

# Managing the UK economy

## Fiscal and monetary policy since 1945

### Week 5 – 1952-67: Fiscal activism and macroeconomic fine-tuning

AY 2025-26

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Department of Political  
Economy

Instructor: Daniele Girardi

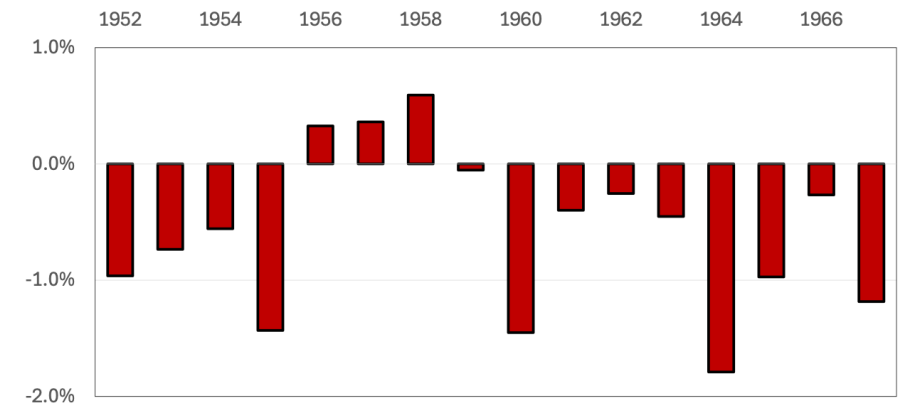
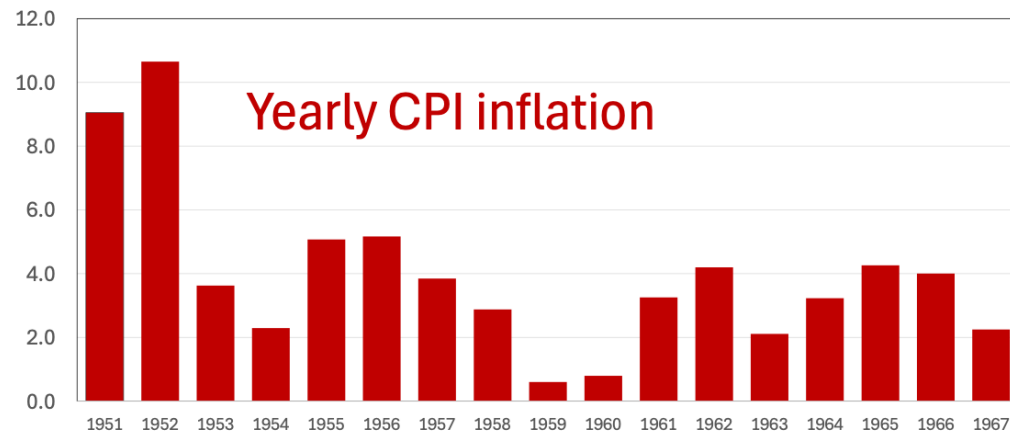
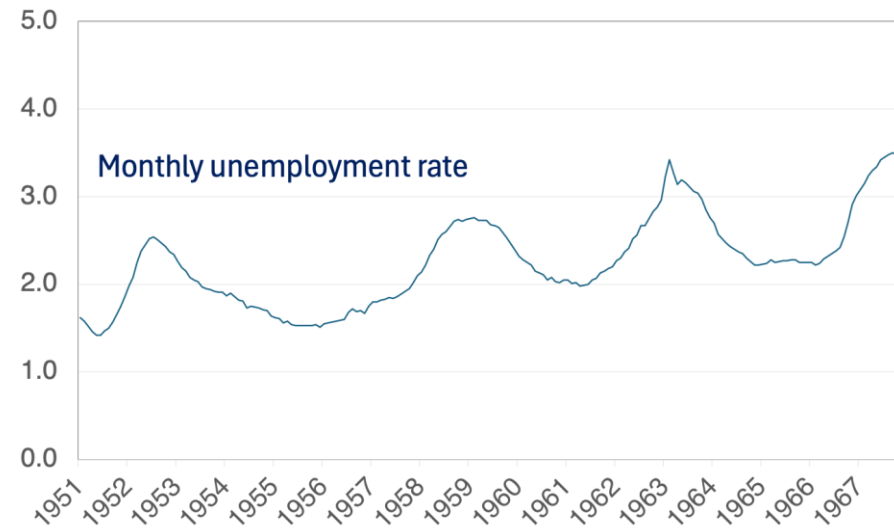
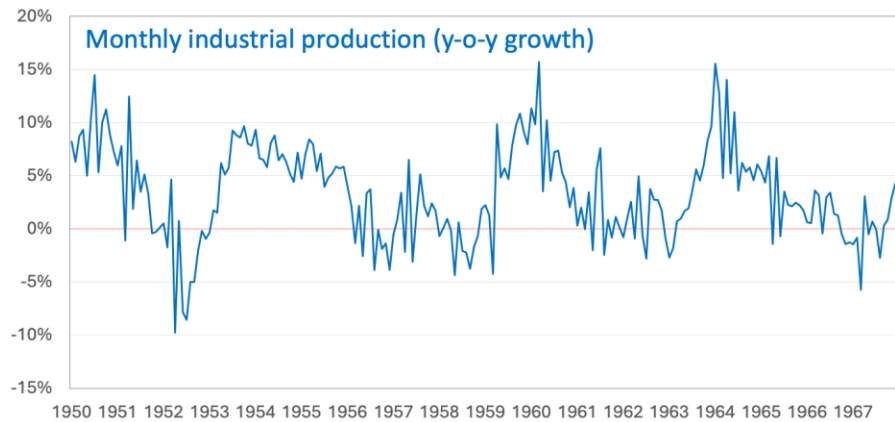
# Plan for today: 1952-67

