

KUHN, LAKATOS AND THE PARADIGM CHANGE IN BRITISH POLITICAL ECONOMY IN 1979

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Abstract. *The concept of a paradigm change has been used by economists and historians of economics to explain the transition after 1979 from a Keynesian model of political economy to a neo-classical model. The present study examines the use of Thomas Kuhn's model of paradigm change to explain this change as being a rational response to the apparent anomalies that arose in the Keynesian paradigm between 1973-9. It shows that the way Kuhn's ideas have been used relies upon what Lakatos calls 'dogmatic falsificationism', a falsificationist methodology which neglects the holistic implications of the Duhem-Quine thesis. As a result of neglecting Lakatosian forms of falsificationism that incorporate the Duhem-Quine thesis, the Kuhnian model of paradigm change cannot explain the change from a Keynesian model of political economy to a neo-classical model as a rational response to apparent anomalies within the Keynesian model. It then provides an alternative account of the events of 1973-9 which suggest that in fact no paradigm failure occurred and that the events of that period were perfectly explicable from within the Keynesian paradigm. The study suggests that the Kuhnian accounts of paradigm change are driven by the tendency within economic history to write 'Whig' history, which mistakes political success for truth. Therefore the Kuhnian structure imposed upon the events of 1973-9 is an ex post facto rationalisation of a politically driven process that was far from rational. The use of the Kuhnian idea of a paradigm change provides the basis for a narrative that mimics the structure of scientific and philosophical explanation, but is actually neither scientific nor philosophical. The paradigm change that occurred after 1979 is best seen as the result of the narrative of Keynesian paradigm failure winning 'the battle of narratives', which paved the way for the neo-classical paradigm to acquire hegemonic status.*

Keywords: *paradigm change, Kuhn, Lakatos, neo-classical, Keynes, political economy.*

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Keynesianism

The post war period up to 1973 in Britain is usually referred to as the Keynesian period, 'the golden age', or as the period of the post-war consensus, when both major parties appeared to share the same ideas regarding economic management. The period between 1973-79 is seen as a transitional period, and post 1979 is seen as the Thatcherite or neo-classical period.

Keynesianism is a term whose meaning is subject to considerable variation, encompassing an approach to government, a political philosophy and an economic theory¹. It is now accepted that the consensus was not quite as consensual as we previously thought, and however we interpret the term 'Keynesian', we are now aware that the period to 1973 was not quite so Keynesian as we might have believed, nor did Keynesianism die in 1974 or even in 1979. However, despite these reservations, I will describe the period up to 1973 as being Keynesian and use 1979 to mark the major shift in approaches to managing the British economy, and in the understanding of the parameters within which the state and its institutions should operate.

The Keynesian and the Neo-classical Models

The four aims of economic policy are maintaining employment, keeping prices stable (low inflation), ensuring that imports don't exceed exports (that balance of payments is not negative), and ensuring the economy grows steadily. The fundamental difference between the two models is that according to the Keynesian model, these goals can best be achieved by the government intervening in the market. The neo-classical model, the current prevailing model, argues that unregulated markets possess the greatest allocative efficiency, and that government involvement in the economy merely impedes the efficiency of the market. Keynesians see one of the potential problems facing society as being market failure, the failure of the market to ensure full employment, inflation free growth, and avoid a balance of payments deficit. The particular concern of the Keynesian post war settlement was to ensure full employment. Classical theory in economics took the view that although unemployment occurs, it is a disequilibrium phenomenon, and that in the long run the market will always return to equilibrium and hence there could never be prolonged involuntary unemployment. Keynes argued that the market could settle into an equilibrium at high levels of unemployment, so the economy needed to be stimulated to ensure full employment. The typical assumption is that during the golden age politicians used Keynesian counter cyclical demand management to ensure full employment – deliberately creating demand when the economy was slowing down in order to get it moving and deliberately reducing demand when the economy was moving too fast in order to

¹ Backhouse, Roger E., 'The Keynesian Revolution' in Backhouse, Roger E., and Bateman, Bradley. W. (editors), *The Cambridge Companion to Keynes*, Cambridge University Press, Cambridge, 2006.

prevent inflation². A further, political, aspect of government intervention was to alter the market determined distribution of goods in pursuit of the public interest, by introducing such things as free education and free healthcare for all.

