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The politics of economic decline

Economic management and political behaviour in Britain since 1964

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Preface

Over the decade I have spent in Britain, I have come to be struck by the similarities between the British economy and British weather. Neither one seems to perform as well as most people would like, people talk about both almost incessantly, and, of course, no one ever seems to do anything about either. The last is not for want of trying: during the last ten years the British economy has been unprecedentedly managed, or tinkered with, by successive governments. The result has not been a breakthrough into rapid economic growth, but rather a protracted period (with brief exceptions) of increasing unemployment, high rates of inflation, and continuing uncertainty about the balance of payments and the value of the currency. A decade like the one through which Britain has just passed, with its political obsession with economic management on the one hand and economic failure or decline on the other, is an uncommon opportunity to look at the connection between economics and political behaviour.

There are two sides to that connection. One side deals with the behaviour of governments in economic management, and the other with the behaviour of the public as it is affected by, and reacts to, economic change. This volume has more to say about the second, on which in general less research has been done. Essentially, it charts the interconnections between economic policies and developments, popular perceptions and expectations of these economic trends, popular preferences among conflicting economic goals and policies, and a range of electoral considerations like partisanship, support for the political system, and social and political attitudes. In this way it should be of assistance both to economists formulating models which actually involve the perceptions and expectations of individuals and to electoral analysts concerned with the role of the economy in election outcomes. Themes which recur include the importance people attach to economic problems, the realism of popular economic expectations, the absence of a partisan connection in many economic attitudes, and the tendency for economic decline to undercut generous social and economic policy attitudes. This covers a lot of ground, and readers will doubtless notice that some of the themes are better supported than others. I have tried to provide a warning wherever interpretation and speculation take over from analysis, but at the same time tried to present any evidence that might be relevant.

This volume deals with Britain. Three books, Tufte (1978), Rose and Peters (1978), and Hirsch and Goldthorpe (1978), which will appear before this one, provide a comparative context for many of its conclusions, and can well be read in conjunction with it. The importance to this book of the work of Butler and Stokes (1969) – and of their assistance in supplying and permitting free analysis of their election studies – should not be forgotten, despite occasional criticisms of their analyses. I myself will be quite pleased if this book stimulates someone else to continue the study of politics and the economy as much as theirs did me. The support of the Social Science Research Council for all the election surveys – and the cooperation of everyone involved in carrying them out – on which much of this book is based should also be acknowledged. I also acknowledge the support of the Social Science Research Council for my position as Chief Research Officer for the surveys of the 1974 elections, and my gratitude to the Directors of those studies, Bo Särlvik and Ivor Crewe, for the unfettered access I have enjoyed to the data resulting from those surveys. I also appreciate the permission to reproduce and analyse large amounts of data appearing in the *Gallup Political Index*. Some of the data were supplied by the Inter-University Consortium for Political Research. The use of the statistical packages SPSS, TSP, and FAKAD is acknowledged.

For helpful suggestions and encouragement I would like to thank, among others, Michael Parkin, Douglas Hibbs, Ian Budge, and Richard Rose. The intellectual debt I owe to Brian Barry is evident at a number of places. My doctoral examiners, Peter Pulzer of Oxford and William Miller of Strathclyde, scrutinised an earlier version of this book and raised many awkward questions, in spite of which I am very grateful to them. Many thanks also to Anthony King, who read a later version with meticulous care. Two friends in the Economics Department at the University of Essex, Mike Wickens and Alec Chrystal, put up with many of my questions, and read and commented on large portions of the manuscript. I would also like to thank the referees, and the editorial staff of the Cambridge University Press for all their assistance. I appreciate their help enormously, and absolve them, and all the others, from any responsibility for such errors as remain. The manuscript was typed and retyped by Jacqueline Bayes and Desne Harrington, to whom I am abjectly grateful. For reading the manuscript, criticising it, and shouldering the burden of the effects of having done so, I give my humblest thanks to my wife Elaine.

J.E.A.

Wivenhoe, Essex
May 1978

For Elaine, Rachel, and Adam

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PART I

Introduction

1

Politics and the economy in Britain

> Inflation, as we all know, is socially disruptive. It transforms an ordered society into an undisciplined mob. This is what happened in Germany in the 1920s and in many countries in Europe after the 1939–45 war.
> *Raymond Fletcher, MP, in Robbins et al., 1972*

Even if that passage appears to be something of an overstatement – and it is noteworthy that, when it was written, the annual inflation rate in Britain was one third what it was to be just two years further on – there is no doubt that economic conditions are widely considered to be important determinants of other political and social phenomena. People have sought in economic states the roots of such diverse things as enduring party cleavages and allegiances, authoritarian values, and governmental popularity. And indeed it has been argued that the simplest way to break up an existing social order is to debase its currency.

