Book Review: Matthias Matthijs, Ideas and Economic Crises in Britain from Attlee to Blair (1945-2005)
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What is This?
As a result, the macro outcomes, such as variations in output and employment and differential access to social provisioning, are grounded in and hence compatible with the micro sub-systems that connect the economy into a whole. More significantly, this means that all economic activity is simultaneously a macro–micro activity. Thus, dealing with the business enterprise and changes in competition laws is not per se microeconomics and dealing with government expenditure decisions and fiscal policy is not per se macroeconomics, which means that fiscal policy in principle is of no more or less importance than competition policy, rather they are differently important.

This brings us back to King’s classification of heterodox supporters and opponents of microfoundations. Once the mainstream microfoundations vision is replaced by the heterodox vision of the economy as a whole, it is easily seen that the Post-Keynesian supporters, opponents and fence-sitters are more or less in the same camp (Chapter 8), as well as Gardiner Means and Alfred Eichner (King, pp. 196–197). Therefore, with everyone in the same broad camp, the phrases ‘macroeconomics is independent of microeconomics’, ‘macroeconomics does not need microeconomic foundation’, ‘microeconomics and macroeconomics should be thought of as two separate buildings’ and ‘autonomous macroeconomics’ have no sense and no theoretical meaning. Rather micro and macro are different but interrelated areas of study within economics.

The fact that the microfoundations dogma has brought about the death of mainstream macroeconomics should be of no surprise or concern to heterodox economists. The core theory of mainstream economics has been and always will be micro; the emergence of mainstream macro after 1945 was an aberration to be eliminated. However, for heterodox economics, macroeconomics is part of its theoretical core – has been and always will be. King does a good job illuminating the first point, but is not so good on the second point. Still the book is a good and profitable read.


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Paul Keating and John Howard both warned us that if you changed the government you changed the nation. Strong supporters of one or other party, whenever their party was tipped out of office, felt instinctively that this must be true. In his impressive analysis of 60 years of British politics and economic policymaking, Matthias Matthijs has argued that the assertion of change by ballot box was often untrue in the British case but that on those occasions when the nation was changed, the shift was comprehensive.

There were three occasions in the 20th century, Matthijs believes, when comprehensive reorganisation occurred: during Asquith’s Liberal administration between 1905 and 1915, under Attlee from 1945 and under Thatcher after 1979. All

... challenged the received economic wisdom of the time and created a new economic settlement by redefining the role of the state ... All three also changed the consensus of what the main goals of economic policy ought to be. (p.3)
Macmillan’s Conservatives did not abandon the order set up in 1945. Heath tried to do so but gave up the attempt before he left office in 1974. Similarly, Blair promised to put Thatcher and Major to rest but, our author argues, New Labour operated within the structures and assumptions that came to prevail in the 1980s.

A brief first chapter sets out explanatory concepts that underpin the rest of the book. A much longer second chapter examines a wide array of theoretical works, nearly all of them British, dealing with British affairs, through or against which the empirical research has been passed to arrive at the formulations in the first chapter. In brief, a transformation in Britain’s political economy came about only when a substantial crisis was accompanied by a political campaign whose narrative was convincing enough to characterise the crisis vividly and also to offer a clear alternative pathway to assuage and resolve the electorate’s aroused discontent.

A new consensus is then formed through what Matthijs prefers to call ‘path dependence’ and what other social scientists might call a ‘feedback loop’. Political and economic proponents of the old consensus have lost credibility. Ministers advance congenial advisers and public servants. Scholars adjust their theories and their lexicons, or are overtaken by different scholars, which affects the curriculum, publishing norms and the recruitment of colleagues. The media, its proprietors and editors, seek out and engage with a new critical mass of intellectual entrepreneurs. New conventions become entrenched concerning what is acceptable to say and do.