Neo-classical theory sees the major potential problem facing society as being not market failure, but government failure – the distortions introduced into the market by government activity which prevent the market allocating resources efficiently.

The Crisis of 1974-1979

In practice it proved very difficult to pursue simultaneously all the four policy goals – full employment, low inflation, growth and a non negative balance of payments. There seems to be an inverse relation between employment and inflation³, and the pursuit of high rates of growth ran the risk of encouraging imports, as supply side deficiencies in investment and in the quality of British labour meant that British firms could not meet all the demand, which would have a negative effect upon the balance of payments. Economic policy in the Keynesian period therefore consisted in trying to achieve a balance between the four objectives and in switching priorities between the four as circumstances dictated.

“For a quarter of a century or so after the end of the Second World War the British people enjoyed full employment, no major recessions, and the fastest rate of economic growth ever experienced on a sustained basis, as well as the most egalitarian distribution”⁴. It is important to remember this when reading about the supposed failure of this period, as the Thatcherite version of this time has, in Middleton’s words, “corrupted our historical reading of the years since 1945.” It is this period, 1945-73, which is supposed to have produced the seeds which came to fruition between 1974-9 and it is this latter period which is supposed to have served as a sort of crucial empirical test which showed the falsity of the Keynesian model. In falsificationist mode, Thatcher identified the Keynesian period as the source of all Britain’s problems, “No theory of government was ever given a fairer test or a more prolonged experiment in a democratic country than democratic socialism received in Britain. Yet it was a miserable failure in every respect”⁵.

² Middleton argues that maintaining the pound as an international currency and having a positive balance of payments took precedence over full employment. Middleton, Roger, *The British Economy Since 1945*, Macmillan, Houndmills, 2000.

³ This is the basis of the Phillips Curve.

⁴ Middleton, p. 25.

⁵ Thatcher, M., *The Path to Power*. Thatcher’s ideological reading of history meant that she used the term “socialism” to describe the welfare state and the mixed economy which emerged after 1945. When Thatcher came to power in 1979 the percentage of national output produced by state owned enterprises was 11.1%. This was around the EU average, slightly higher than West Germany where the percentage was 10.7%, but lower than Austria where the percentage was 14.5%. To describe this sort of mixed economy as “socialism” is perverse, if not downright dishonest, as it means that not only did West Germany and Austria qualify as “socialist” countries, but so did every other country on the western side of the Berlin wall.

The Events of 1973-1979

According to the theory of the paradigm failure of the Keynesian model, the attempts to balance the four goals of policy had simply led to the inherent problems of balancing inflation and employment becoming more and more pronounced. Unemployment and inflation were locked together in a vicious cycle with the cost of reducing unemployment being paid in higher and higher levels of inflation and the cost of reducing inflation being paid for by higher and higher levels of unemployment. The problems were alleged to be inherent to the Keynesian paradigm and since its beginnings, "...it was taking larger injections of demand to reduce unemployment at each stage of the economic cycle; at each stage the relationships between levels of unemployment and inflation were deteriorating. Reflation by increased government spending not only caused inflation to accelerate but eventually left unemployment higher at the next downturn in the cycle"⁶. On this analysis, the events of 1974-79 represented the culmination of these inherent failings and the point where this inflation/unemployment cycle became unmanageable and both the economy and the country teetered on the brink of chaos.

In 1972, the Conservative government initiated a "dash for growth", the most significant peacetime reflation of demand the British economy has ever experienced. The consequence was high growth and a rapid fall in unemployment. The downside was a pronounced deterioration in the current account balance of payments and a 9% rate of inflation. The preferred measure for reducing inflation was to use the power of the government to limit price rises and restrict wage rises via a prices and incomes policy. But in 1973 the price of oil quadrupled, the OPEC I shock which, since Britain was an oil importing country, had the effect of importing a further degree of inflation to an economy which was already experiencing high inflation.

The principal anomaly which was supposed to prove the falsity of the Keynesian model was the co-occurrence of inflation and unemployment after 1973⁷. Rather than being inversely related as the model suggested, both inflation and unemployment increased, with inflation rising from 16% in 1974 to 24.2% in 1975 whilst unemployment rose from 2.6% in 1974 to 4.2 % in 1975.