1. Overview

2. The course of events

3. Planning and incomes policy

# 1952-1967: Overview



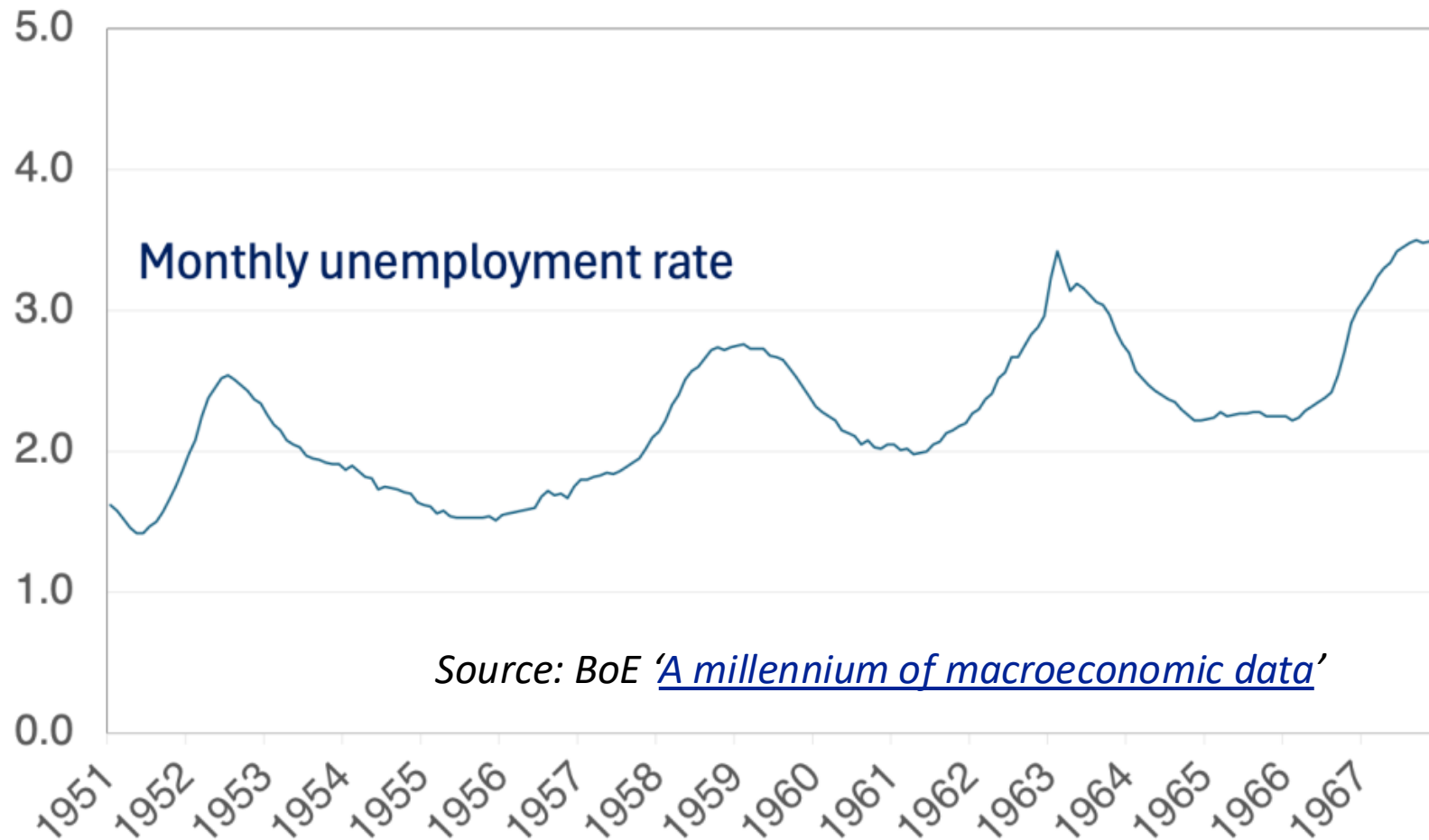
# 1952-1967: Overview

- Sustained growth, low unemployment, moderate inflation.

Change in Real GDP	Avg. annual GDP growth	Change in labour productivity	Avg. annual productivity growth
65%	3.2%	79%	3.7%
Real GDP per capita growth	Average unemployment	Max yearly unemployment	Average inflation rate
49%	2.3%	3.4%	3.6%

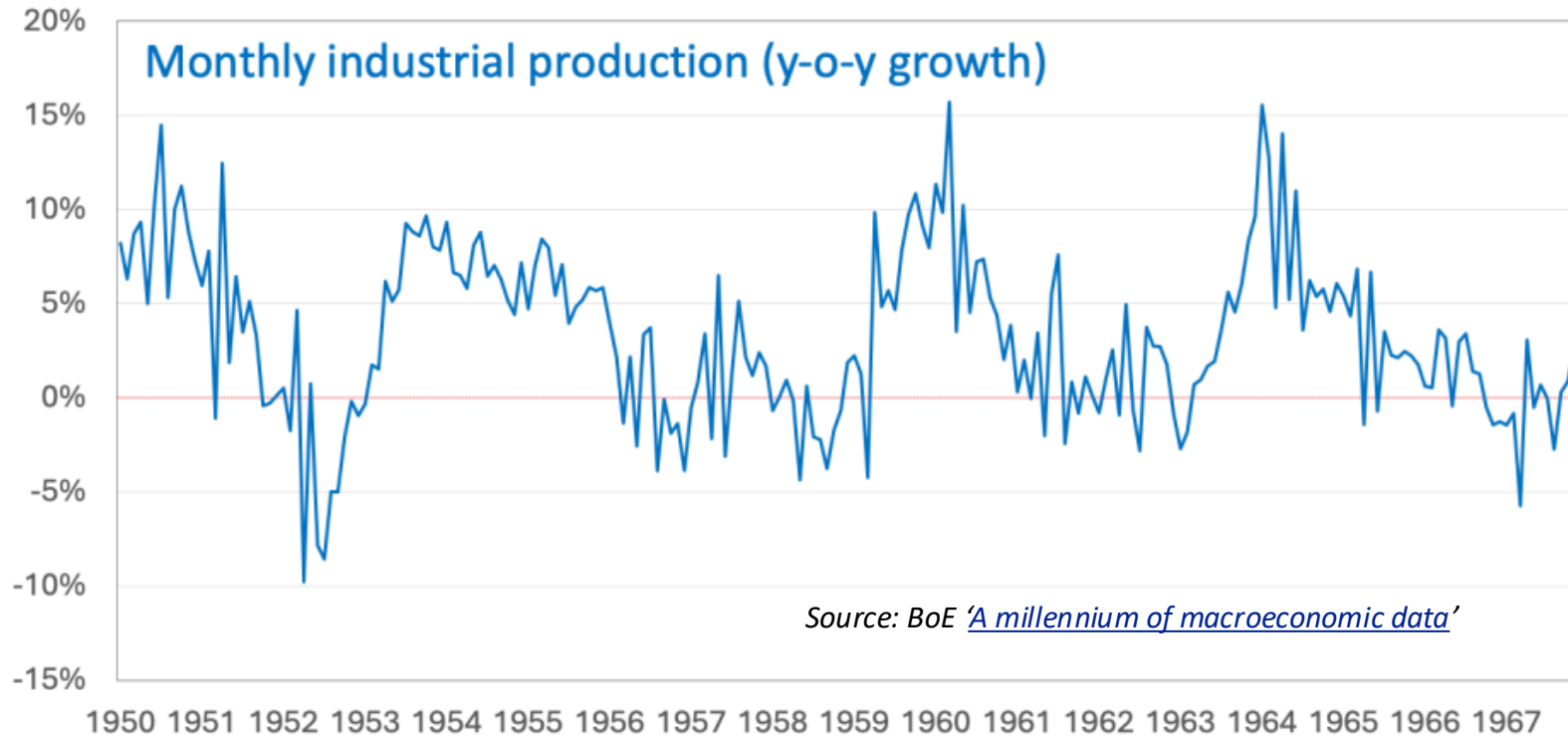
Source: BoE [\*'A millennium of macroeconomic data'\*](#)

