ECONOMISTS AND ECONOMIC GROWTH IN BRITAIN, C.1955–65:
A TRIUMPH OF ERSATZ OVER ACADEMIC ECONOMICS?

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Paper prepared for the Affluent Britain? Conference,
University of Bristol, 24–25 May 2002

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This paper is inspired but, as yet, not much informed by a joint Bristol-Glasgow ESRC–financed project (ref. R000237856) to produce a handbook of documents in the Public Record Office (PRO) relating to 'Economic policy under the Conservatives, 1951–64'. Other members of this project are Professor Rodney Lowe and Dr Neil Rollings (co-directors) and Dr Astrid Ringe (research officer). The formal results of this project are forthcoming in Ringe et al. (2003); Rollings and Middleton (2002) provides a preliminary assessment of important methodological concerns about the British economic historiography during the 1950s and 1960s, while Middleton (2002) explores exchange rate policy during this period. I thank Glen O’Hara for useful conversations and permission to cite his recently defended Ph.D. dissertation.
§0. ABSTRACT

Amongst the series of scholarly reflections that Sir Alec Cairncross made towards the end of his long life was his *Managing the British Economy in the 1960s: A Treasury Perspective* (1996) which drew upon his personal experience as Economic Adviser to HMG, 1961–4, and Head of the Government Economic Service, 1964–9. In this he made the judgement on Selwyn Lloyd and Maudling’s Chancellorships (respectively, 1961–2 and 1962–4) that ‘Neither had any real insight into the mainsprings of economic growth, especially if that is taken to mean growth in productivity; they simply assumed that if expansion was sufficiently prolonged, industrial productivity would move upwards to a new, steeper curve’ (p. 65). That these, indeed all, contemporary politicians had but a limited conception of the nature of economic growth, and of how to effect its acceleration, should come as no surprise. What is surprising, however, is how very little economists at this time also knew that was *useful* about growth, and this notwithstanding that ‘During the sixties the growth rate of the “growth literature” far exceeded that of the phenomenon it tried to explain’ (Mueller 1983, p. 1).

The role of economists in the rise to prominence of growth on the policy agenda at this time has been much discussed, and most recently in Pemberton’s (2000; 2001a) important work on so-called Keynesian plus policies. These sought to augment ‘traditional’ Keynesian preoccupations with stabilization (to produce full employment) with a new emphasis on growth (to address the growing preoccupation with relative economic decline), with Keynesian plus policies comprising an enhanced package of demand- and supply-side measures which, its advocates maintained, would simultaneously deliver full employment, moderate inflation, faster growth and all this without the external constraint of the balance of payments becoming binding. The outcome, as we know, was to be very different, and Pemberton (2001b) in his PhD has some interesting things to say about why the policy experiment failed in terms of adversary politics and the fragmentation of the British policy-making community.

The focus of this paper, however, is on the role of economists and what they actually knew which was useful, which was somewhat different from what they thought they knew. Our concerns, therefore, are with the policy process and with the sociology of economics as it connects to the history of the professionalisation of British economics (Middleton 1998) and to the latest stage of the rhetoric debates about the production of economic knowledge (Garnett 1999). A sceptical verdict is delivered on the role played by economic theory and academic economists at this time, with this scepticism in part explained in terms of leading members of the British economics profession sharing in elite ambivalence about the affluence society.
Santa Claus, the tooth fairy, a practical economist, and an old drunk are walking down the street together when they simultaneously spot a hundred dollar bill. Who gets it? The old drunk, of course, the other three are mythological creatures.¹

Economists have the least influence on policy when they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently.²

Politics is the art of looking for trouble, finding it, misdiagnosing it, and then misapplying the wrong remedies.³

§1. Introduction

1.1 The role of economists in the rise to prominence of economic growth promotion as an explicit objective of British governments between c.1955–65⁴ has recently been given a fillip by two developing literatures which have deepened our understanding of what Hutchison (1968, p. 125) called the developing ‘growth consciousness’ of this key era in postwar British economic history.⁵ The first of these, which has been inspired inter alia by the political science and policy studies literatures on social learning and policy networks (see Pemberton 2000; 2001a; b; Oliver and Pemberton 2001), concerns the so-called ‘Keynesian plus’ policies, namely the augmentation in the early 1960s of ‘classic’ short-term Keynesian demand management techniques and objectives for stabilization purposes with a range of supply-side initiatives directed at promoting higher growth. The second is much broader in scope, that is recent work – mostly part of or inspired by the ESRC’s Whitehall programme – into the underlying administrative and political failures of the various modernisation programmes – of which Keynesian plus was a part – initiated in the post-Suez era of national re-evaluation and policy reorientation (Ringe and Rollings 2000a; Lowe and Rollings 2000).

1.2 Both literatures have much broader ambitions than merely explaining the rise to prominence of the growth objective, but in both of these the growth issue is a constant preoccupation

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¹ One of many jokes about economists and economics taken from a web site devoted to this long-established art form <http://netec.mcc.ac.uk/JokEc.html>.


³ Ascribed to Groucho Marx.

⁴ We have deliberately been elastic with the temporal parameters of this essay, and might in fact date a little earlier the beginnings of the ‘growth consciousness’; for example, with the economist Roy Harrod (1952, p. 170) on Britain’s long-term prospects, where he argued that ‘I have no doubt that vast capital investments in Britain could be profitably undertaken in the long run. We should think in terms of raising the real standard of living by this and other means by 50 or 100 per cent in a generation.’ Alternatively, and much more widely known, there is, of course, Butler’s 1954 speech which established the aim of doubling the standard of living and which has been widely seen as ‘the first important statement of concrete long-term growth as a major policy objective’ (Pollard 1992, p. 356). Less well known is that the original speech (May) set a time frame for this ambition of 20 years (equivalent to a compound growth rate of 3.5 per cent) but that this had been downgraded to 25 years by October 1954 Conservative Party Conference speech (Hutchison 1968, p. 126). This longer time frame implied a compound growth rate of 2.8 per cent, a growth rate 20 per cent less ambitious. The two speeches are reported in the Economist, ‘Business notes: if or unless’, 5 June, pp. 821–2 and ‘Invest in success’, 16 October, pp. 191–3. It is noteworthy that the second of these did not comment on the extension in the time frame for the growth ambition. Alas Butler’s account of the evolution of this objective is limited to the observation in his memoirs (1971, p. 175) that ‘In 1979 I shall consult a well-trained economist to see whether or not my forecast has come true. Certainly with more incentives it would do so.’ For the record, Butler’s October 1954 target was just realised by 1979, whilst the previous doubling had taken 50 years (Middleton 1996, p. 417).

⁵ See also Arndt (1978, esp. ch. 4) and, for developments in the US, Collins (2000).
because of what we might call the big ‘what if’ question which is implicit (occasionally explicit) in the dominate ‘declinist’ historiography (Tomlinson 2000): what was that counterfactual set of policies which, if introduced, and if resulting in higher growth (all other policy objectives also being simultaneously satisfactorily attained), would have moderated relative economic decline and saved Keynesian social democracy from the traumas of the 1970s and thus made unnecessary the Thatcherite reaction against the so-called postwar consensus. In the following I take no position on most of those debates (but see Middleton 1996; 1998; 2000). My concern is only incidentally with specifying and defining this big ‘what if’; rather, it is more to do with the ‘who’, the ‘why’ and the ‘how’ that comprised the manufacture of the big ‘what if’: that is the actors who generated the new growth consciousness and the mechanisms whereby it was diffused into the policy-making community, but above all with the effectiveness of those actors claiming economic expertise, the extent to which (in an operational and epistemological sense) their knowledge was useful and what culpability they might have for the eventual fate of that growth strategy which culminated with the (old) new Labour government’s National Plan, the life cycle of which was so aptly described by Opie (1972, p. 170) as ‘conceived October 1964, born September 1965, died (possibly murdered) July 1966’ (see also Leruez 1975, chs 10–12; O’Hara 2002).6

1.3 Died, possibly murdered, for let us not be under any illusions that, relative to its ambitions, the growth strategy was a failure. The first question to address, therefore, is what the implications of that failure were in terms of the now dominant declinist perception of Britain’s golden age economic performance. Beyond this we have less a paper proper and more an idea for a paper along the following lines: what role did economics and economists play in the advocacy coalition that fermented the developing growth strategy of this era; what limited their effectiveness; and what were the consequences for the economics profession and for economic policy of the eventual failure of the strategy? Our sights are thus set on the market for economic advice, the internal workings of the policy process and the sociology of economics. On these issues we will be somewhat sceptical of existing accounts; we hope also to rescue from the condescension of posterity those economists who, displaying both useful economic knowledge and realistic aspirations of what might be possible, were deeply sceptical of the developing growth consciousness and anxious about its implications for the standing of professional economics.

§2. Relative economic decline and the 1960s growth strategy

2.1 We calculate that had the growth strategy that emerged with Keynesian plus and then found expression in the 1965 National Plan been successful then Britain would by 1973, the end of the golden age, have attained a standard of living so much closer to the leading OECD economies that the narrative of relative economic decline which now pervades the literature could not have been developed.7 As can be seen from Figure 1, a modern version of the much cited Leruez (1975, figure 11.1), the actual path of real GDP by 1973 (a better terminal date than Leruez’s 1970) was well below the original growth plan of the NEDC (1963a) and the

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6 Opie was a temporary civil servant first in the Treasury’s Economic Section (1958–60) and then, as Assistant Director of the Planning Division, Department of Economic Affairs (October 1964-May 1966).

7 According to the latest Maddison (2001, table A1-c) dataset, real GDP per capita in 1973 was some 93 per cent of the OECD-17 average, a gap significantly less than the hypothetical shortfall of actual GDP relative to the NEDC (1963) projection of Figure 1. Had the hypothetical 14.4 per cent shortfall been made good then Britain’s OECD ranking by this measure would have risen from eleventh to fifth, two places above its 1950 ranking.
FIGURE 1 Real GDP at 1995 market prices (1958=100): actual and trend, NEDC 1961-6 projections and National Plan 1964-70

- Actual real GDP
- NEDC 1961-6 projections (4% growth rate)
- National Plan 1964-70 projections (3.8% growth rate)
- % shortfall of actual on NEDC projections (RHS)
- Actual real GDP linear trend (3% growth rate)

Source: Calculated from ONS (1999, table 1.1); growth rates from NEDC (1963a) and HMSO (1965).

FIGURE 2 Cumulative shortfall of actual real GDP at 1995 market prices on NEDC 1961-6 projections

Source: As Figure 1.

Figure 3 Long-term growth paths (semi-log scale) by successive 1 percentage point increments to the compound growth rate

<table>
<thead>
<tr>
<th>Growth rate % p.a.</th>
<th>No of years to double real GDP</th>
<th>Ratio of end to start real GDP over 100 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>69.7</td>
<td>1.70</td>
</tr>
<tr>
<td>2</td>
<td>35.0</td>
<td>6.24</td>
</tr>
<tr>
<td>3</td>
<td>23.5</td>
<td>18.22</td>
</tr>
<tr>
<td>4</td>
<td>17.7</td>
<td>49.50</td>
</tr>
<tr>
<td>5</td>
<td>14.2</td>
<td>150.50</td>
</tr>
</tbody>
</table>

Rate 1:
- Britain's golden age (1951-73) average growth rate = 3.0% p.a.

Rate 2:
- Britain's long-term (1856-1973) average growth rate = 2.0% p.a.

