wage claims in as early and as often as possible. This atmosphere also affected the public sector workers. Union leaders in the public sector knew that the only limit to the amount of money which could be paid to them was the limit the government set to tax levels. It would be naive to expect them not to try to extract more money out of a government which was favourably disposed towards them. Add the fact that the public sector workers did not fear dismissal if strikes caused their businesses to lose market share. In this light, the workers' behaviour becomes less of a mystery.

Return of the Viceroy

The most depressing section of the book is

that on Northern Ireland. Donoghue represents what can be called the establishment view on that subject. He begins the chapter by parading his credentials." Shortly after entering Downing Street in 1974 we tried to come to grips with a problem which I, as a former professional historian, knew in my heart to be insoluble." (p.128) Donoghue has occasional insights into Northern Ireland, but cannot grasp the general picture. He is not alone in this. Take the Secretary of Northern Ireland, between 1974 and 1976. "Serving under Harold Wilson was Merlyn Rees, a delightful Welsh Celt, with a lovely Irish wife. who became fascinated by the situation in Northern Ireland." (p.131) Donoghue thinks Rees was really marvellous. "His contributions to the regular Cabinet Committee on Northern Ireland were colourful, funny, and almost obsessively detailed, rather in the manner of a railway and steam-engine enthusiast. His problem was that he could not always see the wood for the trees ..." (p.131) It is difficult to gather from this description that Rees did not know whether he was coming or going and that between 1974-76 violence remained almost as prevalent as during the disastrous Whitelaw tenure in the Northern Ireland office.

His successor Roy Mason was quite different. "The problem was that he (Mason) also seemed more Protestant than the 'Prods' and but for his accent might have been taken for a classic Ulsterman. He had little time for fools and romantics – and clearly many of the Catholic Irish, whom he called 'greens' came into this category." (p.131) Even worse, "Some of his officials admiringly referred to him as 'Viceroy' and invoked Carson in comparison." (p.131) Donoghue is honest enough to hint that he did not really know what the policy should be. "Although I sometimes objected to the tough, unimaginative rule of Roy Mason after 1976, I had to admit that it was never very clear what would be a better alternative." (p.132) In fact, during the time Mason was in office, violence in Northern Ireland declined dramatically. There are many people alive there now who would not have been if Rees had continued in office, or the Donoghue line of forcing one million people into the Irish Republic against their will had been tried.

It would be unfair to give the impression that Donoghue is totally devoid of insight: "However, the logic of military intervention was to increase the status and impact of direct rule. A kind of downward spiral was created in which the military initiative invoked further IRA military responses and everybody came to depend more and more upon the forces of law and order. The indigenous organs of politics and government in Northern Ireland withered under direct rule and the local Irish Catholic population became ever more alienated." (p.132) The process of keeping Northern Ireland at arms length began well before the abolition of Stormont and the onset of direct rule. Since the formation of the Irish Free State in 1921 British political parties have refused to campaign in Northern Ireland. This means that instead of voting for a Tory or Labour government on grounds of social or economic policy. the Northern Irish have backed Unionists or Republicans and each General Election has been a referendum on the border. The major political parties could, if they wished, create a similar disastrous polarisation if they refused to stand in racially divided constituencies, We would then see the growth of racial politics in Britain with all that that implies. The atrophy of political institutions in Northern Ireland shows why someone with the attitude of a Viceroy proved to be the most successful Secretary of State over the last twenty years. The single most constructive measure which politicians in Britain could take in relation to Northern Ireland would be to get their respective parties to fight elections in Northern Ireland. This would help the return of normal politics to that province, diminish sectarianism and prove former historians like Donoghue wrong.

Donoghue certainly tried every trick in the book to convince Labour of the wisdom of cajoling one million people into a state they despise. "Labour has increasingly become the party of the Celtic fringe, based heavily on Scotland, Wales and the Irish immigrant conurbations of Glasgow and Liverpool. In London and Birmingham the Irish Communities also dominate certain Labour-held constituencies. In 1978 I made an analysis - based on the previous census - of how many people of the entire population had either been born in the Republic or had

parents born there. My results found that there were nearly 2 million Irish people of voting age, often concentrated in Labour constituencies ... I used these figures to try to push the Prime Minister towards a more progressive Irish Policy." (p.136) Undoubtedly Donoghue overrates the significance of the Irish vote, but if you wish to find the motivation behind the present bizarre policies of Labour towards Ulster, this calculus of voting intentions will loom large.

I will not end on a gloomy note. Donoghue is wary of the results of a British withdrawal from Northern Ireland. "Nor was it clear whether the Catholic Irish - who in the Labour Party are the native 'goodies' oppressed by the colonising Protestant 'baddies' - would necessarily win. Whereas the Protestants have a strong military tradition and can act in a unified way, the Catholic Irish tend to be more factious and not always effective in mobilising themselves. I once saw a top-secret analysis of all the IRA's known bombing attempts on the British mainland. There were far more than the public or the media might imagine-well over 500 in a few years ... Out of over 500 bombing missions, the number that reached the intended destructive conclusion was in low single figures-and half of these blew up the Irish bombers themselves and not their intended English victims. One team of terrorists travelled round and round on the London Underground Circle Line hoping to go to the terminus and finally, demoralised, left at the first station they recognised and abandoned their lethal carrier bag outside." (p.133) It is reassuring to know that for Donoghue fear is a more powerful political impulse than idealism. If other people with his views have similar reservations Ulster might yet avoid the worst.

Free Life