# 1952-1967: Overview



- Very low unemployment throughout
- Although in retrospect it was on an increasing trend.

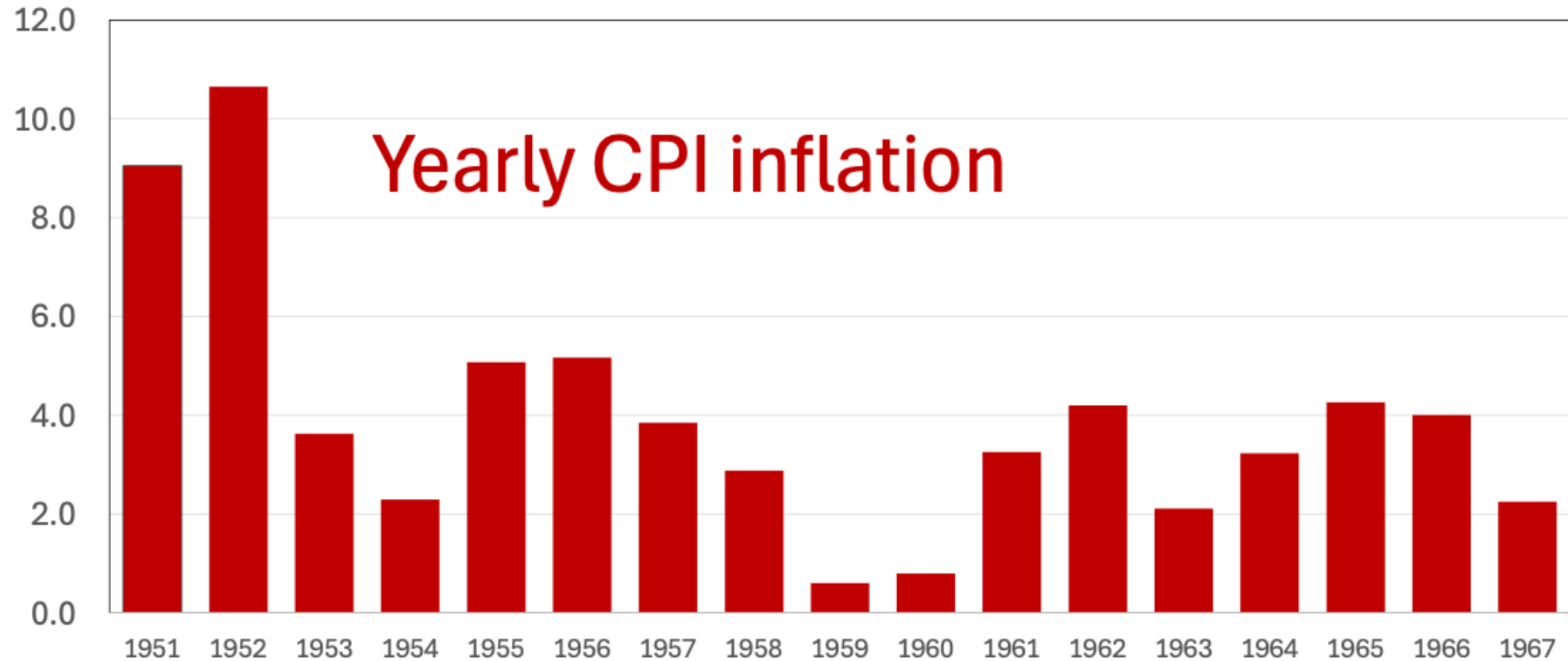
# 1952-1967: Overview



- Four cycles:
  1. Peaked in 1950-51
  2. Peaked in 1953-55
  3. Peaked in 1960
  4. Peaked in 1964