Added to this were problems with the other pair of goals, increasing growth while avoiding a negative balance of payments. As growth increased, the balance of payments started deteriorating, and reached a deficit of 4% of GDP in 1974-5. A run on the currency massively increased the cost of imports, generating yet further inflationary pressures. The Bank of England's attempts to defend sterling on international exchanges led to Britain approaching the International Monetary Fund (IMF) in 1976 for a loan, which it received subject to various

⁶ Kavanagh Dennis, *The Reordering of British Politics, Politics after Thatcher*, Oxford University Press, Oxford, 1997, p. 53.

⁷ This is not the same objection as the one in Kavanagh, although both criticisms share the idea that the inflation/employment linkage was the central problem for Keynesianism.

conditions, these being that the borrowing required for government capital spending be reduced and that targets for the money supply be introduced. As Oliver and Pemberton put it, the crisis of Keynesianism was more than just the failure of the unemployment/inflation trade off: “Although inflation peaked by 1975, the continuing high level of unemployment, the growth of the public sector borrowing requirement, the fall of sterling on the foreign exchanges in 1976 and the high rate of inflation combined to unravel the Keynesian paradigm from 1976 onward. It is clear that 1976 was one of the defining moments in the move toward neoliberalism. As Peter Middleton commented, “in the minds of markets, and probably also in terms of public perceptions within the UK, the IMF agreement marked a decisive point”. By the end of that year, the Labour government’s adjusted but still broadly ‘Keynesian plus’ macroeconomic strategy had clearly failed”⁸.

Distinguishing three orders of policy change, Hall argues that the government moved from first order adaptations to the Keynesian paradigm, changes in the the settings of the instruments of British policy, such as changing the rate of interest, through to second order adaptations to the paradigm, where although the goals behind British macroeconomic policy remained largely the same, the techniques and policy instruments used to attain them were altered, such as agreeing to the monetary targets set by the IMF. A variety of first and second order changes were employed but policy remained Keynesian up to the election of 1979. However, states Hall, as the 1970s wore on, these first and second order changes were ineffectual, and displayed the inability of the Keynesian paradigm to solve the problems it faced. According to Hall “The government reacted with a series of policy experiments that were basically ad hoc attempts to recover control of the economy by adjusting traditional Keynesian practices. However, the effect of these adaptations was to stretch the intellectual coherence of the paradigm that was supposed to be guiding policy to the point of breaking”⁹. Like Hall, Oliver and Pemberton conclude that after 1974 “no amount of experimentation with new instruments and settings could hold the paradigm together and during the next five years Keynesianism gradually disintegrated”.

What happened, according to these two accounts is that in 1979, when the Labour government was replaced by Thatcher, third order change occurred – the old paradigm was displaced by a new one, the neo-classical one.

Falsification, Kuhn, and Lakatos

Hall, Oliver and Pemberton¹⁰ offer a Kuhnian account of paradigm change, and explaining paradigm change in terms of falsificationism. They believe a

⁸ Michael J. Oliver and Hugh Pemberton, ‘Learning and Change in 20th Century British Economic Policy’, *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 17, No. 3, July 2004, pp. 415–441. The quotation they cite is from Middleton, P., ‘Economic Policy Formulation in the Treasury in the Post-War Period’, *National Institute Economic Review*, 127, 1989, pp. 46–51.

⁹ Hall, Peter A., ‘Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain’, *Comparative Politics*, Vol. 25, No. 3, April 1993, pp. 275–296.

¹⁰ Oliver and Pemberton make their debt to Hall absolutely clear and their intention is to offer an improved version of the account found in Hall.

theory must be answerable to the world. If a theory claims to tell you something about the way the world is, there must be something, anomalies, which counts as getting the facts wrong. When anomalies occur they generate theoretical revisions that can be either 'normal science' or paradigm change. Normal science, what Hall calls first and second order changes, resolves anomalies using the resources of the existing paradigm, and leaves the core elements of the theory intact, and the paradigm is able to successfully adapt to new situations.