Nevertheless, the precise relationship between economics and politics has always proved a little difficult to pin down. In part this may be due to imprecision of measurements, and in part because people have gone looking in some of the wrong places. Unquestionably, Britain has recently gone through a difficult economic experience. Successive governments have tried – and failed – to provide promised quicker rates of economic growth. In fact, growth in Britain has been slower than in most other Western countries, and its slow growth has been accompanied by high rates of inflation and unemployment, by both domestic and international standards. If economic change, or indeed the concept of personal economic well-being or security, is ever to obtain political significance (in the sense of being related to political attitudes and behaviour), it should happen in modern Britain, through this experience of economic difficulty coupled with the importance people attach to economic affairs as an issue. Similarly, the centrality of economic affairs produced by the shock of unprecedentedly high postwar inflation and unemployment rates should produce – if anything could – a high degree of awareness among the public of the states of the economy and the issues involved in economic management. All this is at the heart of this study of empirical political economy.

Government economic policy and the electorate

Britain more than ever before has an economy managed by the government. The share of national income appropriated by government in one form of taxation or another is well over 30 per cent and over a quarter of the workforce is now employed in the public sector. The government has an ever-increasing share in British industry, either through public ownership or through loans and grants to assist individual firms. Moreover, the economy is constantly in the news; various newspapers run their own versions of a retail price index to monitor inflation, and trends in relatively remote indicators can be front-page news. Nevertheless, even though it may be widely believed that no government can survive without making something of a success of its economic policies, there appears to be very little understanding of how the public perceive government policy and its effects, nor indeed how these perceptions are linked to actual political behaviour.

Indeed, only recently has it been acknowledged that there might be such a thing as a 'politics of inflation'. Parkin (1975) put forward a 'framework for posing questions about the politics of inflation'. In his view, a government has economic targets, and economic instruments. It manipulates those instruments in order to optimise some blend of economic targets, subject to a variety of constraints. These targets are aspects of 'the economy', namely the inflation rate, the unemployment rate, and the growth rate of real income. Government policy is then composed of actions taken with respect to a number of instruments, which fall in the areas of *monetary* policy (policy with respect to money supply, credit, interest rate, and exchange rate), *fiscal* policy (expenditure, taxation, transfer payments and subsidies), direct *controls* (incomes policies, currency export limits), and finally moral *suasion* ('voluntary' policies like the Social Contract, as well as exhortations to buy British, work harder, and so on). Governmental economic policy at any time consists of actively manipulating one or more of these instruments to achieve some target, or state of some aspect of the economy.

Policy operates subject to a variety of constraints. One constraint which should not be overlooked is that some targets are incompatible with others, and that policy may thus have to achieve some optimal blend of targets because of tradeoffs between them rather than maximising some aggregate return across the economy. An internationally open economy like Britain's is subject to a variety of shocks from the rest of the world, including movements in world commodity prices, the general level of international economic activity, and of course the effects of domestic economic and related policies within the economies of Britain's major trading partners. The other factors on which Parkin comments include the desire of politicians to gain re-election, the ideological beliefs of politicians, and the particular interests they are prepared to foster, and the climate of opinion about economic policy, not just in universities, but in the major sources of advice to governments. In addition to these beliefs and interests of politicians, there are also broader constraints relating to

> the general degree of social unrest and divisiveness such as feelings of frustration with real income growth and prospects, feelings of unfairness about the distribution of income and the strength of trade unions.

Parkin then goes on to say

> Developments in the economy as well as other social political [*sic*] factors also may be presumed to have an effect upon voters' choices which, in turn, may be presumed to have some influence upon government policy, if not directly, at least by way of the government's beliefs about how their actions will affect subsequent voting behaviour.

And that is all that he has to say about social and political factors, voters' choices, and the economy. That is by no means his fault, for in fact there is little written on these matters, and certainly there has been virtually nothing written since the beginning of the rapid inflation of the mid 1970s.[1] Nevertheless, it would appear to be the responsibility of the political scientist to increase the understanding of the links between politics and the economic perceptions, attitudes and preferences of the public.