Rate 3:
- Average = c.4.0% sustained with low variance.
National Plan (HMSO 1965) which had annual growth targets of 4 per cent and 3.8 per cent respectively. By 1973, and in relation to the original 1963 plan, the percentage shortfall was 14.4 per cent, and it was only this low because of the temporary and unsustainable boost afforded by the Barber boom. Put differently, because growth is cumulative, and thus so is underperformance, the shortfall by 1973 was (in 1995 prices) just over £300bn or 64 per cent of actual 1973 GDP. Figure 2 shows the cumulative impact of this underperformance. £300bn is an enormous sum, and, of course, hugely hypothetical but it does give a measure of the enormity of the stakes as economics but above all as politics. Affluence thus resonates here more as under-achievement and as failure than as progress and celebration, as of course befits its hallowed status in the declinist historiography.

2.2 To complete the process of situating Britain’s actual growth record in relation to the aspirations for yet greater affluence, we plot in Figure 3 the long-term implications of successive and sustained one percentage point increases in the compound growth rate. The use of integers is deliberate, for it became the currency of political competition: if 3 per cent then surely 4 per cent?; only 4 per cent; come on why not 5 per cent! I term this intoxication by integers, and explore later how it came about (§5.3). For the present, note the power of compound arithmetic in terms of how successive step integers work to transform the standard of living, and that an extra 1 percentage point does not appear much when other countries are growing at double the rate of Britain’s economy. Note also from Figure 3 that the long-term growth rate of the British economy was 2.0 per cent (Matthews et al. 1973, table 2.1); that, and not with standing all the talk of relative decline, it was 50 per cent higher during the golden age (that is a 3 per cent growth rate); and that the target aspiration was for a growth rate 100 per cent above the long-term trend (that is 4 per cent).

§3. Accounting for the growth consciousness

3.1 Chronology and key actors

3.1.1 To develop these notes of scepticism we need a benchmark of an accepted story of the role of economics and economists in the developing growth consciousness. The following draws upon Arndt’s (1978) little known intellectual history of this episode, which rightly emphasises that the growth consciousness was deepening in most western countries at this time, and was for western public intellectuals and professional economists motivated as much by concerns for the less developed as for the industrial economies, as well as being thoroughly suffused with Cold War anxieties; Tomlinson’s (1996) important essay on the invention of decline in Britain; and Pemberton’s recent work on Keynesian plus, the fullest version being Pemberton (2001b). We first characterise the story thus as a three stage process in terms of time:

- of a groundswell (1945-early 1950s) in which, with the early postwar challenge of securing full employment and avoiding a slump successfully negotiated, attention could shift from matters of stability and security (the state’s new Keynesian stabilization function) to how to escape from austerity and scarcity (invoking older concerns relating

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8 That this is not entirely an anachronistic exercise can be defended on the grounds that, concurrent with the developing growth strategy, Beckerman (1965) and his colleagues at the National Institute of Economic and Social Research was undertaking a major forecasting exercise on what the British economy might look like in 1975 if the NEDC (1963) target growth rate was attained.
to the allocative and distributive functions of the state);

- of an ascent to prominence (early-late 1950s) with, in the British context, 1955 particularly significant as politics (the beginnings of political business cycles) and economics with the ‘Stop’ of that year initiating an on-going inquest into the nature of the relationship between cyclical stability and economic growth, upon which as we now know there was much misunderstanding (Dow 1964, ch. XV; Middleton 2002). Documentary manifestations of this ascent stage include the white paper on the economic implications of full employment, which added a growth objective to the pre-existing high employment objective which is often taken as the hallmark of Keynesianism (HMSO 1956, p. 12; HMSO 1944), and the Radcliffe report which for the first time assembled the full range of what we now see the basic four macroeconomic policy objectives and vindicated the developing British Keynesian style of discretionary demand management (HMSO 1959); and

- of a crest of a wave (1960) in which for a decade or so economic growth promotion would be exulted, indeed so much so that at least to the growing band of critics by the later 1960s it represented ‘growthmania’ or, as Colin Clark (1961) would have it in a play on words, ‘growthmanship’. Arndt’s choice of 1960 is interesting. This was, of course, the same year in which Rostow (1960) published his famous stage theory of economic growth which the Economist described ‘as one of the most stimulating contributions to economic and political thought made by any academic economist since the war’ (22 August 1959, p. 521); it was also the year in which one can date, in the British context, the beginnings of scholarly ‘dissatisfaction with the fashionable view of economic growth as an obvious and desirable end of economic policy’ (Mishan 1967, p. ix).

3.1.2 We here highlight the crest of the wave of growth consciousness and consider it significant that it was an American economic historian’s contribution which captured the mood and helped set the agenda. Whilst, unlike the so-called Keynesian revolution in economic policy and the role ascribed therein to Keynes’s General theory (1936), in this later episode the rise to prominence of the growth objective owed nothing to a canonical work. As we shall see in §4, formal economic theory had little practical contribution to make and was rarely the inspiration for practical economists. Indeed, in Britain as in the US (upon which see Collins 2000), the relationship between theory and policy was the obverse of what might be expected: it was policy that drove theory and even then rather indirectly (see Tobin 1964). Rostow’s stage theory is about as close as we get to an inspirational work at this time, and this was a thoroughly historical account of growth which was motivated by the urgency of countering the Soviet threat in Europe and the Third World. Interestingly, in Arndt’s (1978, p. 59) account of the British case, no mention is made of Rostow and instead: ‘In contrast to the American emphasis on full employment and the Soviet challenge, economic growth was here presented as the way out of the country’s general economic malaise ...’

3.1.3 Arndt is wrong. As the official documents in the PRO make clear, the launch of Sputnik in October 1957 was interpreted as the triumph of the USSR in the ‘space race’ through the

9 In the best Keynesian traditions of popularising academic work this derived from a much cited series of lectures given in Cambridge in the autumn of 1958 and then reprinted in abridged form in the Economist, 15 August 1959, pp. 409–16; 22 August, pp. 524–31. However, the origins of Rostow’s stage theory and of the challenge of ‘formulating an alternative to the Marxist system’ (which reappears as the sub-title of Rostow 1960) goes back much further, to Rostow (1953, p. 9). It is perhaps noteworthy that the Economist felt inclined to devote considerable column inches to Rostow in the same week that the long-awaited Radcliffe committee report on the workings of the monetary system was published (HMSO 1959).
marriage of modern science and the modern state. It thus reinforced the perception of the instrumental superiority of the government over the market in attaining important collective goals. The Soviet threat was thus significant for the demand for growth and the supply of potential solutions. Moreover, this was far from exclusively a Whitehall perception: for example, Shonfield’s (1958) high profile critique of British economic policy since the war made many positive references to the Soviet economy and Shanks’s *The stagnant society* (1961) actually began with the ‘challenge from the east’. Economic growth for Britain was as much a part of the geo-politics of the Cold War as it was of the domestic politics of affluence. This was the case even for those British economists who can be identified as combining that rarity of attributes of achieving policy-insider status and of being significant theorists. The two obvious candidates are, of course, Roy Harrod and Nicholas Kaldor. Harrod’s conservatism and cold war warrior credentials are well-known, although as yet we do not have a biography of this important figure seen by many as the father of modern growth theory (Young 1989). Kaldor is more interesting because of his origins on the political left, and because – like Rostow – his understanding of present possibilities was driven by his understanding – albeit as somewhat stylised facts – of the past. However, at this stage we do need to note that, at least until his inaugural lecture (Kaldor 1966), Kaldor’s growth economics was formalistic, expounding and refining a series of steady-state models, which were largely impenetrable except to professional economists.10

3.1.4 We thus have a narrative chronology, three key figures and, in reaffirming the centrality of the Cold War, an initial note of dissent to the now accepted story. Our second note of dissent concerns the orthodoxy that, for the economists and for the politicians and policy makers, the growth objective arose out of a confidence that the full employment objective had been satisfactorily attained and that policy could thus progress to something more ambitious. Again this note of dissent stems from our reading of the official papers: far from the economic authorities feeling confident about the permanence of their achievement in securing full employment they were, from at least the time of the 1957–8 recession, growing anxious that with the growth of world trade increased foreign competition was exposing the competitive weakness of much of British manufacturing and that unless these competitiveness problems could be resolved through higher growth then the spectre of much higher unemployment loomed. By later standards, of course, unemployment was minuscule even at the lower-turning point of the business cycle, but this was a generation which was extremely sensitive to the level of unemployment, so much so that when the National Institute of Economic and Social Research began publication in 1959 of its quarterly economic review the unemployment rate forecasts were reported to two decimal places and, even when the total numbers unemployed hovered around a high point of 500,000 or so, many politicians still found rhetorical advantage in claiming that there was a significant risk of 1 million unemployed unless emergency reflationary action was taken. As has often been observed, this was as much an age of anxiety as of affluence.

3.2 Measuring and understanding the growth failure

3.2.1 Continuing with the received story of the rise of the growth consciousness to this crest by 1960 we highlight the following further ingredients. First, we have the statistical dimension which underlay the growing appreciation of relative economic decline and the presumption that this was a consequence of British economic underperformance as against temporary

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10 On Kaldor, see the excellent biography by the British economist, Tony Thirlwall (1987); see also Targetti (1992, ch.7) for a technical but still accessible discussion of Kaldor’s developing growth theory and Lawson *et al.* (1989) on Kaldor’s political economy.
above trend performance elsewhere. Tomlinson (1996; 2001) quite rightly sees the ideology of declinism as owing much to the statistical revolution of the 1940s and 1950s which generated the league table approach to comparative national economic performance which was commonplace by the later 1950s, and in particular identified 1958 as a key year for it was then that the UN Commission for Europe published the first set of GNP growth statistics for OECD-Europe on a standardised basis with the UK ranking fifteenth of seventeen nations. Thereafter, as Arndt (1978, p. 51) observed, the growth statistics were studied ‘eagerly, not to say, morbidly’ by successive governments. To begin with higher growth by the defeated continental European powers had been explained by their greater capacity to recover from wartime damage, but that there came a point – which was given substance by the statistical revolution – that Britain’s relatively low growth rate must eventually reflect British underperformance rather than an initial understatement of the greater scope and duration of what we would now call the catch-up and convergence process (Feinstein 1990).

3.2.2 Great credence is now placed on the catch-up and convergence framework to understand slow growth in Britain during the golden age, to the extent perhaps that its explanatory power has been stretched so much that very recent accounts of British economic performance have an overly Panglossian quality. But all that is ahead of us and here we need to remind ourselves that concerns about competitiveness were hardly new; they date at least to the 1890s (Middleton 1996, pp. 11–12). (We here use the phrase competitiveness rather than growth to imply a deeper diagnosis of Britain’s economic situation and the policy space for remedial action.) We need also to pause to remind ourselves that if economists cannot distinguish between absolutes (the level of labour productivity actually attained) and relativities (the growth rate of labour productivity as a country converges or does not on the productivity leader) then it would be difficult to expect any other group of policy actors to do so. Were economists to exploit the growth rate deficiencies of Britain we might legitimately expect that they saw some sectional advantage in doing so, and we will argue later that there is evidence to that effect. But it is also the case that in the 1950s and into the 1960s there were serious informational problems for the economists as there was little or no published data on the absolutes which would allow verdicts to be made about whether growth rates were an adequate measure of comparative performance or not, i.e. at what point did faster growth elsewhere really begin to matter. Rostas (1948) had done some work on the Anglo-American productivity gap, but what else was being done at this time? And in particular, given that in so many ways the American example has proved an unhelpful comparator, what was known about comparative productivity performance with Europe. The answer seems to be very little in this formative period of the growth consciousness, with Table 1 reporting the first of Maddison’s comparative exercises which will eventually mature into the large cross-national datasets that we have today (culminating in Maddison 2001) and which are the bedrock of the catch-up and convergence literature.