In contrast, according to Hall, "Third order change is... marked by the radical changes in the overarching terms of policy discourse associated with a 'paradigm shift'... Like scientific paradigms, a policy paradigm can be threatened by the appearance of anomalies, namely by developments that are not fully comprehensible, even as puzzles, within the terms of the paradigm. As these accumulate, ad hoc attempts are generally made to stretch the terms of the paradigm to cover them, but this gradually undermines the intellectual coherence and precision of the original paradigm. Efforts to deal with such anomalies may also entail experiments to adjust existing lines of policy, but if the paradigm is genuinely incapable of dealing with anomalous developments, these experiments will result in policy failures that gradually undermine the authority of the existing paradigm"¹¹.

For Hall, you can tell which anomalies are resolvable by first and second order changes, and which anomalies are not. Unfortunately, the world is not so simple. As Quine pointed out, 'any statement can be held true come what may, if we make drastic enough adjustments elsewhere in the system'¹² (the Duhem-Quine thesis). Theories are falsifiable as wholes. We know something is wrong, but we don't know which part is wrong, because the whole includes everything – not just the core of the theory, but it also incorporates subsidiary theories, ceteris paribus clauses, and decisions about what to count as basic statements whose truth is taken as incontestable¹³.

The Duhem-Quine thesis means that, if you want to use the language of 'falsificationism', to say that a paradigm has failed, it is essential to be able to tell which adjustments to a theory are legitimate responses to or legitimate extensions of the core theory, and which are simply ad hoc attempts to save a failing paradigm. The problem with the accounts offered by Oliver and Pemberton and by Hall is that they ignore the holistic nature of theories, that anomalies show that something is wrong, but they cannot show exactly where the flaw lies, whether the flaw lies in the core of the theory or somewhere else.

Looking at Oliver and Pemberton's and at Hall's accounts of the events of 1974-9, one would think that what we saw in that period was an example of

¹¹ Hall, pp. 279-80.

¹² Quine, W. V. O., 1953, 'Two Dogmas of Empiricism', in Quine, Willard V. O., *From a Logical Point of View*, Harvard University Press, Cambridge, 1953.

¹³ Lakatos, Imre, 'Falsification and the methodology of scientific research programmes', in Lakatos, Imre, and Musgrave, Alan, (editors), *Criticism and the Growth of Knowledge*, Cambridge University Press, Cambridge, 1970.

rational theory change driven by the the steady accumulation of anomalies which ‘proved’ the falsity of the Keynesian model, that an inevitable process was in operation, so that although various attempts were made to amend and adapt the Keynesian paradigm, each attempt to solve an existing anomaly merely generated further anomalies, which in turn required further adjustments in the structure of the Keynesian paradigm, which produced further anomalies, and so the strategy of trying to save Keynesianism simply exacerbated the inherent problems that the paradigm faced until it collapsed under the weight of its own contradictions¹⁴. This is a nice story, but unfortunately for Oliver and Pemberton and Hall, it is wrong. Obviously the economy had all sorts of problems, but the key issue, which is the point of the Duhem-Quine thesis, is not whether there were problems, but how to interpret those problems. We need an account of whether the first and second order policy changes between 1973-9 were merely ad hoc adjustments which showed that the core of Keynesianism was flawed, or whether they were legitimate responses which showed that appropriate extensions and adaptations of the Keynesian model could account for and provide suitable policy responses to the events of 1973-9.

An Alternative Account of the Years 1973-1979

If the Duhem-Quine thesis is correct then it should be possible to offer an account of the years 1973-9 which shows, not that the policy responses were desperate inadequate ad hoc attempts to save a failing Keynesian paradigm, but that they were appropriate responses intelligible in Keynesian terms, and that core theoretical elements of Keynesianism were not ‘falsified’. I propose to offer such an account, not just as a worked example that serves as a theoretical exercise in philosophical holism, but as a serious attempt to argue that the events of 1973-9 did not show the failure of Keynesianism. I will argue that the responses were not ad hoc and that consequently the Keynesian paradigm was not abandoned on rational grounds.