# 1952-1967: Overview

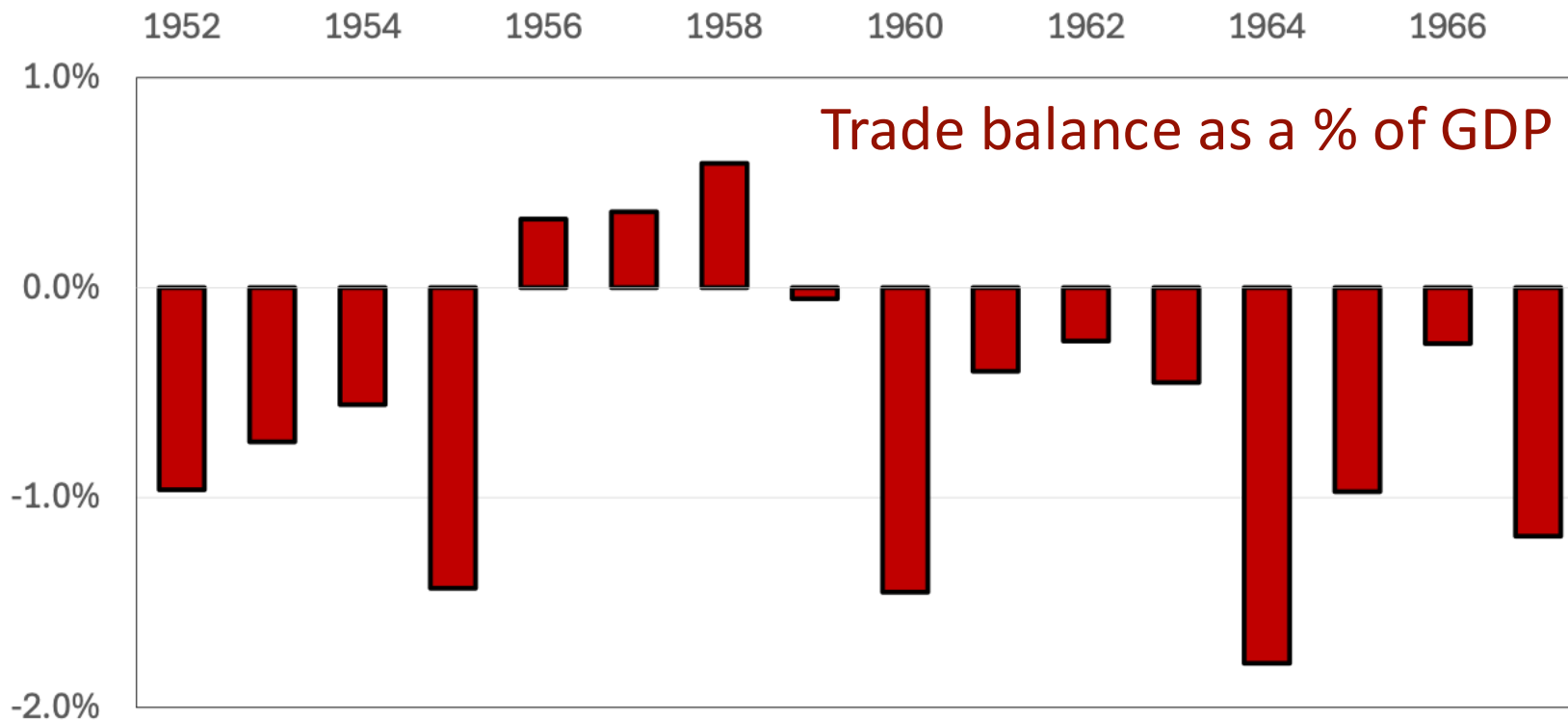
- After the Korean-war boom, inflation was moderate.



Source: BoE [‘A millennium of macroeconomic data’](#)

# 1952-1967: Overview

- Key constraint to economic expansion: the balance of payments.



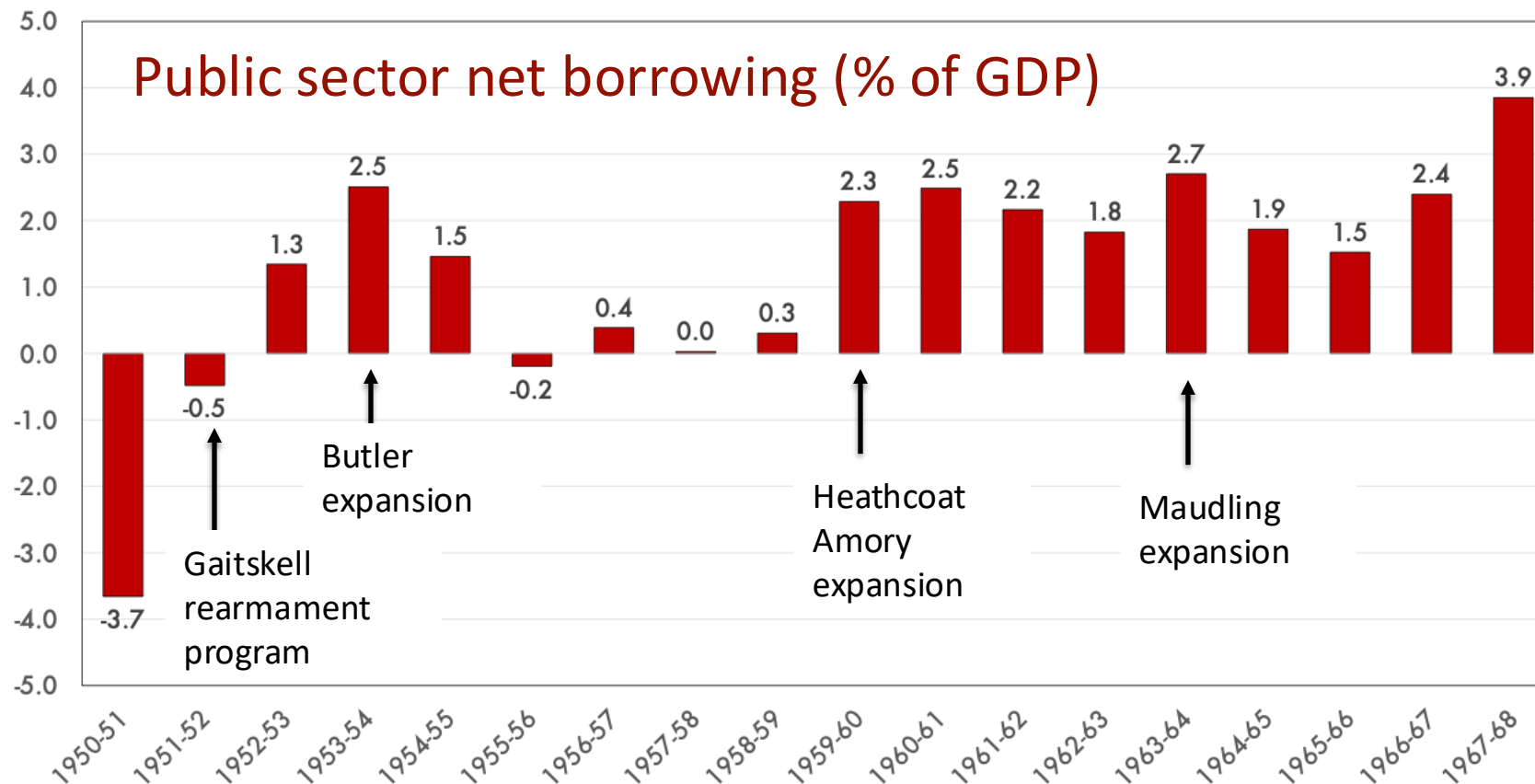
*Policy dilemma:* often the economy could withstand higher activity, but the balance of payment could not.