3.2.3 The fixation on growth rates was accordingly understandable and permeated through all of the strands of the literature, as for example in Denison’s early work on the sources of growth which eventually produced Why growth rates differ (Denison 1962; 1967) which established the genre; and Feinstein (1963) and Matthews (1964) which laid the foundations for what would eventually become the locus classicus of Britain’s long-term growth (Matthews et al 1982).

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11 Comparative and historical studies of national product per capita made a substantial advance with Gilbert and Kravis (1954), but investigations of this form into comparative absolute labour productivity lagged a good half decade or so.
### TABLE 1  Comparative levels of output, labor input and productivity in 1960

<table>
<thead>
<tr>
<th>Country</th>
<th>GNP ($ billion)</th>
<th>Output/man-hour</th>
<th>Employment (m)</th>
<th>Average annual hours</th>
<th>US relative prices (US=100)</th>
<th>European relative prices (US=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At 1955 US</td>
<td>At 1955 European</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>13.4</td>
<td>11.3</td>
<td>3,457</td>
<td>2,225</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Denmark</td>
<td>7.1</td>
<td>5.9</td>
<td>2,202</td>
<td>2,096</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>France</td>
<td>68.5</td>
<td>53.0</td>
<td>19,740</td>
<td>2,166</td>
<td>50</td>
<td>38</td>
</tr>
<tr>
<td>Germany</td>
<td>90.7</td>
<td>69.6</td>
<td>25,340</td>
<td>2,197</td>
<td>50</td>
<td>39</td>
</tr>
<tr>
<td>Italy</td>
<td>51.5</td>
<td>35.0</td>
<td>19,780</td>
<td>2,001</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16.1</td>
<td>12.6</td>
<td>4,324</td>
<td>2,357</td>
<td>49</td>
<td>38</td>
</tr>
<tr>
<td>Norway</td>
<td>5.5</td>
<td>4.5</td>
<td>1,478</td>
<td>1,982</td>
<td>58</td>
<td>47</td>
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<tr>
<td>Sweden</td>
<td>11.9</td>
<td>9.2</td>
<td>3,229</td>
<td>2,040</td>
<td>56</td>
<td>43</td>
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<td>2,424</td>
<td>2,250</td>
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<tr>
<td>United Kingdom</td>
<td>84.3</td>
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<td>24,635</td>
<td>2,250</td>
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<td>Canada</td>
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<td>426.0</td>
<td>69,177</td>
<td>1,906</td>
<td>100</td>
<td>100</td>
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</tbody>
</table>

Source: Maddison (1964, Table I-8).

3.2.4 The next issue concerns the direction of causality between slow growth and ‘Stop-Go’. As is now well understood what characterised the British economy during these years, indeed the whole golden age, was the absolute and relative stability of the British macroeconomy (Middleton 2002, figure 4). This was not how it was seen by most contemporaries, not at least until Maddison (1960), Gilbert (1962) and then Wilson (1966) attempted cross-country and historical comparisons and applied some elementary descriptive statistics to reveal that in fact what characterised the postwar British economy was its unusual degree of stability. Nonetheless, for contemporaries slow growth came to be viewed in the main as a consequence of the style of discretionary ‘Stop-Go’ macroeconomic management that emerged by the mid-1950s, that conditioned by tight labour and goods markets operating in the context of a fixed exchange rate and a weak balance of payments on current and capital account. That slow growth was equally a cause of ‘Stop-Go’, and that ‘Stop-Go’ itself was a cause and a consequence of the politicisation of economic policy, remained a minority opinion at this time. Indeed, much more work needs to be done on the politicisation of economic policy in the 1950s and its manifestation in, if not yet political business cycles then at least a political reaction function to macroeconomic developments. Had a series of multidirectional (and multidimensional), rather than unidirectional (and unidimensional), relationships been the currency of public political discourse then the growth issue would have been differently conceived and with two possible and important consequences: the inherent potential of government growth promotion policies might have been portrayed more realistically in the political contest, as might the time-scale over which results could reasonably be expected.

3.3 **Economists and the advocacy coalition**

3.3.1 Finally, in this story we have the role of the economists in fermenting the advocacy coalition which underpinned the growth promoting policies that arouse out of the growth consciousness. Pemberton (2001b) involves the following actors and their activities in this network, beginning with the academic economists whose writings about economic growth increased in the major British academic economics journals from the mid-1950s onwards and which can be divided into one of three camps:
1. the Paish group who promoted a strategy of a lower full employment target to reduce inflationary pressures, shake out inefficiently used labour and, by increasing competition in the goods market, increase the incentives for firms to export (Paish 1958);

2. the Economic Section view (from Hall’s time as chief economic adviser\(^{12}\) (see Cairncross 1991) to Dow’s 1964 verdict) that improved demand management techniques could avoid the debilitating effects of ‘Stop-Go’ and the trend rate of growth could accordingly be raised; and

3. the ‘dash for growth’ strategy which was constantly espoused by Harrod in private (to Macmillan) and in public in a series of publications culminating in his textbook on the British economy (Harrod 1963). The essence of this strategy, which found practical application in Maudling’s dash for growth 1963–4, was that Treasury obsessions with inflation control and the external constraint should be temporarily suspended and the economy run at a much higher pressure of demand to create the capacity which in the medium-term would lessen inflationary pressures and improve the balance of payments.

**TABLE 2 Articles on ‘growth’ in UK academic journals**

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<td>Scottish J. Political Economy(^a)</td>
<td>-</td>
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<td>-</td>
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<td>6</td>
<td>6</td>
<td>13</td>
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</tbody>
</table>

**Note:**
\(^a\) SJPE commenced publication 1954.

**Source:** Pemberton (2001b, table 3.7).

3.3.2 Pemberton’s categories are unexceptionable but his enumeration of what counts as a growth article is somewhat deficient. He enumerates writings in what he sees as the six main British academic economics journals between 1951–61 (see Table 2), including an article where it has growth in the title but excluding it if did not relate to economic growth. There are two problems: one minor, one major, with the net result being that he substantially understates the increased output in the growth literature and its variety from exercises in pure theory to issues of more immediate practical application. First, he excludes the most important journal in terms of academic writings on applied economics and growth: that produced by the Oxford University Institute of Statistics under various names (currently the Oxford Bulletin of Economics and Statistics).\(^{13}\) This was the key centre for applied economics in the 1950s (Young and Lee 1993, ch. 7), much more so than Cambridge – although Stone’s econometrically-based growth project was developing (Stone 1977) – or the LSE. It would


\(^{13}\) Amongst the important papers thereby missed we have Johnson *et al.* (1955), an important symposium on growth and the balance of payments in which a number of economists counselled caution about the desirability of faster growth; an early contribution by Maddison (1955) on disaggregated long-term and productivity growth, and – although a year beyond Pemberton’s time frame – Little (1962, esp. p. 412) which, using a novel source, makes the important suggestion that a greater variance in economic activity might be expected and ‘can be equated with an increase in uncertainty, which may be associated with a growth in freedom and competitiveness of markets.’
also be the key university in terms of the personnel that would comprise the great influx of economists into Whitehall that accompanied the election of the Labour government in October 1964, so much so that Opie (1968, p. 54) recounted that Wilson:

brought into Whitehall an army of economic advisers unmatched in numbers and talent in peace-time – it was even suggested that any innocent traveller standing on the Oxford platform on that distant morning [of the general election victory] would have been trampled to death in the stampede of economists boarding the 8.52.

3.3.3 Pemberton also misses two key hybrid publications for the transmission of recent economic thinking to a wider audience, and especially policy-makers: the new National Institute Economic Review and the long-standing London and Cambridge Economic Bulletin, in both of which issues of growth and the cycle were dominant. The reviews issued by the clearing banks ought also to be enumerated as they were a key component in the economics education of Everyman, and appear often in the Treasury files – evidence of their role in shaping the wider debate and in the distillation of expert economic opinion for policy purposes (Roberts 1995). It might also be observed that economics and the British economics profession at this time was becoming more Americanised and that the key American journals (the American Economic Review, Journal of Political Economy and Quarterly Journal of Economics) need also to be included in such an enumeration (Middleton 1998, p. 213). Secondly, his somewhat curious criterion for what is a growth article results in a very significant underestimate of the output figures in this field of economics. Take for example, the Economic Journal (EJ), the key British journal in the sense of that with the highest professional reputation and international profile. Table 2 records zero entries for 1951, and yet a more systematic enumeration would yield: Shackle on making the multiplier dynamic; Harrod on the trade cycle; MacDougall, a future policy-insider in the NEDO and then the DEA, responding to Rostas (1948), the *locus classicus* of comparative productivity studies; and Kaldor on introducing dynamics into the business cycle. For the 1961 EJ, where Pemberton’s table records 5 items, a more complete enumeration might be 22 contributions, namely Brown, Caff, Domar, Dossor, Feinstein, Fellner, Frankel, Goodwin, Harrod, Hamburg and Schultze, Johansen, Jorgenson, Kennedy, Kilby, Marty, Modigliani, Nelson, Oshima, Rosenberg, Scott, Sen, Smithies.

3.3.4 We need, therefore, a much more systematic quantitative enumeration of the growth literature, such as have been undertaken in other fields by Coats and other historians and sociologists of economics and economic thought (Backhouse *et al.* 1997). The raw material exists in the form of the American Economic Association index of economic articles, now in thirty eight volumes and covering the period 1886–1996, which constitute as near a complete listing of the total economics literature as is possible. The Journal of Economic Literature (JEL) class numbers for growth (classes 111, 112 for the old system; class O in the current system) can easily be applied, and indeed for the EJ the basic work has already been done. For example, RES (1983) lists a total of 40 papers in classes 111–112 for the years 1951–61 as against the 25 enumerated by Pemberton in Table 2.

3.3.5 The second component of Pemberton’s advocacy coalition are the economic journalists whose writings, as enumerated by Pemberton (2001b, p. 62) ‘lagged behind that of the academics [but] Nevertheless, they were much more able to communicate to the public the new ideas about the “growth problem” and its solution.’ Of the academic economists Pemberton cites Harrod, a regular contributor to The Times, as having the highest public profile, and also Paish, albeit this a diminishing presence. He uses The Times index for this purpose, but makes no mention of Kaldor, or of Balogh, in generating the growth
consciousness at this broader level. Here then we also need a more comprehensive enumeration if we are to represent appropriately membership of the advocacy coalition and the respective influence of those members.

3.3.6 Notwithstanding this lacunae, what is fast becoming the obligatory trinity of cited attacks on the Establishment at that time, Shonfield (1958), Shanks (1961) and Sampson (1962), are rightly identified as key propagators of the growing mood for modernisation of which faster growth was becoming the rallying cry. We here stress that, first and foremost, this trinity represented a developing style of political discourse which was anti-Establishment in a cultural sense, and that to a certain extent economics was the means to achieve the desired cultural and political reform (growth as change). This is not to deny the advocacy goal, that of a rejuvenated British economy and of more effective economic management, but it is to ground it in a wider context. Academic economists were not much involved in this critique, although Balogh’s (1959) excoriating attack on the British civil service rightly attracted attention, and some economists who achieved policy insider status in the 1960s (for example, Robert Neild) would try to influence the Fulton Commission which was the Establishment’s response to these attacks (Hennessy et al. 1988). We draw this distinction, between the cultural content of these anti-Establishment attacks (Britain as a ‘stagnant society’) and the technical economic nature of the message about what reform was necessary in economic policy and behaviour, because the economic and financial journalists were the voice most heard and the one to which politicians necessarily had to listen as perceptions of economic management competency acquired the major salience that they did in party political competition.