From 1973-9 the government tried in unpropitious circumstances to establish a balance between the four goals for the economy. The main failure, according to Oliver and Pemberton and Hall, was the inability to maintain full employment and low rates of inflation. But according to a Keynesian account, inflation and unemployment were being driven by different forces. The 400% increase in the price of oil delivered by OPEC I led to cost push inflation, where prices were driven up by substantial increases in costs of energy. The level of unemployment was determined by the level of demand. “According to the Keynesian model,

¹⁴ Hall, pp. 284-5, “When monetarism replaced Keynesianism... the wholesale shift in policy paradigm,... display(ed) many of the features a Kuhnian model would lead us to expect. The process was initiated early in the 1970s by a series of economic developments, of which the most important was rising rates of inflation, soon to be joined by stagnating levels of growth and employment... they were particularly threatening to the Keynesian paradigm because it could neither fully anticipate nor explain them. In other words, they were “anomalies” in the Kuhnian sense, which called into question the adequacy of Keynesian analyses of the economy”.

this was precisely what happened – demand was constrained while rising costs fed an inflationary spiral”¹⁵. There was therefore nothing in the co-occurrence of inflation and unemployment that was incompatible with the Keynesian paradigm.

Between 1974-9 there was a change in priorities, and inflation rather than unemployment came to be seen as the main focus of government policy. But this represented not so much a failure of the model, as an indication of the effective use of the model to achieve changed political priorities. And though, for the reasons just given, unemployment and inflation had risen simultaneously between 1973-4, after 1975, when in order to reduce inflation the government adopted a Keynesian mixture of demand management (deflation) and incomes policies, first order changes in the instruments of policy, inflation fell and unemployment rose, which is what Keynesianism would lead us to expect.

Oliver and Pemberton suggested that the government’s appeal in 1976 to the IMF for funds marked the decisive point which showed that Keynesianism had clearly failed. Britain, it seemed, was no longer in control of its own economy and policy was being dictated from outside. However, appealing to the IMF for funds to cover a shortfall in the balance of payments was not such an exceptional event. Britain had been a regular borrower from the IMF, and borrowing had taken place in 1956, 1961, 1962, 1967, 1969 and 1974-5. By the end of 1977 improvements in the balance of trade meant Britain did not need to draw the full loan from the IMF. Tomlinson and Clift¹⁶ argue that despite the mythology to the contrary, the IMF visit and subsequent loan was not the cause of the reversal of British economic policy seen in the mid 1970s. The policy had already shifted fundamentally towards deflation rather than maintaining employment before IMF officials set foot in Britain. “The problem of 1976, to reiterate, was not that the IMF was forcing a new and uncongenial policy direction on the Labour government. By the time of the IMF visit, policy was clearly giving priority to reducing inflation, which was on a downward path, and public sector finances were rapidly improving following the fiscal packages of 1975 and 1976, and the imposition of cash limits on public spending”¹⁷.

The government undertook a series of actions based on its understanding of Keynesianism to reduce inflation, eliminate the balance of payments deficit, return to positive growth and accepted that the cost of this would be a degree of unemployment, which it tried to keep within tolerable limits. Inflation fell significantly from its 1975 peak of 24% to 8.3% in 1978 rising to 13.4% in 1979. By 1979 unemployment had fallen to 5.1% from a peak of 5.7% in 1977, by 1977 the balance of payments deficit had changed to a surplus where it remained

¹⁵ Michael Kitson, ‘Failure followed by success or success followed by failure? A re-examination of British economic growth since 1949’, in Floud, Roderick, and Johnson, Paul (editors), *The Cambridge Economic History of Modern Britain Volume 3. Structural Change and Growth, 1939–2000*, Cambridge University Press, Cambridge, 2004.

¹⁶ Clift, Ben, and Tomlinson, Jim, ‘Negotiating Credibility: Britain and the International Monetary Fund, 1956–1976’, *Contemporary European History*, 17, 4, 2008, pp. 545-566.

¹⁷ Clift and Tomlinson, pp. 565-6.

until the mid eighties, and after being negative in 1974 and 1975, growth became positive and stood at a respectable 2.8% in 1979. The results were what the government aimed for. This reading of the empirical evidence does not support Oliver and Pemberton and Hall's claims of paradigm failure. In short, the key indicators suggest that by changing priorities in response to circumstances, and adapting old and adopting new policy instruments, Hall's first and second order changes, Keynesian policies returned the economy to a degree of stability, under which a sort of Kuhnian 'normal' economics could take place. This account provides "a possible alternative narrative... which sees the events of the 1970s, not as the 'culmination' of long run problems but as largely the consequence of short term forces... highly contingent and particular factors causing a short run crisis within a longer run picture of 'mildly disappointing' performance in the golden age"¹⁸.