Source: BoE [‘A millennium of macroeconomic data’](#)



# 1952-1967: Overview

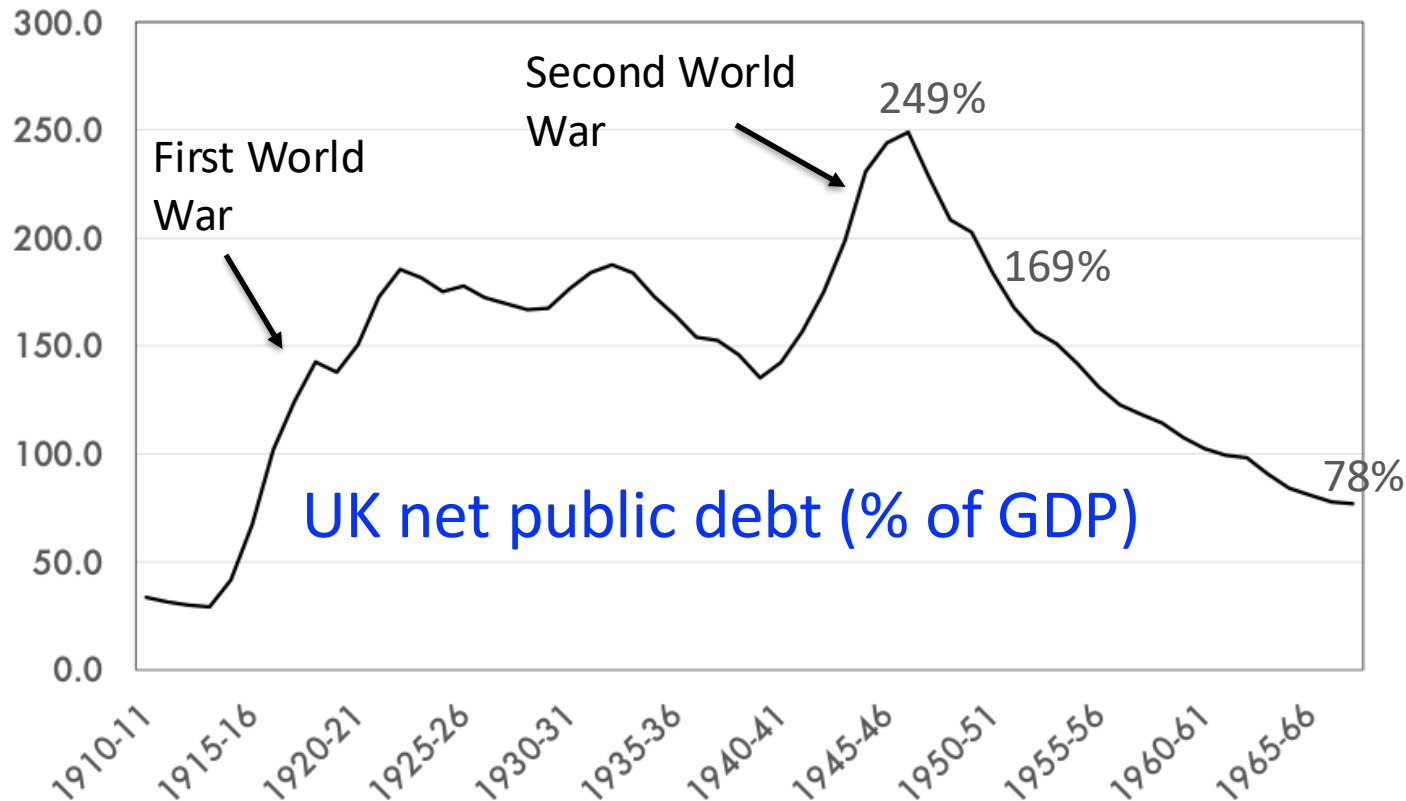
- Budget balance switches to deficit in the 1960s



- Mainly due to the Conservatives' fiscal expansions
  - Butler 1953-54
  - Amory 1958
  - Maudling 1963
- 1966-68 worsening due to (relative) weakening of economy