3.3.7 Parsons (1989, p. 109), in his history of British and American financial journalism, is worth citing at length here because of the pertinent connections that he makes between long-term biases in British economic policy and contingent circumstances:

Given the climate of the times ... what Brittan [?1977] describes as the chimera of ‘supposing that any institutional device can be an adequate substitute for wise policy decisions’ was politically attractive because of its pragmatic, non-ideological quality. For journalists interested in being involved in shaping opinion and influencing policy, the argument that Britain should get its administrative and political house in order was a naturally seductive and very potent proposition. Yet as ... with respect to the impact of Ricardian ideas in the nineteenth century, economic journalists in the 1960s did not so much determine issues as offer to their readers a ‘rational basis for a voice in economic policy’. It was their writings which expressed the basic tenets of British economic consensus in the 1960s: the need for growth to match our European neighbours; membership of the Community; the belief in planning and a (very Keynesian) faith in expertise; and the notion that the key to change was the institutional reform in British central government. As Fred Hirsch [1977, p. 127] once put it:

14 Pemberton (2001b, p. 61 n. 70) uses that index for Harrod and Paish, 1955–61, but for no other economists.
15 This politicisation coinciding with the ‘great reappraisal’ (Brittan 1964, ch.7) in economic policy gives added force to the characterisation of the eclipse of the deferential voter by that of the deferential politician. Thus, at the 1959 general election, Gallup opinion poll data recorded that economic issues came a poor second to foreign and defence policy. Yet, by September 1963, on the eve of Macmillan’s forced retirement, a clear majority of Gallup respondents now placed economic issues above foreign/defence policy as having the highest priority; and by the time of the 1966 election, economic issues had become ‘the most urgent problem facing Britain today’ for 48 per cent of respondents, a transformation which was completed in the 1970s when unemployment, inflation and industrial relations topped the list of responses to public opinion surveys (Borooh 1985, p. 21). Our understanding of this process is significantly incomplete, as is the present state of knowledge about perceptions of government popularity and economic performance. For early appraisals of the relationships that underlie economic vote functions, see Butler and Stokes (1969, ch. 18) and Goodhart and Bhansali (1970).
'Stupidity, not cupidity, was the besetting sin of those at the helm: to govern, it was not necessary to choose, only to think, to count, and to manage.' It was economic journalists who articulated this attitude most eloquently, and perhaps more importantly, more regularly than any other group. That such ideas were being voiced in the leading organs of the financial press could only have served to enhance its political acceptability. This is not to lessen the importance of the other sources of the managed-economy paradigm – planners in the Conservative Party, Crosland, the Federation of British Industry, Political and Economic Planning, and so on. However, what was most significant about the contribution of economic journalists was that they had the capacity to aggregate and disseminate ideas by applying them to events: they caught the mood. The economic question, as they represented it to their readers, was fundamentally enmeshed with the deficiencies of the machinery and attitudes existing in government and society at large.

3.3.8 What mattered here is that relative to the professional academic economists, this part of the advocacy coalition, the dominant part, propagated a much more straightforward diagnoses of slow growth as caused by a combination of ‘Stop-Go’ and deep-seated administrative-policy failures and a version of its remedy (in administrative reform and above all ‘planning’) which finessed the difficulties associated with implementing the new growth strategy. Two elements are important here: the first, as Parsons (1989, p. 110) notes, that whatever the ascendancy of Keynesian economics in postwar Britain, professional – as in academic – economics and economists had not managed to eclipse the power of non-professional economics, i.e. potentially ersatz economics.  

The market for economic advice in Britain was and is unusually contestable, although it must not be acknowledged that a significant proportion of this generation of leading economic and financial journalists now had a university economics education (Middleton 1998). Secondly, and perhaps ironically, whilst this group might be labelled amateurs by the academic economists they nonetheless seem to share the same basic philosophy of what, since Harrod’s (1951) biography of Keynes, has become known as the elitist ‘presuppositions of Harvey Road’, here well expressed by Hirsch (1977, pp. 127–8):

A usually unstated but conscious assumption ... that the macromanagers, the overseers of the system, were likely to be clever then the micromanagers, the overseers of its basic business units. A second underlying assumption was unconscious and taken for granted. This was the belief ... that the macromanagers were guided by different, more elevated, motivations ...

3.3.9 In short, in their advocacy of planning and of economic policy reform as part and parcel of broader modernising reform, the economic journalists were as much Keynesians as the professional economists. However, it was this source, more than that of the academics, that underlay the policy-makers growing preoccupation (fixations) with securing greater macroeconomic stability and the hopes they entertained for investment-led accelerated growth. The latter, of course, presumed, first, that growth was currently being constrained by ‘low’ investment; and, secondly, that business investment itself could be promoted by public policy. For contemporary critics, the former was highly debatable (Clark 1961), whilst the latter posed all sorts of dangers for allocational inefficiencies and rent-seeking behaviour, and

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16 Ersatz economics, born of lay participants in economic discourse, embodies the concepts of substitute (of vulgar for professional economics) and inherent danger (of resulting incorrect economic behaviours founded on erroneous conclusions). In the US it has been a particular target of McCloskey since her *The applied theory of price* (1982, p. 4), but also appears in the guise of pop internationalism (Krugman 1996) and do-it-yourself-economics (Henderson 1986).

17 Of the trinity, Shonfield was a PPE graduate, a financial Journalist (*Financial Times* and *Observer*) and, after a long period as Director of the Royal Institute of International Affairs, became Professor of Economics at the European University Institute, Florence; Shanks, another PPE graduate and financial journalist (*The Economist*, *Financial Times*, *Sunday Times* and *The Times*), went on to serve in the DEA before progressing to a career as a business economist; whilst Sampson, an Oxford graduate (who’s who does not detail subject), fashioned a career as an investigative journalist on the *Observer* and as a book writer.
especially with respect to ongoing Treasury concerns about the effectiveness of financial management and of the productivity of the nationalised industry investment programmes (Ringe et al. 2003, ch. 7).

3.3.10 In political economy terms we might conceive of the developing growth strategy as designed to widen the policy space by pasteurising much of the conflicts that bedevilled contemporary politics. That growth was a palliative which would finesse long-standing distributional conflicts is a commonplace of this period, and we observe quite how this was conceived in the later reflections of a number of the economists and more economically inclined civil servants who were policy actors at this time. Thus, for example, in a series of post mortems on the golden age, a number of the economists (for example, Hall 1982, p. 163) complained that high GDP growth targets were a way of reconciling conflicting public spending claims, but that these translated into absurd spending programmes which caused subsequent problems, necessitating discretionary macroeconomic ‘Stops’, which in turn made any acceleration in growth difficult (Atkinson, discussion on Croham 1992, p. 108). A similar story can be told in terms of prices and incomes policies; indeed, it is the thoroughly Keynesian (in administrative terms) Council on Prices, Productivity and Incomes, also known as the ‘Three Wise Men’, established in 1957 which reignited the corporatist impulse in Britain and which resulted in the creation in 1961–2 of the NEDC and NEDO which were central to the emerging growth strategy (Ringe and Rollings 2000a).

3.3.11 For contemporary critiques, these new growth promoting agencies and the growth targets that would emerge from them were an attempt to avoid the hard choices and the politically difficult changes that would be necessary for to attain higher growth. One is reminded here of the critique applied by Hayek and others against Keynes between the wars, namely that by denying the obvious if hard solution for unemployment – allowing the labour market to clear – extraordinary ingenuity, brilliance and administrative flexibility had to be applied to construct a second-best solution, otherwise known as the Keynesian revolution in macroeconomics and policy. For the developing anti-planning lobby of the early 1960s, the complaint was naturally that planned growth was an oxymoron: what was required was freer markets and much more intense competition. Of course, for the Conservatives, there was not a straightforward dichotomy between government and market; they sought both greater planning and more intense competition, at least in product markets, and that this was now how it appeared in political discourse was intrinsic to the bogus dilemmas that were increasingly characteristic of postwar British politics (Brittan 1968, 1977; Rollings and Middleton 2002).

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18 Ringe and Rollings (2000a, p. 333). Important contemporary critiques were Clark (1961) who might be considered the father of empirical work on growth and development (Clark 1940). It is perhaps interesting that an IEA pamphlet, published under the pen name Spartacus (1966, p. 19), and probably written by John Jewkes, author of Ordeal by planning (1948) and New ordeal by planning (1968), provided a chart, almost identical to Figure 1 above, in which the index of real GDP (1958=100) in 1970 was – through extrapolation – predicted to be about 146, almost exactly the result actually obtained.

19 See Harry Johnson’s (1968, p 53) complaint about Cambridge economics that Keynes’s General theory (1936) ‘established the myth that youthful irreverence towards and challenge to the wisdom and understanding accumulated by past scholarly work is all that is required to establish superior competence in economic science. This attitude is the foundation both of the preference for gimmickry that has made English economics such a poor guide to policy-making, and for the decline of the English profession as a source of productive new ideas for the world’s economists to work on.’ See also ‘An ABC of economic policy’, The Economist, 15 August 1959, pp. 395–6 that what was needed was a new mood of realism not further ingenious technical devices.
3.3.12 It is, of course, the nature of politics that we should expect policy actors to behave strategically, but this raises the important question of what was really known about how to secure faster growth so as to attain the potential strategic pay-off of higher growth. In Cairncross’s (1996, p. 65) judgement, neither of the first two Chancellors he served (Selwyn Lloyd, 1961–2; Maudling, 1962–4) ‘had any real insight into the mainsprings of economic growth, especially if that is taken to mean growth in productivity; they simply assumed that if expansion was sufficiently prolonged, industrial productivity would move upwards to a new, steeper curve.’ That these, indeed all, contemporary politicians had but a limited conception of the nature of economic growth, and of how to effect its acceleration, should come as no surprise. What is surprising, however, is how very little economists at this time also knew that was useful about growth, and this notwithstanding that ‘During the sixties the growth rate of the “growth literature” far exceeded that of the phenomenon it tried to explain’ (Mueller 1983, p. 1). Cairncross (discussion on Croham 1992, p. 105) further noted that:

Britain had set about planning without really understanding how growth took place – growth in productivity, rather than growth in output. There was little theory about what determined the rate of growth that was worth a hoot – though what there was was in the Orange Book [NEDC 1963b]. Indeed, that was the only attempt to set down what could usefully be done to affect the rate of growth.

§4. What do economists know?

4.1 Introduction

4.1.1 In one sense, ‘economic growth’ is both the oldest and the most central concerns of economics. Yet as Moses Abramovitz (1952, p. 132), the originator of the now ubiquitous catch-up and convergence framework for understanding why growth rates differ, observed in an essay reviewing the field in the early 1950s ‘the problem of economic growth lacks any organized and generally known body of doctrine’. There was a consider corpus of individual work but nothing systematic that explained why growth rates differed (Denison 1967) which is what became the core question, motivated as it was by national and intra-national political competition.