One of the problems with suggesting that the events of 1973-9 indicated that the Keynesian paradigm had failed is that what counts as 'ad hoc' is never defined by Oliver and Pemberton, or by Hall. And here lies the heart of the difficulty, the reliance on Kuhn and an ill defined sort of falsification as their methodological tools to demonstrate paradigm failure. Only if we know what counts as ad hoc change can we choose which narrative is correct, their narrative of paradigm failure or the alternative narrative of paradigm success.

The kind of falsificationism Oliver and Pemberton, and Hall use permits the assessment of a paradigm for failure independently of the existence of there being another paradigm against which to measure it. However Lakatos has argued that paradigms cannot be assessed in isolation, but only against each other, and that if there are reasons to give up a paradigm, it's because we have a more promising one to replace it with. If Lakatos is right then the kind of non-comparative falsificationist approach that Oliver and Pemberton, and Hall have simply cannot show what it claims to show¹⁹.

The possibility of an alternative and, it should be stressed, extremely plausible narrative means that none of the evidence adduced by Oliver and Pemberton and Hall supports a narrative of paradigm 'failure', as nothing they adduce in the way of the shifting priorities and the adapting of old and adopting of new policy instruments, their 'first and second order changes', suggests that these changes were merely ad hoc, and out of line with the core theoretical tenets of Keynesianism.

Whig Narratives

There was a crisis in the seventies when the prevailing paradigm was Keynesian, and there was a paradigm change after 1979, when Thatcher won the

¹⁸ Tomlinson, Jim, 'Thrice Denied: 'Declinism' as a Recurrent Theme in British History in the Long Twentieth Century', *Twentieth Century British History*, Vol 20, Issue 2, 2009, pp. 227-251.

¹⁹ Clearly, on a Lakatosian approach, to show that Keynesianism failed, one would need to show that the neo-classical one which replaced it was better. What counts as 'failed' and 'better' is the subject of Lakatos's famous 1970 article.

1979 election. But that doesn't mean that the reason for the change from one paradigm to another was the result of a rational process driven by a falsificationist logic²⁰.

If, appearances to the contrary, Oliver and Pemberton and Hall are not actually offering an account of rational paradigm change then what sort of account are they offering? The answer is that they are offering Whig history, written from the perspective of the present, in the knowledge that the neo-classical paradigm was the "winning" paradigm. Economics purports to be a science, and science is particularly prone to Whig narratives, stories with winners and losers, based on the assumption that our current theories, the winners, represent the accumulated knowledge of the past, and telling a story of science getting closer and closer to the truth over time. It would be a strange science whose history was the story of how it had moved further and further away from the truth.

Mark Blaug has written extensively on the dangers of reconstructionist Whig history in economics, and on the need for economic history to be more empirically oriented, using not Kuhnian, but Popperian and Lakatosian techniques to test theories against the evidence provided by the real world²¹. Using evidence to test a theory cannot mean writing histories which "uncritically accept a few ideas from the philosophy of science in the light of which they fit some episode of economics into a 'reconstruction'"²². It mustn't mean making the evidence fit the theory. It has to mean testing the theory against the evidence (and deciding which statements count as evidence). And if the theory of rational paradigm change brought about by the falsity of the Keynesian paradigm doesn't fit the evidence we need to look elsewhere to account for the reasons that paradigm change occurred.

Non-rational Paradigm Change

The best explanation of what happened in 1979 is that there was a non-rational paradigm change. The 1979 election was won by Thatcher, and after that the idea of using demand management to reduce unemployment disappeared from politics, and the overriding macroeconomic goal became the reduction of inflation. A narrative of Keynesian failure followed by neo-classical success emerged, which dismissed the entire Keynesian period as a period of cumulative failure, its internal contradictions culminating in the crisis of 1973-9. Any narrative of crisis needs a resolution, and Thatcher's first administration came to

²⁰ On the nature of the reasons for this irrational paradigm change see Hay, Colin, 'Chronicles of a Death Foretold: the Winter of Discontent and Construction of the Crisis of British Keynesianism', *Parliamentary Affairs*, 63 (3), pp. 446-470, 2010.