The making of economic policy is constrained politically by the preferences and voting decisions of the electorate, either because economic policy is formulated with one eye on the next election or because the actual voting results in the selection of a government which itself affects the nature of economic policy. Insofar as an evaluation of economic policy is involved in the electoral decision, this evaluation will rest on a number of components, including perceptions of economic developments, expectations about future developments, and preferences with respect to alternative policies. All these are likely to be closely related to each other. What an elector would prefer to see done may depend on what he sees happening. Preferences and expectations may depend on knowledge about economic possibilities, which includes not just accurate perception of economic trends but also realistic assessment of the possible effects of different economic policies. All these will mix together – with different blends in different cases – to colour the assessment the elector makes of which party is the one to back economically, which will in turn have larger or smaller effects on the ultimate voting decision. Moreover, economic changes can affect wider aspects of the ideological competition between parties, and thus affect people's attachment to both the party system and the broader political system.

Strategies for the study of economics and politics

Even if there has been little written about the impact of recent economic developments in Britain on political attitudes and behaviour, it is nevertheless the case

[1] One review, reflecting interest in Marxian political economy, is Axford and Brier (1976). Another point of view is Brittan (1976), and yet another is Burton (1978). There are also the various pieces reviewed below in passing, but little systematic effort to deal with politics in a society where economic management was constantly in the news.

that political science has long been concerned with the relationship between management and development of the economy on the one hand and political attitudes and behaviour of the electorate on the other. This interest is a reflection not only of a common belief that economic variables are of critical importance in determining political attitudes and behaviour but also of an apparently widespread belief (at least among politicians) that successful management of the economy is a critical test of the success of a government and of its ability to continue in office. The fact that both these beliefs have proved difficult to substantiate empirically does not lessen their importance. Rather, it accentuates the need to search for clearer conceptualisations of the problems involved. In order to study the relationship between economic considerations and political behaviour, two choices must be made. Each choice is essentially dichotomous, and all four combinations of the two choices are possible. Table 1.1 summarises these alternatives.

Table 1.1. *Strategic questions*

	Whose economic conditions?	
How measured?	Country's	Own
Objective	I	II
Subjective	III	IV

The first choice is summarised in the distinction 'objective–subjective'. Let us say that one wishes to show that economic conditions have an effect on political behaviour. In order to show this, one must first decide whether only the *subject*'s own perceptions of economic conditions are admissible as evidence, or whether to admit as well one's own judgements (as *observer*) of the subject's economic conditions. This is similar to, though not quite the same as, the distinction made by the authors of *The American Voter* (Campbell et al., 1960) between 'external' and 'personal' conditions. In their case, what constitutes the difference is whether or not the subject is aware of the condition being used in the explanation. In this case, the distinction rests on whose standards are used to measure the relevant condition. Take, for example, the case of income as an explanatory variable, and argue that some piece of behaviour is explained by having a high income. The objective–subjective distinction rests on whether, in allocating an individual to the category 'high income', one used an observer's view of his income, or used instead the subject's view of it. Doing the latter does presuppose awareness on the part of the subject. Doing the former, however, does not in principle assume anything about level of awareness.

The other choice, 'country's–own' well-being, regardless of whether the measure of economic conditions is the observer's or the subject's (or indeed both, should they happen to coincide) is whose economic condition is the relevant explanatory variable. If the behaviour of an individual is to be explained, then his own economic condition is clearly a candidate for explanatory status: the question is whether any other conditions might be. Let us say (again, for example) that an explanation is sought of why an individual endorses some particular form of political action. That the action was in his own economic interest is certainly the sort of thing which most people would accept as an explanation (though there might be considerable argument about what counts as evidence for the proposition). Would the economic interest of anyone else be acceptable as an explanation? Country and class are obvious candidates. In the case of country, one can certainly visualise a proposition of the form 'subject acted in such a way because it was for the economic betterment of the country rather than for himself' though the explanatory power of such a statement looks very weak unless either (*a*) it pertains only to the short term, and it is implied that in the long term what benefits the country will benefit the individual, or (*b*) the country's condition which improves does not cause the individual any deprivation while improving someone else's lot or indeed benefits the individual in some way of which he is not aware. In any other case – that is, of individuals accepting deprivation in the name of the country's economic improvement for extended periods of time – the explanation appears to rest on appeals to 'nationalism', 'altruism', or long-term hope rather than the usual kind of economic reasoning.