4.2 The ‘old’ new growth theory

4.2.1 Modern growth theory has developed through three phases since the Second World War (Solow 1994, p. 45).20 The first, originating in pioneering papers by Harrod (1939) and Domar (1946), sought to make the Keynesian system dynamic and was concerned as much with issues of stabilizing demand as with increasing productive capacity to accommodate rising demand. Although they provided key building blocks for later theorizing, their approaches were actually rather different and it is important that Harrod’s theorizing drove him towards a pessimism about the possibility of attaining steady and high growth (Harrod 1948). The policy implications of this early theorising were not altogether obvious, but in essence the Harrod-Domar approach modelled economic growth as a function of three

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20 Any competent general history of economic thought should provide an account of postwar growth theory’s development which at makes clear some of the implications for policy, for example, Backhouse (1985, ch. 25). Of the contemporary surveys, the most comprehensive and useful is Hahn and Matthews (1964); of the most recent, Coates (2000, app.) and Hibbs (2001) have been useful, while Besley (2001) provides a succinct summary (with a British policy focus) of what we think we now know about the link between policy and economic growth.
dependent variables: the savings rate, the labour force growth rate and capital-output ratio. However, as Solow notes in his Nobel lecture ([1988] 2000, pp. ix-x), his ‘Discomfort [with Harrod-Domar] arose because they worked this out on the assumption that all three of the key ingredients ... were given constants, facts of nature. The savings rate was a fact about preferences; the growth rate of labour supply was a demographic-sociological fact; the capital-output ratio was a technological fact.’

4.2.2 The second phase, which began in the mid-1950s with Swan (1956) and Solow (1956) and which continued to the 1980s (indeed, for its most stalwart exponents, has never ended), is that of mainstream neo-classical theory which, during our formative period, comprised a series of vintage one-sector production function models of the form:

\[ Q(t) = F(K(t), L(t), A(t)) \]  

where \( Q \) is gross output, \( K \) physical capital, \( L \) the raw labour input, \( A \) the labour augmenting state of technology, \( t \) time; and where a number of more or less strenuous assumptions were made, namely constant returns to scale (K), the exogeneity of technology (A) and labour (L), perfect competition, equality of factor prices to marginal products and simultaneous competitive equilibrium prevailing in goods and factor markets.

4.2.3 From these pioneering efforts the literature on the neo-classical growth model mushroomed in the 1960s with efforts to relax somewhat the ‘heroic abstractions’ made in Solow’s initial formulation (Backhouse 1985, p. 320). Disaggregated models were developed, the differing vintages of capital (and thus latent productivity potential) were introduced, and \( K \) was then augmented with human capital. But in almost all of this emerging literature the long-run equilibrium growth rate was taken as exogenous, determined by the growth rates of population and productivity. Population growth was not immediately tractable in public policy terms, while the rate of technological progress was assumed exogenous (the so-called Solow residual). Equally significant was that such theorising about the causes of growth, grounded as it was on the assumption of the operational superiority of the market as an allocational device, was antipathetic to the planning movement of the 1960s. As Coates (2000, pp. 265–6) observed:

the broad thrust of this approach is one that treats the untrammelled interplay of market forces as the best guarantor of both economic growth and the convergence of growth paths between economies, such that, if growth and convergence do not occur, analysis has to focus on inadequacies in market performance. It has to focus on the location of inadequacies in either the supply or the quality of factors of production, or on the existence of barriers or blockages to their free and unregulated interplay.

4.2.4 It was thus not immediately clear how the developing growth literature offered a practical guide to growth-hungry policy-makers. What was clear was that investment in physical capital (K) mattered and that there was some potential in human capital, but as Shone (1965, pp. 8–9) – the first Director General of the NEDC – complained from experience it was extraordinarily difficult in practice to determine the magnitude of their coefficients in any aggregate production function.

4.2.5 Neo-classical theory did, however, spur the development of major empirical enquiries – growth accounting exercises – into why growth rates differed (Denison 1967), and in Table 3 we report the final results of the Cambridge project begun in this spirit by Feinstein and Matthews in the late 1950s (updated to the late 1990s to illustrate how exceptional was the
TABLE3  UK growth accounting and real GDP and components by business cycle phases, average annual percentage growth rates, 1856-1997

<table>
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<th>Total factor inputs (TFI):</th>
<th>Total factor productivity</th>
<th>GDP (Y)</th>
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<td>Capital (K)</td>
<td>Total (3)</td>
</tr>
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<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>1873-1913</td>
<td>1.0</td>
<td>0.8</td>
<td>1.8</td>
</tr>
<tr>
<td>1913-24</td>
<td>(0.3)</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>1924-37</td>
<td>1.5</td>
<td>0.5</td>
<td>2.0</td>
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<tr>
<td>1937-51</td>
<td>0.7</td>
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<td>1.1</td>
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</tr>
<tr>
<td>1973-97</td>
<td>..</td>
<td>..</td>
<td>..</td>
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</table>

General government expenditure: Consumers’ expenditure on goods and services; Gross domestic fixed capital formation; Exports of goods and services; Imports of goods and services; GDP

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<th>Gross domestic fixed capital formation</th>
<th>Exports of goods and services</th>
<th>Imports of goods and services</th>
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<td>6.5</td>
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<td>3.3</td>
<td>2.9</td>
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<td>1955-60</td>
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<td>1960-4</td>
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<td>1973-9</td>
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<td>1979-90</td>
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<td>Averages:</td>
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<td>1951-73</td>
<td>3.0</td>
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<td>1973-97</td>
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<td>4.3</td>
<td>4.1</td>
<td>2.0</td>
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Sources: Middleton (2000, table 2.1) derived from Matthews et al. (1982, table 16.2); ONS (1999, table 1.3).

golden age). This has two underlying accounting identities:

\[
\Delta GDP = \Delta TFI + \Delta TFP
\]

\[
\Delta TFI = \Delta L_{QA} + \Delta K
\]

where \( \Delta \) is the notation for a first order difference (the change in the value of a variable, here measured in terms of percentage points contributions to GDP growth); real GDP growth (col. 5, \( \Delta GDP \)) is equivalent to the sum of Total Factor Inputs (TFI) (col. 3) and Total Factor Productivity (TFP) (col. 4) growth; with col. 3 (TFI) in turn the sum of cols 1 and 2, respectively the contributions of quality adjusted labour (L_{QA}) – that is labour supply augmented through greater education and training – and capital (K) to TFI. Before examining what conclusions we may draw from these data we should note:
• TFP is not directly measured – it is a residual left over after direct measurement of TFI, and is meant to capture the effects of advances in knowledge and other miscellaneous determinants (especially the effects of technological progress) which are not included in \( L_{QA} \) and \( K \);
• TFP is a measure of the productivity of all factors of production, capital as well as labour. It is thus a broader productivity measure than that of labour productivity, the usual focus of public discussion, and one particularly appropriate for Britain where there have been significant differences between the productivity of labour and of capital (see Middleton 2000, table 2.3, row 5); and
• the values of \( L_{QA} \) and \( K \) derive from coefficients which are calculated using procedures which rest upon some strong theoretical and empirical assumptions.

4.2.6 These problems notwithstanding the growth accounting framework is now widely employed and does yield some striking conclusions about the performance of the British and other OECD economies. First, we see how exceptional the golden age was and how experience since 1973 has been closer to the British long-term steady-state growth rate of between 2 and 2¼ per cent. Secondly, we observe that the proximate cause of this higher golden age growth relative to interwar experience lies with enhanced TFP growth. Thirdly, and again by contrast with the interwar period, when decomposed TFI growth is explained not by the traditional expansion of the labour input (typically fuelled by population growth) but by the much higher contribution of the capital input. Indeed, two notable characteristics of the whole postwar era have been the slow growth of the workforce and the contraction of the aggregate labour input when measured in terms of total hours worked.

4.2.7 Clearly, then TFP growth is critical to an understanding of postwar growth, but this was the Solow residual and thus unexplained. Growth accounting exercises explore the proximate (identifiable) sources of growth; they do not cast much light on either:

• the ultimate sources of growth: that is the underlying explanations for the behaviour of factor inputs and productivity, these in turn being grounded in terms of actions by workers, managers, politicians, bureaucrats and other economic agents and how these are affected by government policies and market institutions; or
• the fundamental sources of growth: the base motives (incentives/avoidance of penalties) which drive economic agents in a capitalist democracy, typically votes for politicians, wages for workers and the lure of profits for businesses.

4.2.8 There was thus no real menu of obvious policy choices or signposts of what British policymakers ought to be doing.\textsuperscript{21} Indeed, there is something of an irony that the ‘old’ new growth theory, which actually accorded little theoretical role to government, was dominant during the phase when many western governments actively intervened to promote growth (the golden age), whereas the ‘new’ new (endogenous) growth theory (beginning with Romer 1986 and Lucas 1988), which sanctions a stronger role for governments, emerged in the 1980s whilst governments were trumpeting the virtues of the market and minimal government. Before proceeding to that third phase of postwar growth theory we need to introduce one now little cited conclusion of Denison’s early work, and some important notes of dissent about

\textsuperscript{21} If the Orange book represented the – disappointing – state of the art in 1963, then Henderson (1966), which drew together Oxford economists’ – sans Balogh – views on growth showed how little progress was made in the short-term and how little even this was reliant on progress in theorising about growth. Lamfalussy’s (1963) study of British growth in relation to the founding six EEC members also demonstrates this point.
theoretical developments during this second phase of theorising.

4.2.9 Denison (1962) concluded his first growth accounting exercise, that solely on the US economy, by stressing that:

largely and costly changes would be required if deliberate policy was to raise the high-employment growth rate appreciably above what it would be otherwise. ‘The tale of a kingdom lost for want of a nail appears in poetry, not economic history.’ This finding contrasted with a common view that it would be easy to add whole percentage points to the growth rate. (Denison 1987, p. 572).

4.2.10 We have stressed the neo-classical provenance of this second phase, and indeed it was an important component of the emerging neo-classical synthesis of this period (Middleton 1998, pp. 206–11). However, there were Keynesian dissidents, and especially Cambridge UK dissidents in the form of Joan Robinson, Pasinetti and Kaldor. They questioned Solow’s strong assumptions of smoothly substitutable factors of production, competitive markets and equilibrium state method, and instead offered alternative theories of growth and distribution which inter alia might be conceived as of more appropriate to the British case. Unfortunately, the most visible manifestation of this dissent was the infamous Cambridge capital controversy, which for economics’ growing critics marked the apotheosis of the discipline’s descent into sterile theorising (Middleton 1998, p. 227-8).

4.3 The ‘new’ new (endogenous) growth theory

4.3.1 The endogenous growth theory takes us well beyond our temporal borders but has a twofold relevance: first, as a means of looking back to golden age growth; and second as a means of looking forward from how practical policy dissatisfaction with neo-classical theory yielded further insightful theorising and the possibility of progress in economics. Thus, the first point to observe is that in this third phase growth theory emerged to occupy a much more prominent position in the mainstream research agenda and also cast off some, although not all, of its previous intellectual detachment from the puzzling question of why some countries are persistently poor and others persistently rich. With technology now endogenous, scale economies admitted and growth accounting exercises maturing to model and measure the influence of politics, policy and institutional arrangements on the behaviour of key economic actors, at last something resembling the ultimate and fundamental causes of why growth rates differ lay in the grasp of economists and policy-makers. Or so the most optimistic readings of the potential of endogenous growth theory would have it (Barro 1998; cf. Fine 2000).

4.3.2 The 1960s growth strategy has not yet been interpreted through an endogenous growth lens, but the growing body of theoretical and empirical work suggests the importance of:

- the supply-side (with obvious implications for Keynesian plus);
- broad rather than just physical capital (Robbins report and other vocational and educational initiatives);
- raising the rate of technological change (R&D and competition policy); and
- enhancing the appropriability of returns to investment in innovation and physical capital.