# 1952-1967: Overview

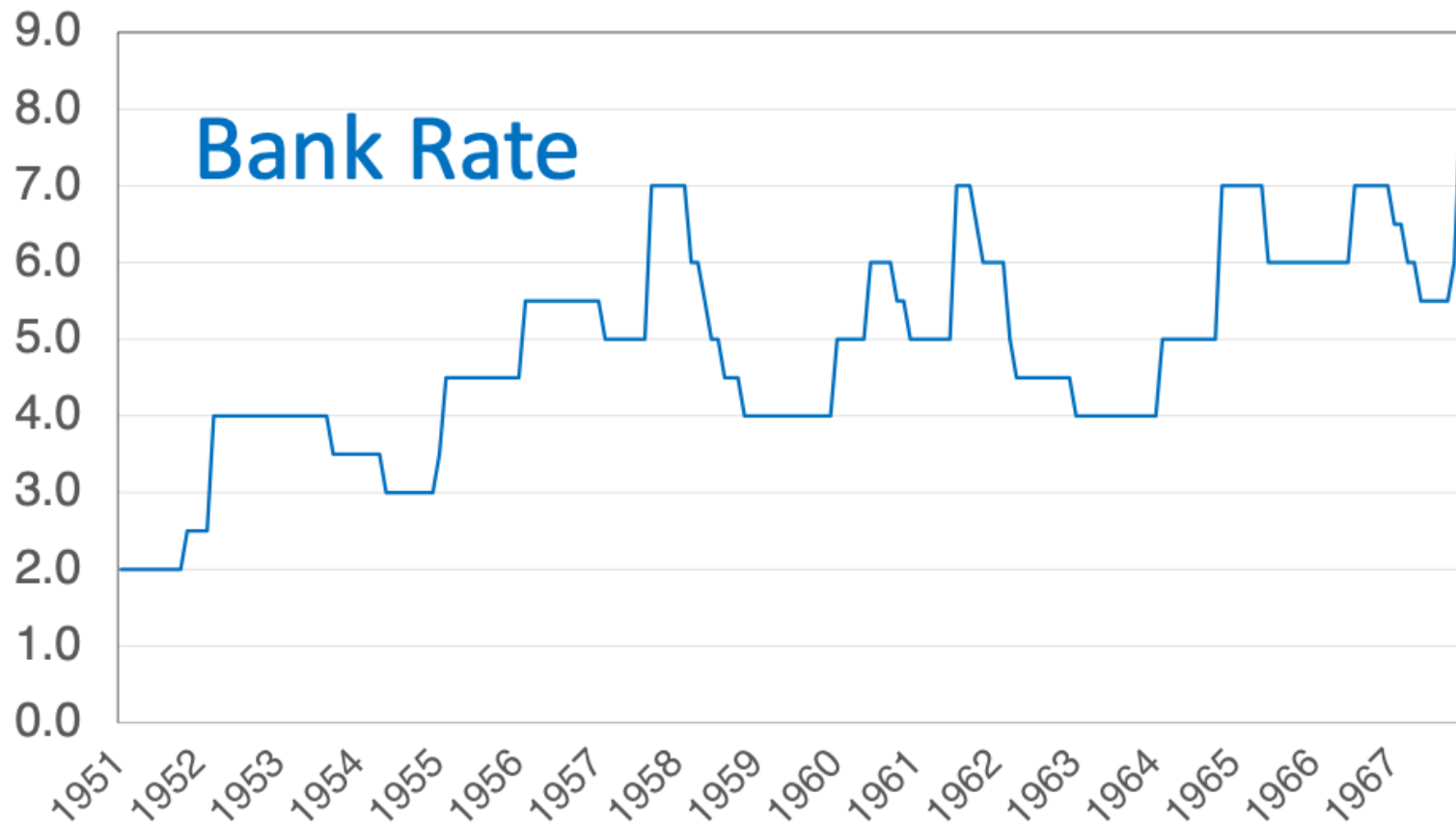
- Debt-to-GDP falls from post-war peak



- 1952: 169% → 1967: 78%.
- notwithstanding deficits in 15 years out of 17
- $g + \pi > i$  did the trick
- Avg. yearly nominal growth  $g + \pi \sim 7\%$
- Avg. 10-year nominal rate  $i \sim 5\%$

# 1952-1967: Overview

- Short-term rates higher & more variable

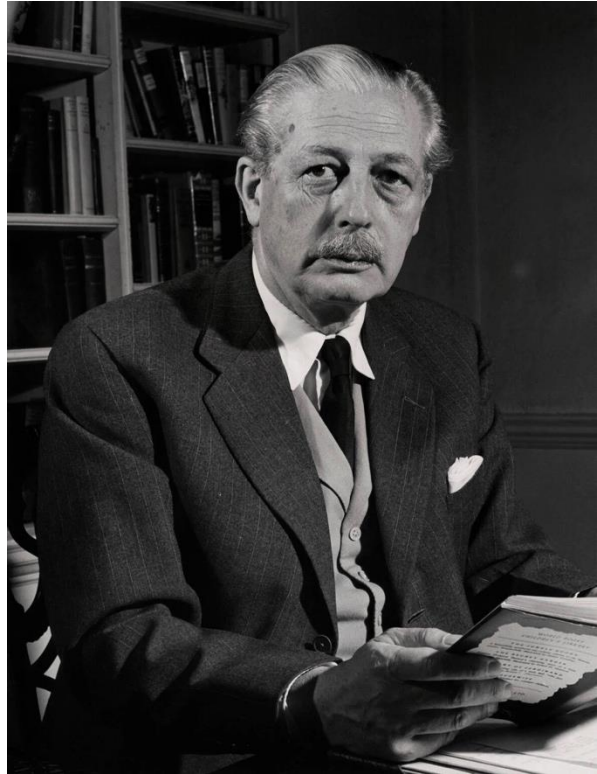


- Nov 1951: Tories re-activate monetary policy
- Cuts coincide with fiscal expansions
  - Butler 1953-54
  - Amory 1958
  - Maudling 1963
- Increases were to cool down the economy & improve balance of payments.

# 1952-1967: Overview

- Continuities in policy (*'Butskellism'*)
  - Welfare state & nationalized industries (except iron & steel) maintained
  - Continued commitment to full employment
  - Demand management through counter-cyclical tax changes
  - Exception: re-activation of monetary policy
- “Stop & go” macroeconomic policy.
- Periodic balance of payments crises.
- Attempts at incomes policy.
- Experiments with forms of economic planning.

# 1952-1967: The course of events



# 1951-1955: from austerity to expansion



- Tory Chancellor Rab Butler (Nov 1951 – Dec 1955)
- Nov 1951 to spring 1952: addressing the Korean-war crisis
  - Import cuts & hire-purchase restrictions.
  - Bank rate hikes in Nov 1951 (2.5%) and Mar 1952 (4%).
  - ‘No-change’ budget in March 1952.
- 1953-55: shift to expansionary policy
  - Expansionary Apr 1953 budget
    - Tax cuts ~ 2.7% of GDP
  - Big increase in public housing construction (>300k/year).
  - Bank rate reductions in 1953 (3.5%) and 1954 (3%).