²¹ Blaug, Mark, 'No History of Ideas, Please, We're Economists', *The Journal of Economic Perspectives*, Vol. 15, No. 1, Winter, 2001, pp. 145-164.

²² Backhouse, Roger E., pp. 31-2, in Backhouse, Roger E. 'How should we approach the History of Economic Thought, Fact, Fiction or Moral Tale?', *Journal of the History of Economic Thought*, 14, Spring, 1992, pp. 18-35.

be narrated as the cure for the Keynesian disease, replacing the failed paradigm with a better one. It is this political narrative and not the actual events of 1973-9 that delegitimised Keynesianism. As Tomlinson writes, "For many superficial analysts as well as political opponents the whole period of the Labour Government [1974-9] remains one spoken of in absurdly exaggerated terms of breakdown and disaster"²³.

These exaggerated narratives bear very little resemblance to the actual events they narrate, and, as Hay says, "their 'success' as narratives relies not on their ability to accurately reflect the complex webs of causation that interact to produce disparate effects, but on their ability to provide a simplified account sufficiently flexible to 'narrate' a great variety of morbid symptoms whilst unambiguously attributing causality and responsibility"²⁴.

Economics is the study of how scarce resources should be allocated²⁵. Keynesianism and neo-classicism take different views not just of demand management and the relative priorities of employment and inflation, but also very different views of the role of government in deciding who should get what and how it should be paid for, of levels of spending on, for example, education and health, and deciding, for example, what the rates of taxation should be for different income groups. The debate over the role of government in determining the allocation of resources and the distribution of income and wealth had been a central feature of British political life for the whole period of the post war consensus, and the allocative and redistributive activities of government "had replaced the barricades as the fault line of a class society"²⁶. Between 1945-79, the economy was seen to be a political question.

The Thatcherite narrative delegitimised the post war consensus, a form of political economy which produced not only the fastest sustained rate of economic growth ever experienced, but also its most egalitarian distribution²⁷. According to Thatcher these years were "a miserable failure in every respect." To be electorally successful political narratives don't have to be true or rational. They don't even have to be coherent. They simply have to be convincing. And so by narrating the short term difficulties of 1973-9 as the terminal stage of Keynesian economics, Thatcher was able to undermine the social goals which underpinned post war projects, the elimination of poverty, unequal educational opportunity, unemployment, poor housing, and lack of access to health care, the five giant evils of "squalor, ignorance, want, idleness, and disease" identified in The Beveridge Report of 1942.

²³ Tomlinson, Jim, 'Economic policy', in Seldon, Anthony and Hickson, Kevin (editors), *New Labour, Old Labour The Blair, Wilson and Callaghan Governments*, Routledge, London, 2004, p. 66.

²⁴ Hay, Colin, 'Crisis and the structural transformation of the state: interrogating the process of change', *The British Journal of Politics & International Relations*, Vol 1, Issue 3, October, 1999, pp. 317-344.

²⁵ Middleton p. 11. He consciously echoes Robbins famous definition, "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

²⁶ Middleton, p. 75.

²⁷ Middleton, p. 25.

The effect of the success of the Thatcherite narrative has been to reduce the perception of what governments can achieve in the sphere of the economy, to radically change the parameters of the argument about who gets what and who pays for it. In the 35 years of neo-classicism income inequality, unemployment, poverty and inequality of educational opportunity have increased dramatically, and full employment has ceased to be a political goal of any of the political parties. There has been a de-politicisation of the issue of the allocation of resources and the distribution of income and wealth, transforming the issue of how scarce resources should be allocated, of who gets what, into a technical question for neo-classical economists and the 'market' to answer, rather than the sort of political questions society asked itself in The Beveridge Report. According to the neo-classical paradigm the refusal to ask these questions represents intellectual progress. Political economy has now become just "the economy" in a way that was unimaginable in the 1970s. As Hay said, "Keynesianism's death in Britain was not economic given, but politically orchestrated"²⁸.

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²⁸ Hay, 2010.

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