4.3.3 As Crafts (1996, p. 42), a somewhat sceptical but still positive analyst of the endogenous approach, has concluded:

Seen in this light, the general thrust of British supply-side policy during the years of rapid relative economic decline from the 1950s through to the 1970s appears most unfortunate. Two general
features stand out. First, the poor targeting of subsidies to investment and, second, the failure effectively to tackle questions of institutional reform. These weaknesses did not go completely unrecognised but governments were generally too weak or short-termist to address them.

adding (p. 44):

as a postscript, it may be as well to bear in mind that better supply-side policies tend to have their pay-off in the far distant future, while frequently jeopardising the votes of powerful interest groups initially. Absent effective ways of achieving pre-commitment, the short-termism of politicians is always likely to be an obstacle to faster long-run growth.

4.3.4 Accordingly, whilst it remains a potentially fruitful avenue to undertake such a backward economic policy projection, Crafts actually brings us back to political and institutional capabilities and constraints. But to bring us back to the economics, the growth process has recently and usefully been likened to a mosaic whereby there is no single vantage point that can encompass the full range of influences (Landau et al. 1996, pp. 1, 12, 15). However, whilst economists continue to disagree about important short-term issues such as the trade-off between unemployment and inflation there is much fuller agreement about the necessary conditions – pro-education, pro-investment and pro-technology – if market economies are to deliver sustained long-term growth. All are recognisable themes in the emerging growth strategy of the late 1950s and early 1960s, in which case the central question becomes whether the instruments for remedying the productivity shortfall were firmly based in appropriate penalty and incentive structures.

§5. What sort of economics proved decisive?

5.1 Introduction

5.1.1 Hitherto, we have worked with an implicit, rationalist and modernist assumption: that policy could be improved by ‘better’ academic economics. If we now factor in the long-standing tension facing all economists, that between doing well (in a professional sense) and doing good (in a welfare enhancing sense) (Klein 1999; 2001), we can begin to confront what sort of economic thinking proved decisive and why in this episode and what its longer-term implications were for economic policy and the reputation of economics.

5.1.2 Whether economists should remain politically detached and wholly scholastic (the Stigler 1982 view that the economist should not preach), or indulge in policy prescriptions and seek to improve the quality of decision-making by educating policy actors and the broader voting public (the economics education of Everyman), is now a staple of the history and sociology of economics literature on the evolving responsibilities of the economist. More recently, it has been given added piquancy by the post-modern reactions against the scientific pretensions of economics, and in particular the rhetoric project now firmly associated with McCloskey’s assault on his previous professional home, Chicago economics (McCloskey 1994). Recent literature on the ontology of economics and economists also approaches from another angle how economists construct their economic world view and what the implications are of that for themselves and for everyone else (Maki 2001).

5.2 The market for economic advice

5.2.1 We begin our brief exploration of these matters with the market for economic advice itself,
for as Cairncross (1981, p. 5) recounted from experience:

Economic policy making is an activity like any other activity which involves producers competing to supply a market and consumers hoping to find their wants supplied. Economists may produce ideas and their ideas may be drawn upon at the official or the ministerial level. But what guides policy may have very little to do with the ideas that economists put forward. It may be dominated by non-economic considerations or by the views of non-economists or by doctrines refuted long ago or in widespread disrepute. What economists have to say may be neglected because its bearing on policy is obscure, contested, ambiguous, or insufficiently precise; because economists’ conclusions rest on mistaken or inappropriate assumptions; because they are not adapted to the needs of the policy maker; or because, for that or any other reason, they simply fail to get a hearing. Policy makers, as a rule, are slightly deaf: there is too much noise.

5.2.2 This noisy conversation that constitutes the policy environment and policy-making process, and which is conducted through multiple networks, draws upon many types of economic expertise and thus multiple producers of economic ideas (Middleton 1998, pp. 50–1; also Peden 1996, pp. 171–2). It is, however, arguable that all postwar British economists who sought to forge a career as a senior policy adviser, consciously or unconsciously, had the example of Keynes in mind of how to do well and to be good.22 No doubt Keynes’s (1930, p. 332) much cited dictum, that ‘If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!’, resonated for many of them, if only for its rhetorical qualities. Accordingly, to be heard in this noisy, highly contestable market required strong and varied attributes which were as much to do with social endowments – understanding the networks of Whitehall and (for some) the possibilities afforded by Fleet Street and the media – as with one’s standing as an elite professional economist with something interesting and relevant to say. Moreover, having gained access to the networks and then moved on to become a policy insider, the next issue to confront is how to make effective your comparative advantage. As Cairncross (1970c, p. 5) warned: ‘Those who have never served in a large Government department are inclined to take too exalted a view of the rationality of the process of decision-making’. The representation of ‘economists as supermen able to transform the economy by technical wizardry and rendering administrators and ministers alike redundant’, might now seem laughable but was a not altogether unfair caricature at the height of the Keynesian hegemony. But here too Cairncross (1970a, p. 203) cautioned, giving the following ‘insider’s’ description which should counsel caution in using the surviving documentary record to interpret contemporary and, in particular, past policy decisions:

Anyone who talks in these terms has never been present at the kind of discussion between economists, administrators and ministers at which it is by no means uncommon for the economist to talk politics, the administrators to talk economics, and ministers to discuss administrative complications. An outsider might have great difficulty in deciding who, among those present, was a professional economist and would be very unlikely to conclude that an economist, as such, was in a particularly powerful position in debating most issues of economic policy.

5.2.3 Cairncross’s observations accord with our understand of how professional economists first made significant inroads into Whitehall during the Second World War, that is in the construction of the planned war economy where, to override markets, you naturally call upon those who understand most about how markets function. The challenge in the late 1950s and

There is a huge literature – detailed in Middleton (1998) – of personal reflections on the time spent by British economists, senior and comparatively junior, as policy entrepreneurs and/or policy insiders. Amongst the most important for our period we include Phelps Brown (1980) Cairncross’s (1985) assessments of what makes a good policy adviser.
early 1960s, however, was substantially different: not to override markets, but to support their more effective operation. Unfortunately, the political rhetoric, occasionally the economists’ pronouncements also, suggested something more antipathetic to the market. None the less, when actually in Whitehall the economist policy insiders typically found themselves occupied as economist-administrators. For example, both Cairncross (1997; 1999) at the Treasury, and MacDougall (1987, pp. 140-1) at NEDO and then the DEA, recount that a very great part of their time was allocated to drafting and redrafting documents. This was less to get the economics perfect – the technical nature of which rarely rose above the basic analytical tools imparted in any good undergraduate economics degree – than to find suitable wording which would offend the least number of interested parties in the corporatist melting pot that NEDC/NEDO and the DEA came to represent, and all under the careful and ever vigilant watch of a Treasury committed to ensuring that any ‘creative tension’ – Labour’s phrase for the new Treasury/DEA-demand/supply-side policy axis – would not rebound to its disadvantage.

5.2.4 We have abundant evidence that far from these insiders being responsible for talking up the target growth rate, the intoxication by integers, it was the very opposite. Again the diaries and memoirs attest to the insider’s efforts to contain politicians’ ambitions for challenging targets and their frustration that neither the underlying qualitative issues or the hard allocational choices were being addressed. Cairncross, as Hall before him, combined inherent Treasury pessimism about the possibilities of making significant changes in short-term economic behaviour. MacDougall, who would replace Cairncross at the Treasury, was perhaps a little more optimistic about the prospects for growth promotion (as was Neild), and probably also the most informed (and optimistic) of all of the advisers about the reality of the UK-US productivity gap and British competitiveness (for example, MacDougall 1956). Even Kaldor, who with Balogh would become the bogeymen – the terrible twins, the Hungarian goulash – of Labour’s dirigiste ambitions for certain City-business constituencies, would prove his worth with the Treasury he served, although his most public innovation, the Selective Employment Tax (SET), remained an embarrassment (Middleton 1998, p. 266).

5.3 A plague of economists?

5.3.1 It is now a commonplace that the 1963 NEDC and 1965 National Plan targets were unrealistic, but where to allocate culpability for these and other assumed errors which comprise what Harry Johnson’s (1975) called the ‘rich store of stupid decisions’ which are the hallmark of postwar British economic policy. The case against the economist insiders was first put effectively by Postan (1968, p. 42) in a famous tirade which applied to economists the collective noun of a plague:

judged by professional [academic] standards, the quality of British economics still ranks very high and is not in question.

What is more questionable are the standards themselves, or to be more exact, the professional qualifications and attitudes which the economists bring, and are expected to bring, to their governmental and journalistic jobs. Are the contents of modern economics, the ideas which the economists operate as relevant to the economic problems of our age as they and their public believe? Have they with their models, measurements and forecasts, helped the economic recovery, or have they on the contrary, aggravated Britain’s predicament by misdirecting the attention of the government and the public?

I AM AFRAID MY ANSWER to these questions must go against the economists. It may well be that the very quality of post-war economics, the greater sophistication of its theoretical constructions, its much refined statistical and economic methods, have put it out of touch with real economic situations.
5.3.2 These charges were not easily dismissed, for unlike much else of the reaction against growthmanship and growthmania they could not be derided as the mere rantings of second-rate economists who could only find a publishing home in the Institute of Economic Affairs (IEA). Nonetheless, with the official records now available to supplement the potentially self-serving diaries and memoirs of the participants, and with the benefits of time, we can largely absolve the economists of technical economics errors, explaining the 4.0 and 3.8 per cent 1963/1965 growth targets in terms of:

1. the problem of overinterpretation, in particular the 1955–8 recession in which zero growth of industrial output combined with growing concerns about ‘Stop-Go’ were overinterpreted to imply something systemically wrong with the British economy, rather than being a set of contingent events which had produced policy overshoots (in the Stop phase, too much and for too long) and subsequent Go (determined by impending 1959 election). Because of the growing pro-growth bias in public debate, it became increasingly difficult to restrain faster growth than could be sustained and which had then later to be restrained: more ‘Go-Stop’ than ‘Stop-Go’ (Dow 1998, p. 263);  

2. the problem of starting point, in which recovery from that recession was necessarily above trend and this generated the expectation by those less numerate and less informed about trend and cycle that if 4 per cent could be attained 1958-63 than it could easily be sustained thereafter. This necessarily established a 4 per cent floor to the target range (MacDougall, discussion on Croham 1992, pp. 102-3);  

3. the naivete of politicians. As Croham (1992, pp. 91–2) put it: ‘Whatever the achieved growth rate, they wanted a target significantly bigger and that was liable to mean bigger by 1 per cent[age point]’, with Selwyn Lloyd particularly identified in this respect as being difficult to persuade – by Cairncross – that 5 per cent was unrealisable and that even 4 per cent was substantially higher than that achieved in the 1950s;  

4. the intensity of political competition and the politicisation of economic policy, of which the apogee must be the 1964 general election; the ‘fulcrum of the politics of the sixties’, in which ‘What mattered in that campaign was less the clash of competing ideologies (though these of course could never be completely buried) than the conflicting claims as to whether Home’s side or Wilson’s could be more confidently backed to deliver the goods’ (McKie 1972, p. 2). This was the first and only election in which claims and counter-claims about the achievability of the (4 per cent ) growth target held centre stage (Butler and King 1965, pp. 132–4) resulting in a mood that Macmillan’s ‘You’ve never had it so good’ became ‘You could have it better’ (Proudfoot 1974, p. 160; see also Sinclair 1972; Atkinson, discussion on Croham 1992, p. 108);  

5. the confusion between growth targets and policies necessary for their attainment, which in this context relates to the presumption by many (especially MacDougall) that the problem was not the target but Maudling’s dash for growth and Labour’s subsequent error in not devaluing upon taking office;  

6. the conflation of growth with planning, in which ideological opposition to the latter prejudiced opinion about desirability of promoting the former, and the tendency to backward projection from the flaws associated with the National Plan to the NEDC initiative;

23 This appears a key period in generating the impression of British macroeconomic instability because, of the golden age, the business cycle phase with the highest amplitude (1955–60) was also that with the slowest average growth (see Middleton 2002, table 5). It was also coincident with, first, the beginnings of that policy inquest into relative decline and, second, following the proximity of an (unwarranted) expansionary budget and the 1955 general election, the accusations that ‘Stop-Go’ had assumed the character of political business cycles.
7. the problem of informational weaknesses, especially in 1964 when for a time the CSO’s industrial production index appeared stuck and there was contrary evidence about the developing boom. On the one hand there were apparently justifiable concerns about unemployment, while on the other, as the election campaign drew towards polling day, a classic balance of crisis was gathering pace. ‘A crisis atmosphere was created just as the election was about to take place’ (Cairncross 1996, p. 87), and in the refusal of the incoming government to immediately devalue we have the orthodoxy that Labour’s version of the growth strategy was fatally compromised from the outset.