# 1955: boom & overheating

- Strong economic expansion in 1954-55.
- Signs of overheating in the first half of 1955
  - Hire-purchase restrictions reintroduced
  - Bank rate increased to 4.5%
- BUT April 1955 (pre-election) budget delivers tax cut of 1% of GDP.
- Inflation and trade deficit mount.
- Special October 1955 (post-election) budget reverses the tax cuts.
- Dec 1955: Harold Macmillan Chancellor



# 1955-1960: Macmillan's time

## Aug-Dec 1956: Suez crisis

- US-engineered run on the pound
- Macmillan Prime Minister; Thorneycroft Chancellor

## Jan 1958: Thorneycroft resigns

- Clash over fiscal policy with “expansionist” Macmillan

## Dec 1958: Sterling convertibility

- (only for non-residents)

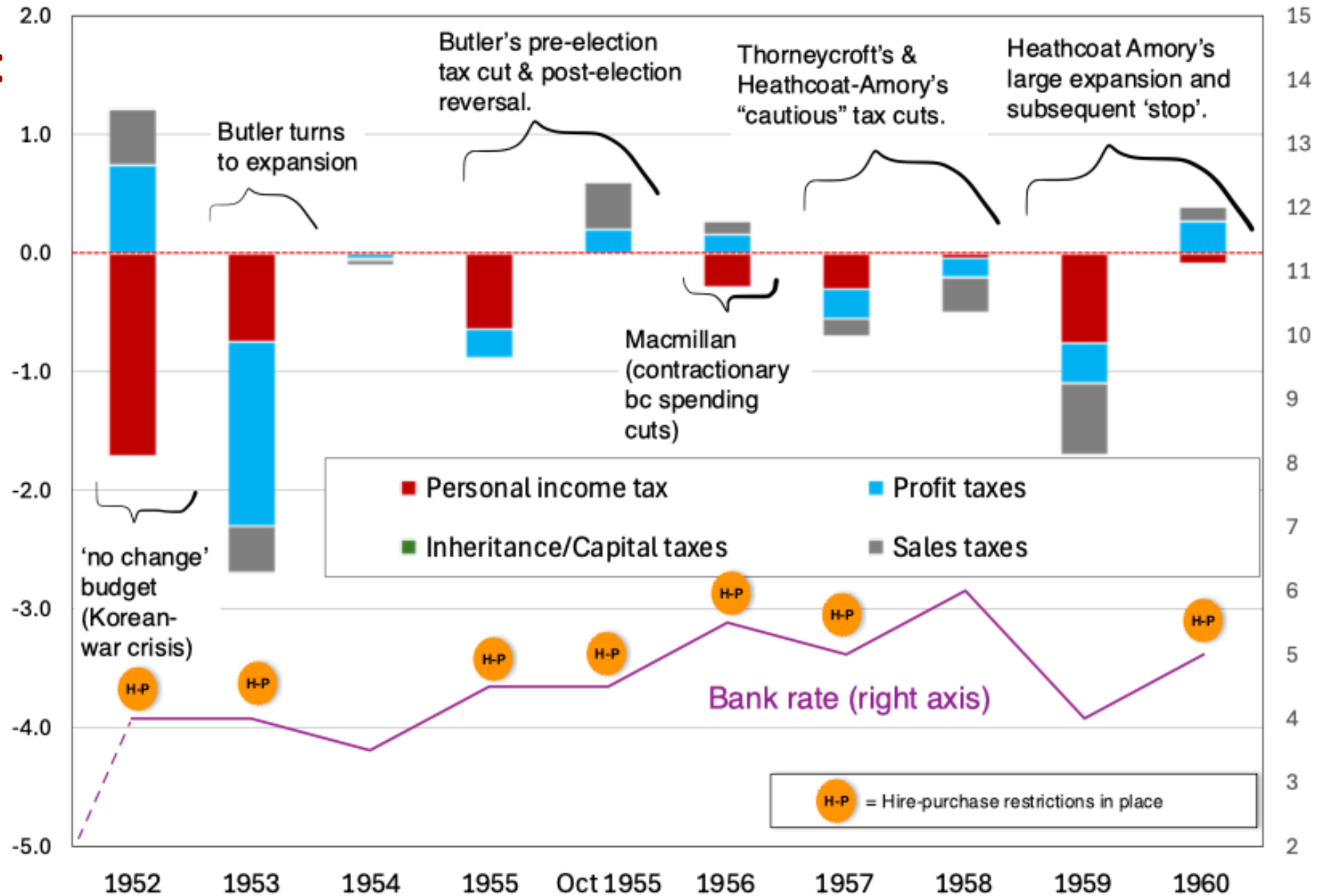
## 1959-60: (Electoral?) expansion & overheating

- Heathcoat-Amory delivers expansionary 1959 pre-election budget
- Overheating leads to 1960 post-election pivot to consolidation
- Special deposits scheme





# Macro policy: 1952-1960



Source: Dow (1964) and BoE, 'A millennium of macroeconomic data'.

# 1960-1962: Lloyd's Chancellorship

- July 1960: Selwin Lloyd Chancellor.
- Still feeling the aftermath of Amory's 1959-60 expansion
- **Apr 1961 Budget:** neutral (+£55m revenues)
  - *'Tax regulator'*: tax changes outside budgets
  - Increase in profit taxes & sales taxes
  - Personal income tax cuts
- **July 1961 emergency measures:** deflationary
  - Monetary: Bank rate hike (4→7%) + more special deposits
  - Fiscal: sales taxes up + spending cuts (£300m)
- **Apr 1962 budget:** neutral
  - But monetary policy relaxed (bank rate down to 5%)



# 1962-1964: Maudling's "Dash for Growth"

- **July 1962:** Reginald Maudling Chancellor.
- Fateful decision: '*dash for growth*' notwithstanding risks for the balance of payments.
  - **Nov 1962:** Sales tax on cars slashed (45-25%).
  - **Jan 1963:** Bank rate cut (4.5 → 4%)
  - **Apr 1963 budget:** large tax cuts (£638m in full year) & increased public investment.
  - "*I absolutely reject the proposition that a vigorous economy and a strong pound are incompatible*" [1963 Budget speech]
- **Early 1964:** balance of payments crisis starts.
- **Apr 1964 budget:** £100m increase in sales taxes.
- **Oct 1964 election** under a £800m BoP deficit (~2.3% of GDP) & severe pressure on reserves.