On the other hand, accepting an asymmetry between personal economic interest and class interests is much more difficult. It doesn't appear absurd to say that an individual endorsed some action which benefited members of his class but not himself, at least given the sort of proviso made in the case of country. On the other hand, no good examples of such explanations spring to mind, and furthermore, such an explanation is inconsistent with the tradition of seeing class solidarity as an *expression* of self-interest. These two dichotomous choices thus exhaust the strategic alternatives available to someone wishing to investigate the relationship between economic conditions and political behaviour.

A literature exists in the tradition of each quadrant. Quadrant I includes studies like those of Lipset (1960), Cutright (1963) and others, who attempt to estimate the extent to which a pattern of political institutions or values (generally, democracy) requires certain levels of economic development as preconditions. Here are also those studies which see aspects of individual behaviour (generally forms of partisanship) rooted in the current economic state of the country, including such diverse studies as Converse's (1958) demonstration that the correlation between class and party choice increases in 'hard times' and the long literature predicting either governmental or presidential popularity in opinion polls or indeed mid-term congressional election results from data relating to inflation and unemployment rates or other indicators. Quadrant II, relating to objective measures of personal economic condition, incorporates an enormous literature, as long as objective measures of social class are taken to reflect economic well-being. If only income or wealth are considered to be objective individual economic criteria, the relevant literature becomes much thinner. The work of Goldthorpe et al. (1968) and Butler and Stokes (1969) provides examples.

The literature on subjective economic perceptions and political attitudes and behaviour is distinctly thin. One example of a Quadrant III study is in Almond and Verba (1965), where they consider the linkage between Germans' political participation and national pride, observing that in Germany the source of national pride is typically rooted in national economic achievement rather than in political institutions. Another study is contained in Chapter 14 of *The American Voter* where voting is linked to perceptions of recession or feelings about general business conditions and the outlook for the economy. Part of this last study crosses the line into Quadrant IV, since it deals with perceptions of the impact of the recession on the subjects themselves. In the case of Britain, Butler and Stokes' *Political Change in Britain* contains rich analyses of the impact of perceptions of economic management and individual well-being on support for the political parties. It does not, however, extend the discussion into the area of the linkage between sense of personal well-being and other political attitudes, nor does it have much to say about the politico-social determinants of economic outlook.

The economy as a political issue

The work of Butler and Stokes provides a convenient point to begin this study. Not only is their study the most thorough investigation of the electoral consequences of economic management in Britain, but it also suggests that subjective measures of economic well-being can be shown to have political consequences. Paradoxically, their own work may be partly responsible for the absence of serious research into the consequences of the economic decline of the 1960s and 1970s in Britain, for the model of economic effects Butler and Stokes endorse, a 'valence' model, discourages rather than encourages detailed scrutiny of the links between the state of the economy, popular perceptions of the economy, subjective personal feelings of well-being, and economic policy preferences. By a valence model, Butler and Stokes suggest that where economic issues are concerned, there is broad consensus at the levels of both mass public and policy-makers over not only the ends of economic policy but also the means whereby these ends are to be achieved.[2] The link between economic management and electoral behaviour is one in which the government of the day is rewarded for producing the desired economic ends – generally, increased prosperity – and punished for failing to produce them. Because there is consensus on both ends and means, insofar as the quality of economic management bears on partisan electoral choice, it does so only as a matter of the elector's relative confidence in the political parties as economic producers.

It is important to note that Butler and Stokes are making both an empirical

[2] The consensus does not extend to the level of rhetoric in inter-party political arguments. The consensus argument states that both parties share a common economic analytical framework, or would actually do the same things in the same economic situation, or both, but not that leaders of both parties would ever go so far as to say the same things at the same time.

and a theoretical claim for their model. The empirical claim is that they have shown it to be valid, in the sense of conforming to available evidence and giving an account of the role of the economy in electoral politics. The theoretical claim is that their model is superior to any other: not only is it a valid model, but it is the only valid model of the electoral consequences of the economy. Claims like these deserve careful scrutiny. In fact there are reasons for believing that neither claim holds up all that well. Even if the validity – not superiority – of a valence model is admitted, the evidence they provide for theirs is less than convincing. Moreover, the theoretical superiority of the valence model of economic effects rests on a misunderstanding of the nature of issues.