This very thorough book is admirably clear about the turning points and about the nature and persistence of each subsequent consensus. It sustains its dense account of developments across the long stretch of time from Attlee to the end of Blair’s second term (Asquith is referred to, but not explored). Why one crisis became full-blown, elucidated for contemporaries in an overarching narrative, and another crisis did not is less clear. Perhaps in the case of 1945, circumstances beforehand were so self-evidently disastrous that the author felt that they did not need extended analysis. The depression and the war unsettled things so badly, and generated so much new thought and altered aspirations, that people eagerly seized on an untried policy agenda, a fully articulated agenda that contrasted with the bafflement and failures of the past. The absence of a strong, as distinct from an anecdotal, context for the next transformation, in and after 1979, is more of a problem, however. Was it simply that Thatcher was a more root-and-branch narrator than Heath had been before and Blair would be later? Was it more than happenstance and accident that Thatcher’s rivals within her party and her opponents outside it were unusually confused about the past, the present and the future, and that she presented the only coherent narrative in town?

The context for the paradigm shifts in Britain’s political economy must be sought beyond its shores. It is both a strength and weakness that Matthijs’ attention is fixed firmly on Britain. Reagan, for example, is mentioned three times only, as a contemporary and not as a participant or precipitant. Despite loose Australian talk about reciprocated influence, Australia does not appear at all. This is to the good. ‘The Anglosphere’ is an inadequate and slippery concept, and Matthijs (writing his first draft for PhD supervisors at Johns Hopkins University) admirably avoids distorting his argument by glancing sideways at the United States. This is a strength.
The crises that Britain experienced were nevertheless also experienced around the world. Depression and war were obviously global. Previous orthodoxies seemed powerless to explain or to solve these worldwide calamities. What of 1979? Inflation and unstable currencies troubled rich economies from the late 1960s onwards. A world recession in the mid-1970s was followed by conditions for which a new and apparently paradoxical word, ‘stagflation’, was coined. Public officials everywhere were all at sea. Prevailing assumptions were confounded, and conventional responses appeared bumbling and counterproductive. A strident and radical narrative cut through the static and, with a bit of luck, as Matthijs observes (the war with Argentina, the end of the world recession of the early 1980s), Thatcher survived a second election and consolidated the emerging consensus.

Australia’s political economy was subject to the same tidal forces. It might be said that the Whitlam government in and after 1972 was less a transformer than a continuation of the 1945 process of Post-War Reconstruction. The stronger national government had not been reversed during the long interregnum of Coalition rule. The federal powers over medicine, social welfare and education, established through amendment to the Constitution in 1946 (for which Whitlam had campaigned in uniform, and which Opposition leader Menzies had supported at the time), were fundamental to policy after 1972. The award in 1949 of a female basic wage of 75% of the male basic wage was revisited in the 1972 ‘equal pay’ determination, which had been anticipated by some State governments in the years between. The pre-war practice of encouraging British Protestant migration was abandoned in favour of a far more systematic and wider recruitment of migrants through a brand-new Department of Immigration and was followed under Holt, Whitlam and Fraser by symbolic and practical abandonment of the White Australia policy. The worldwide turmoil and contradictions of the late 1960s and the 1970s overwhelmed Australian governments. The impulse to deregulation, pent up under Fraser, burst through under Hawke, Keating and Howard, whose implementation differed from that in Britain under Thatcher, Major and Blair. This was in part because of differences in the predisposition and in the constituencies of the political parties that in each country first constructed the narratives and presided over entry into the post-crisis era.

The financial mayhem that became evident in 2007–2008 may well be another era-dividing global phenomenon. Existing economic and political orthodoxies have proved inadequate to explain, let alone to solve, the crisis. Having completed his manuscript, Matthijs added an incandescent 12-page ‘Postscript: Gordon Brown, the “Great Recession”, and the future of neoliberalism’. What will be the paradigm that emerges in the next cycle? Will there be only one? It took more than 15 years before the failure evident at the end of the 1920s was rejected by the generation of 1945. It could be said that years of growing incoherence preceded the Thatcher, Reagan and Hawke turnarounds and the accompanying deregulatory consensus. We seem at the moment to be only part way through coherent explanation and resolution of the current mess. Studies of national political economies, like this one, placed side by side and read in the context of a succession of international structural crises and of paradigm revision make a valuable contribution to thinking our way ahead.