5.3.3 The dominance of political motives in Labour’s exchange rate non-decision of October 1964 is, of course, the foundation of the economists’ defence against much of the charge sheet levelled against their public and policy activities of this era (Middleton 1998, pp. 253–68). But is this an adequate defence given the additional charges? The first of these is that of hubris, here put by Friedman (1972, pp. 12, 17-18):

we economists in recent years have done vast harm – to society at large and to our profession in particular – by claiming more than we can deliver. We have thereby encouraged politicians to make extravagant promises, inculcate unrealistic expectations in the public at large, and promote discontent with reasonably satisfactory results because they fall short of the economists’ promised land.

(Friedman 1972, pp. 12, 17–18)

5.3.4 Two observations on this are immediately warranted. The first is that a necessary degree of confidence and ambition are a requirement for successful policy entrepreneurship (of which Friedman is hardly an innocent), and as we have already demonstrated the policy insiders were for the most part trying to deflate expectations about what was possible. And secondly, if hubris is in the eyes of the beholder, then the spoils of victory in this contest between government and market hardly went to those who were disinterested. Friedman’s complaint was mirrored by many other economists at the time and since who did not necessarily share his pro-market sympathies, and indeed from the early 1970s onwards there emerged a stream of critical commentary along the lines of why economics was not yet a science (for example, with that title, Eichner1983). One sub-set of this concerned the weak empirical foundations of economic theory, and as we have seen this is particularly relevant to growth theory and practice at that time.

5.4 Contested views of economic knowledge

5.4.1 More recently, of course, a further assault on economics as science has been launched by the rhetoric school who question the possibility (let alone desirability) of economic truth to the point that the notion of economic expert is incompatible with our post-modern existence. McCloskey and others have targeted two key assumptions of the conduct of professional economics: first, that the best knowledge should be academic knowledge; and second, the optimality of the quest for best knowledge is (or should be) ensured by competitive, market-like (i.e. academic) processes of research and publication. Both premises, of course, lead to the conclusion that ‘an epistemic monopoly by the academic economics profession is a good thing – indeed a necessary precondition – for the veracity and progress of economic knowledge’ (Garnett 1999b, p. 3). That conclusion is now heavily contested, and what has resulted is a quest to redefine the boundaries (actual and desired) of the economic

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24 Not least from some of the actors in the British growth experiment, and particularly Cairncross who, in a number of publications after he left the civil service and returned to academe (1970b), made the implicit charge of hubris and more explicit critique of political naivete on the part of the economics profession.
conversation to consider *all* producers and consumers (including ersatz economics) of economic knowledge. This generates benchmarks against which to assess the social construction of economic knowledge and the legitimacy of the academy’s claim to a privileged voice. It confronts directly the claim that “society” is the ultimate beneficiary of academic research, and that whichever knowledge best suits the needs and preferences of the expert community will do likewise for society’ (Garnett 1999b, p. 5).

5.4.2 Whilst the anti-positivism of this new economics of knowledge has been fiercely contested by leading economic methodologists who continue to espouse the possibility of truth and progress, in which academic economists are necessarily the privileged voice (for example, Backhouse 1997), it does offer some possibilities of insights into the British case at this time. These are first to do with the social characteristics of academic economics in relation to the types of knowledge and behaviour that have most utility for policy-makers. At one level much of these differences are encapsulated in President Truman’s well-known complaint that there is an extreme dearth of one-handed economists, a complaint which actually says more about politicians than economists who are at least more predisposed to resist providing unambiguous answers to deeply ambiguous, complex and often intractable policy problems. From this it is but a short step to the deeper complaints against economics of its formalism (empty theorising) and lack of real empirical content.

5.4.3 Yet, if politicians be permitted to respond rationally to their incentive structures (vote maximisation etc), why not academic economists? The period c.1955–65 had seen a significant rightwards shift in both the demand and supply functions in the market for economic advice, one which raised enormously the public profile of economists and provided new incentives for economists to do good as well as to do well. Within the social sciences, no other discipline had as much impact on public policy as did economics (Whitley 1984). Yet, as Hall and his successor Cairncross found, it proved difficult to recruit the numbers and quality required into the government economic service when demand from universities for economists was also vibrant (see also Opie 1968). This university expansion predated the Robbins report, and coincided with the beginnings of the Americanisation and professionalisation of British economics which made government service and doing good relatively unattractive in terms of the profession’s incentive structure. With this came the formalism of modern economics, or as one leading critic put it: ‘economists’ special commitment to obscurity’ (Galbraith cited in Middleton 1998, p. 43).

5.4.4 The impulse to scholasticism was strong, and since at least the time of Marshall most leading British economists were theoreticians, as was the case in the US. We here highlight certain professional characteristics which conditioned the short-term contribution that academic economics and economists could make to policy-making. First, as Keynes outlined in the preface to the Cambridge economic handbooks:

> The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions. It is not difficult in the sense in which mathematical and scientific techniques are difficult; but the fact that its modes of expression are much less precise than these, renders decidedly difficult the task of conveying it correctly to the minds of the learners.

The main task of the professional economist now consists, either in obtaining a wide knowledge of relevant facts and exercising skill in the application of economic principles to them, or in expounding the elements of his method in a lucid, accurate and illuminating way, so that, through his instruction,
5.4.5 Secondly, if rational deliberateness be the hallmark of the professional economist, it is none the less the case that theoretical originality and novelty were privileged above all other characteristics of professional activity, and that it was on this basis that the prizes were awarded. This is a profession preoccupied with its hall of fame and its pecking order of degrees, institutions and journals (Hansen and Weisbrod 1972). Thirdly, as Reder (1999, p. 297) concluded from his study of what is good economics:

"economics is more concerned with avoiding "errors of concept" than those of magnitude, a fact that is reflected in the payoff structure of the culture. The esteem in which a theory is held varies with the importance of the phenomena it purports to explain. ... the theories that are held in the highest esteem (and whose creators receive the highest rewards) are not quantitatively precise. Rather they are concerned with the signs of the interrelations among variables and/or, at most, with rough orders of magnitude. ... In making such an achievement, display of technical virtuosity that reflects credit on new or recently developed tools is likely to count for more than meticulous attention to quantitative detail."

5.4.6 This translates into the following characterisation of the growth literature of the 1960s: the majority of elite academic economic research was highly theoretical, and in particular part of the trend towards general equilibrium modelling which underpinned the dominant neo-classical synthesis. That said, Nobel prizes were awarded to Solow (1987, ‘for his contributions to the theory of economic growth’) and to Kuznets (1971, ‘for his empirically founded interpretation of economic growth which has led to new and deepened insight into the economic and social structure and process of development’), but routine applied economics with immediate policy relevance did not rank highly. Rather, what we have is the far and fashion to which economics has been subject since the Second World War. In Blaug’s assessment (1992, pp. 204, 239; 1990, p. 6) the profession in the 1960s was ‘hopelessly enamoured’ with the Phillips curve and ‘drunk on Harrod-Domar growth theory’, to the point that it was ‘more devoted to solving logical puzzles then to furthering positive science’. The preoccupation with equilibrium growth paths was particularly ironic in the British case when the growth consciousness owed so much to the supposed instability of the British economy.

5.4.7 Blaug consequently questioned the magnitude of the resources devoted to growth theory at this time. Cairncross’s (1971, pp. 235–6) concern was similar, but his diagnosis was as much to do with the distribution of resources and with problems associated with the style of economic policy debate:

"It seems to be characteristic of discussions in this country that it should be intermittent, lacking in follow-through, and not based on continuing professional enquiry. A debate starts up, work is done in

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25 This is taken from Keynes’s contribution to the first volume in the series, Hubert Henderson’s minor classic, Supply and demand (1922).
26 It is for this and related reasons that economists were disposed at this time to discuss growth and how to promote it in terms of certain stylised facts, such as the savings-income ratio, the ICOR (incremental capital output ratio) and labour’s share of income. The search for some ‘great ratios of economics’ (Klein and Kosobud 1961) gives a flavour of this discourse, but it must be remembered that this was also the period of early econometric model building (for example, the Oxford University Institute of Statistics model – the first quarterly model for Britain – started in 1956 was completed with Klein et al. 1961 using London’s newly installed Pegasus computer).
27 See also Roll ([1968] 1978, p. 21) who amplified this conclusion with the observation that ‘It is not without significance that a soon-to-be-published American assessment of the British economy [Caves and Associates 1968] is likely to prove the most penetrating yet made.’
various places and in various ways, and then the whole matter is allowed to drop.

. . . we badly need some way of sustaining discussion more systematically and at greater depth. It is impressive to compare the resources available in the United States – most conspicuously in the Brookings Institution – for continuous and comprehensive analysis of longer-term economic and social problems with the meagre resources available for this purpose in Britain. What resources are available are widely diffused and the few centres of research such as the National Institute do not compare in the range and calibre of their staff with Brookings. If we want to organize debate in Britain in a more satisfactory way we might well begin by seeking to build up an institution of comparable standing.

5.4.8 Professional values which privileged ‘brain teasers for mathematical economists’, Blaug’s (1992, p. 239) wonderful description of mainstream growth economics, were compounded by a certain professional ambivalence about the desirability of economic growth in the first place. This was not so much because of its inherent risks to other macroeconomic policy objectives (although there was no shortage of such analyses by those who were firmly Keynesians, for example Hicks 1966), but because much of the older cohort of the British economics establishment did not share the assumption that higher national output was welfare enhancing in any meaningful sense. The intellectual antecedents of what would become the anti-growth lobby from the early 1970s onwards has been little investigated, although Galbraith’s *The affluent society* (1958) obviously forms an important staging post for past and future concerns about material advance. However, neither Mishan’s *The costs of economic growth* (1967) nor Beckerman’s response, *In defence of economic growth* (1974), addressed themselves to the pre-history of, in Lionel Robbins words of 1971 (cited in Beckerman 1974, p. 12), ‘the school of thought which argues that ... growth itself is something which is intrinsically undesirable; and that to recommend anything on the ground that it will promote growth is simply to reveal an essentially philistine character, an indifference to all that makes life anxious and ugly in the present age and an inventiveness to truly civilized values.’

5.4.9 Our interest here is not so much the anti-growth lobby itself, but the proximate sources of that elite ambivalence about the desirability of growth which we can trace to Keynes and to his well-known essay, ‘Economic possibilities of our grandchildren’ (1930). This is typically read as a thoroughly Bloomsbury document in which, by 2030, the economic problem would be solved as material abundance abounded and human beings would be able to delight in their bountiful leisure and the dominance of non-pecuniary activities. For the interwar generation of British economists their professional task was to help engineer, first, full employment and, second, a lessening of income and wealth inequalities. This latter objective was partly ethical and partly practical in terms of raising the average propensity to consume to counter any inherent tendency towards secular stagnation.