Political analysts have for some time been at pains to point out that not all political argument consists of positional disputes about concrete policies, but that rather what may be at issue is the relative competence of the parties at achieving something both sides want, or indeed something relating more to style or ideals than immediate wants of members of the public. Reacting against Downs' (1957) spatial market theory of party competition, Stokes (1966) argues that there are indeed 'position' issues which 'involve advocacy of government actions from a set of alternatives over which a distribution of voter preferences is defined'. Then there are 'valence' issues which 'merely involve the linking of the parties with some condition that is positively or negatively valued by the electorate'. The argument between the parties hinges, if the condition already exists, on who deserves credit or blame for bringing it about. If the condition is in the future, the argument rests on which party is more likely to bring it about. Many of the central themes of post-war electoral politics are of this sort: these include corruption and economic recovery and prosperity. Finally, Stokes argues that 'whether a given problem poses a position- or valence-issue is a matter to be settled empirically and not on a priori logical grounds'. This contention is both vitally important and correct, but not in quite the way Stokes suggests.

Stokes argues that prosperity is an archetypal valence issue. The issue of prosperity – since every party and elector wants it – hinges only on which party is more likely to bring it about. It is conceivable, he says, that parties might take up positions over amounts of prosperity, thus turning prosperity into a position-issue, but that 'it is *not* such an issue in our politics is due solely to the . . . overwhelming consensus as to the goal of government action'. The point that is missed here is that consensus on ends does not imply consensus on means: that everyone wants prosperity does not imply that everyone is agreed on how to achieve it. However, the counter-argument that if parties are unequally likely to achieve prosperity, they *must* propose to achieve it by different means, is equally invalid. As Downs points out, parties can have and be seen to have identical policies (ends and means) and still be differentiated with respect to perceived competence or sincerity based on past performance in office.

It is worth remembering that behind valence issues may lie differing positions, some of which are capable of sensible unidimensional representation. Robertson (1975) points out that underlying the consensual issue of corruption (everyone is against it) lies a continuum of how far one is prepared to go to fight it. Similarly, underlying the question of prosperity might be the question of how far one is prepared to see the government intervene in the economy to achieve it. The point of this is, however, not that every issue is *really* a position issue, but that every issue has, or can have, both valence and position aspects. Better put, on every issue there may be at any time either consensus or dissensus between the parties with respect to *either* the *ends or* the *means* to those ends. Furthermore, whether there is consensus on means or ends is an empirical matter, as Stokes suggests. Indeed, it is contingent on both historical circumstance and party political strategy. To speak of issues as if they were in some way compelled always to be valence- or position-issues is indeed to confound an empirical matter with an *a priori* classification. Empirically, there are two questions to deal with: 'what makes an issue position-like?' and 'why is it that at some times an issue is more position-like and at others more valence-like?'

In the first place, every issue involves considerations which range from the short term and concrete to the highest-level abstractions of political argument. To members of the Labour Party, nationalisation of industry has often been a matter either of denying industrialists the benefits of owning profitable concerns and/or of guaranteeing workers better conditions. Nevertheless, people commonly argued for nationalisation also on the grounds of middle-order economic interests: full employment, rational planning of industry, economic growth, efficiency, and promotion of competitive prices. Moreover, even at the mass level, the issue of nationalisation is bound up with concerns ranging from the short range and economic to the long term and moral, as these unprompted comments from respondents to the British Election Study October 1974 cross-section survey (all opposed to further nationalisation) show:

> 'they will have to spend too much on compensation, money they haven't got';
> 'nationalised industries don't pay their way – never have done';
> 'in the past it's been a case of overemployment';
> 'industries will be nationalised and will function much less efficiently';
> 'they will cripple the small businessman and all initiative, and then he will work for some nationalised industry, where he can take as much sick leave and time off as he wants, and a vicious circle starts';
> 'policy of nationalising industry doesn't give enough incentive for making any effort. The people who work there will not lose [their] jobs so they don't care'.

The Labour Party does of course not see itself as in favour of laziness or waste. The point is that as higher-order abstractions are brought into political discourse, they may well be of a sort which all people agree are good things. This will particularly be true when these higher-order principles are of the sort Brian Barry (1965) calls aggregative, where they do not involve taking away from some people to give to others. Efficiency is probably consensually sought for, at least