5.4.10 Concern for distributional issues over those of material advance was the hallmark of the Keynesian generation, that is Keynes’s disciples who dominated the British economics establishment until the 1970s. Harrod, the father of growth theory and the most vocal critic of ‘Stop-Go’, constantly pressing for further sustained expansion because of his distaste for the waste of the Stop phase and his concern that without growth promotion ‘the United Kingdom may sink down and fail to play the part that could be so important for sustaining the strength

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28 Beckerman (1971), however, did consider some of the disamenity issues in an historical context.
29 Skidelsky (1992, p. 237) notes that this essay ‘has attracted little attention from economists, perhaps rightly’ but none the less proceeds to devote a number of pages to its exposition because it sums up many of the ambivalences in Keynes’s own thinking and psychology, not least on the educated bourgeoisie’s ambivalence about business.
and growth of the free world.’ (Harrod 1963, p. 207; 1967). Joan Robinson and James Meade can also be portrayed in a similar light, although neither espoused Harrod’s preoccupation with national decline. Robinson would, of course, be active in the Cambridge capital controversy, but her writings on growth – as with Sraffa – were little motivated by current policy concerns and much more with an interest in the distributional consequences of the growth process. Meade’s interests were more wide-ranging, but did centre on the then principal concern of the macroeconomic policy agenda: how to simultaneously achieve internal and external equilibrium. His answer since the mid-1950s, that of adopting a flexible exchange rate, and preoccupation from the early-1960s onwards with designing workable prices and incomes policies, led him away from a direct research interest into how to secure faster growth. Even his attempt to synthesise the growth literature dealt largely with equilibrium growth models (Meade 1968). Neither Robinson nor Meade had much interest in competitiveness, and thus connect but tangentially to how we understand slow growth today.

5.4.11 Hicks – the quintessential economist’s economist – is perhaps more interesting. His *Value and capital* (1939) arguably underpinned the future direction of microeconomics and general equilibrium analysis; he made important contributions to disequilibrium as well as to equilibrium growth theory (Hicks 1965); but above all, unlike the other three senior Keynesians, he had no known partisan attachments. Yet Hicks rarely got involved in contemporary policy debates because, as he noted in an intellectual memoir (Hicks 1979), an economist should not pronounce on larger issues of practical economics unless he knows the facts ‘and to keep abreast of changing facts on a world, or even on a nation scale, is more than can be done by one whose main concern is with principles’. This brings us back to the tension between doing well and doing good, to which we should add a further long-standing tension between the desire to conceive of the state as beneficent and potentially effective and the appreciation that in practice its motives and effects were seriously flawed. Admittedly, many of those comprising the growth advocacy coalition had been policy insiders during the Second World War, but importantly because of their nationality certain key figures had not, notably the terrible twins Balogh and Kaldor. It is unknown the extent to which a sense of having missed out during the economists’ finance hour in wartime motivated their personal behaviour, or underlay their conception of the policy space with respect to the growth strategy.

5.5 The political naivety of the economists

5.5.1 If the professional economists be largely absolved of the more serious charges levelled against the economics of their advice, what about the second order charges that they were extraordinarily politically naive. This charge embodies two elements: the first, in the sense of hubris that if they got involved in politics they would not be compromised by it; and the second, in their naivete about planning and particularly the National Plan. A further charge has also been made which goes to the heart of a common perception of economists’ professional responsibilities: that politicians are weak and gullible and they must be saved from themselves by high-minded economists (Jewkes 1965). Whether it be the spectre of Leviathan conjured up by Friedman’s version of political economy or Buchanan and Tulloch’s developing public choice analysis we need to be realistic that before at least the mid-1960s government failure in Britain was presumed to be less in practice than was market failure. O’Brien (1981, p. 64) goes too far when he says that assumptions of ‘omniscient and

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30 And when he did, not infrequently he published with the IEA where at least on two occasions (Hicks 1966; 1975) his diagnosis of Britain’s economic situation supported deflation and public sector contraction.
impartial government’ swept aside all reservations about governmental capability, but what was the alternative? Hardly an IEA version of the world, not at least in the 1960s.

5.5.2 The potential for perverse relationships between politics and economics, and between politicians and economists, were hardly novel: from underpinning the nineteenth-century classical economists’ espousal of laissez-faire they resonate through to the very different works of Kalecki (1943) on the politics of full employment and Hayek’s *The road to serfdom* (1944). What was new was that the results of the growth consciousness reconfigured power and authority within the state and as between the state, capital and labour. New constituencies, of which the economists were one, acquired a vested interest in the growth strategy as they had before them in the full employment policy. Admittedly, the numbers involved were now larger, which was part of the complaint by the IEA inspired reaction to the growth strategy, but as we have seen economist insiders did try to discipline the politicians by deflating their expectations. At the NEDO and then the DEA MacDougall (1987, p. 139) referred constantly to indicative planning as a ‘confidence trick’ (albeit with some foundations in the theory of asymmetrical information) and sought to deepen government’s understanding of how the economy functioned.

5.5.3 Unfortunately, concurrently economics was in the public and especially the business mind being associated with forecasting, and as we have seen all of the planning experiments came to nought in this respect. The failures of forecasting became a special focus for adverse comment, with the expansionary bias of the economics establishment forensically examined on a number of occasions to its discredit (Hutchison 1968; Pringle 1975). This developing critique of the economists activities, of course, was in any case superimposed upon longer- and deeper-running lay perceptions that economists’ predisposition to disputation limited their capacity to offer agreed solutions to practical problems. That the degree of professional economists’ unanimity on economic questions was very much greater than that of the politicians they tried to serve, as Brittan’s (1973) attitude survey of 1971 made clear, came as a surprise to Britain’s chattering classes, evidence of the deeply based and erroneous cultural assumptions about economists and economics.

§ 6. Conclusions

6.1 In his seminal paper, Domar ([1946] 1970, p. 147) concluded that ‘the rate of growth [was] a concept which has been little used in economic theory’. Less than twenty years later, the growth rate was to dominate not just economic theory but economic policy in practice and, above, British political discourse. Intoxicated by the possibilities afforded by compound arithmetic, via step-up integer growth rates, the Chancellors Selwyn Lloyd and Maudling, although not Callaghan (George Brown, however, more than made up for any intoxication shortfall), were both grossly over-optimistic about the growth strategy and guilty of gross manipulation of economic policy for short-term political ends. But why should we expect otherwise of the politicians? And does it matter? The conventional wisdom has it that Labour’s economic failure to guarantee the affluent society through its growth strategy not

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31 There has always been a literature critical of economics and economists, but from the 1960s onwards some of it became pretty strident in its critique of the dismal science and the supposed political and policy pretensions of its practitioners because of the growing association of economists with forecasting; see, for example, Rubner’s *Three sacred cows* (1961) and Pringle’s *The growth merchants* (1977). Such literature has been unduly neglected by the history of economic thought community, as indeed has that of financial journalists.
only robbed it of victory at the 1970 general election but, in that disappointment, was responsible for the leftwards shift thereafter in the Parliamentary Labour Party which made the Wilson-Callaghan years so traumatic and ensured that the following eighteen years were ones spent in opposition.

6.2 To these big claims were appended the accusation that the economists’ hubris was dangerously irresponsible in terms of economic policy and the profession’s public reputation, and it is now accepted that it was the faltering of the growth strategy, rather than the slightly later perception of the breakdown of the Phillips curve, that initiated the reaction against the Keynesian conventional wisdom. In no small part, disillusionment with economics resulted from the public having accepted the image that economists sought to present of their discipline as a positive science advancing theories with high predictive power and open to testing and falsification. No one doubts that the 1960s were years of bitter disappointments, but as Sinclair (1972, p. 94) concluded ‘The real failure of governments lay not so much in their economic policies as in their extravagant claims of omnicompetence.’ If so, what else could have been done given that most of the policy insiders tried to contain the politicians’ ambitions?

6.3 What would a more realistic growth strategy have looked like? For many, the answer almost begins and ends with devalue to another fixed but adjustable parity (or move to a floating exchange rate) and do something radical about the sterling balances and Britain’s geopolitical overload which was placing untenable pressures on the balance of payments. Beyond this we then have a class of arguments about which great care is needed, for much of the anti-planning school carries covert New Right baggage. Much does not, however, and it needs to be emphasised that under both the Conservatives and then Labour the advice given and the policies pursued were all mindful of market incentives/penalties and did not generally mark further deviations away from the balance between government and market that became the cornerstone of the postwar settlement. Whatever the rhetoric, there were few new assaults in practice upon the canons of professional economics – in particular, value theory upon which the edifice of demand-supply, competition, optimal resource allocation, etc. resided – and therefore succour for the producers and consumers of ersatz economics. But with tax levels rising, with Labour forced into all sorts of devices to avoid the unavoidable, namely devaluation, and with the language of planning the dominant discourse the growth strategy could be spun in such a way by its opponents.

6.4 It is not difficult to see that cooler language, greater restraint in target setting, greater transparency about the distribution of the costs/benefits of change, etc. could all have made an important contribution, but it must be remembered that a number of the politicians believed that they also had some credentials as economists. Be it Macmillan’s interwar planning ideas, or Harold Wilson’s apprenticeship in the wartime command economy, the reservations about the market economy were much more marked amongst some of the political leaders than the majority of the economists, or at least the latter group sans Balogh. Of the politicians, Macmillan is more straightforward: an expansionist to his finger tips. Wilson, however, is more difficult to locate, and here of course we have two associated political liabilities: the great unmentionable (the exchange rate) and the great ungovernable (George Brown). Both Wilson and Brown spent the early part of the new government blustering about managing the economy in entirely new ways and railing against the gnomes of Zurich, no doubt to the delight of the left of the PLP. They also allowed the tactical electoral value of using the developing balance of payments crisis in the late summer of 1964 to totally derail their strategic economic vision.
6.5 The economic ideas that came to dominate between c.1955–65 had good academic provenance and Britain’s economics establishment tried hard to contribute positively to policy needs. We have identified certain problems to do with the culture of economics and with the organisation of research which limited the immediate utility of economics for policy, but the stronger charges against the professional economics establishment do not hold water. One characteristic of this time was that many were bruised by their experience of being a policy irregular. It was certainly more difficult to entice university economists into the Government Economic Service thereafter, and this provided opportunities for an anti-Keynesian economics ‘disestablishment’ (Singer 1993) to develop which that would take hold by the mid-1970s. In this sense the failure of the growth strategy assured did establish the groundwork for the monetarist-neo-liberal experiment to which Britain would be subjected under Thatcher and successive governments.

§7. References


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32 Brittan (2000), who spent an unhappy fourteen months in the DEA, has made clear that the origins of his ‘second thoughts’ on the Keynesian conventional wisdom lie in that period. Beckerman (2000), who did not reject Keynesianism, also had a personally and professionally unrewarding experience in the DEA which coloured his preparedness thereafter to become too enmeshed in public policy. Another irregular was Stewart (Economic Section, then Cabinet Office) who once free of the civil service used his experience to write a sharp and accurate critique of the Jekyll and Hyde character of economic policy since the early 1960s (Stewart 1977). Opie (1968; 1972), another DEA irregular, contributed essays which made clear his disillusionment. Finally, of course, Cairncross has expressed on a number of occasions his delight at returning to academic life in 1969, although alas his published writings on Whitehall were far less discreet.

33 An interesting comparison can also be made between the positive press reception to Cairncross’s appointment as chief economic adviser in 1961 and the chilliness afforded to his successor, MacDougall, in 1968 (Middleton 1998, p. 268).


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