# 1964-66: 1<sup>st</sup> Wilson government

- Triumvirate in charge of the economy: Wilson, Callaghan & Brown.
- They inherit a booming economy & a severe BoP crisis but reject devaluation or deflation.
- Strategy: affect BoP directly & try to increase competitiveness
  - Import surcharge & export subsidies
  - Tighten exchange controls
  - Incomes policy & industrial policy
  - \$3 billion loan from foreign CBs
- Nov 1964 & Apr 1965 budgets: mild fiscal consolidation
  - Increase in direct & indirect taxes (~ £164m, or 0.5% of GDP)

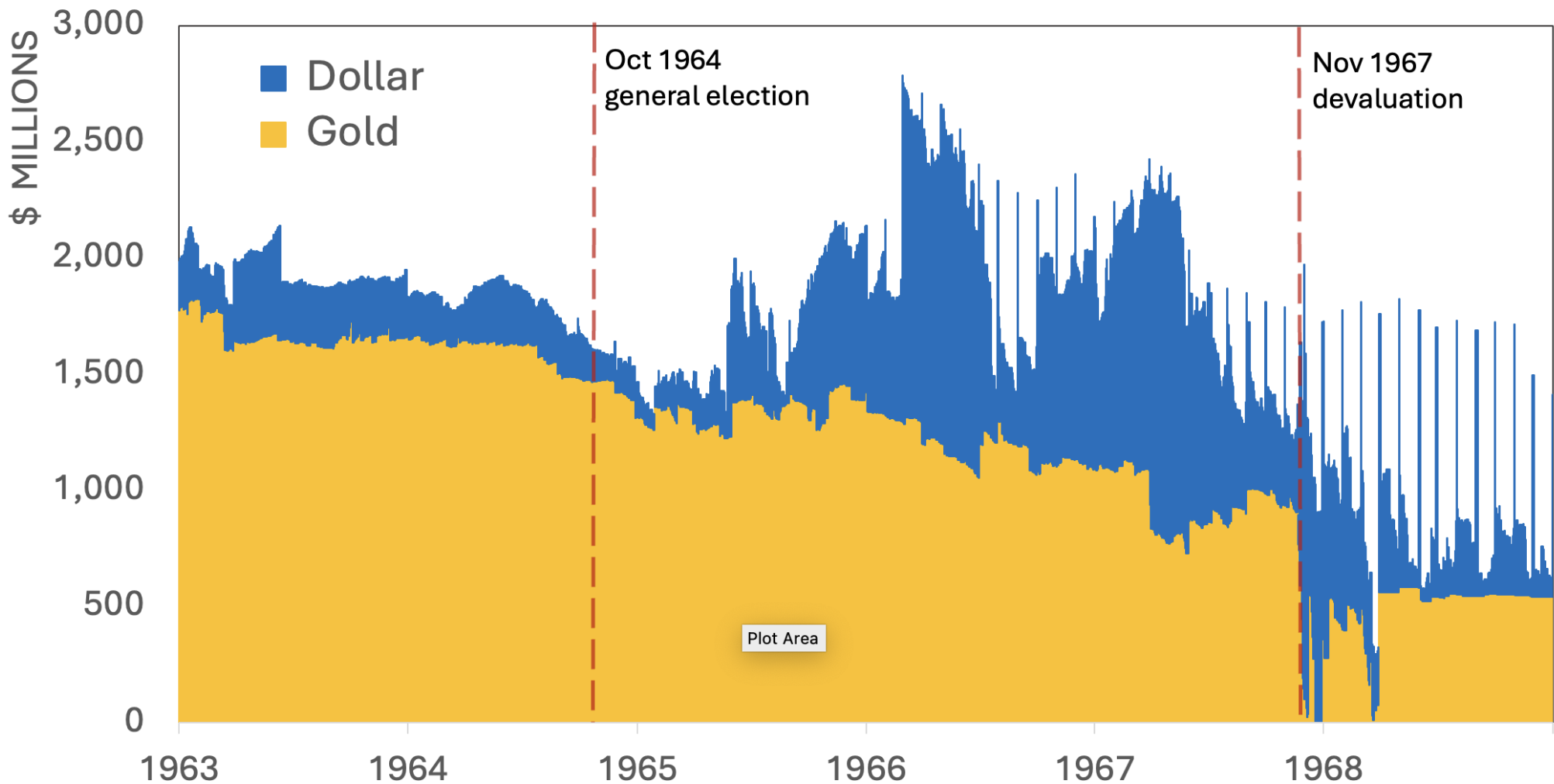


# 1966-67: Countdown to devaluation

- Mar 1966 election increases Labour majority
- Structural tax reforms
  - Corporate tax and capital gains tax (1965)
  - Selective Employment Tax (1966)
- Emergency measures July 1965 to July 1966
  - Further hire-purchase restrictions
  - Cuts in public investment (£200m)
  - Restrictions on new construction (excl. houses, schools, hospitals & industries)
  - 1966 freeze on wages and prices
- After temporary improvement, reserve drain restarts in Spring 1967
- November 1967 devaluation: \$2.80 → \$2.40 (15%)



# EEA reserves, daily data, 1961-64





# 1952-1967: Experiments with planning & attempts at incomes policy



# Incomes policy

- How to prevent a full employment expansionary economy from igniting inflation and undermining the balance of payments?
- Gov't wants to go beyond 'stop & go', act directly on wages and prices.
- *“To keep the rate of increase of incomes within the long-term rate of growth of national production”* [1962 White Paper “Incomes Policy: The Next Step”]
- 1948-49: Cripps demands (& largely obtains) wage restraint from unions.
- 1960s: attempts to institutionalize income policy
  - 1962 *National Incomes Commission*
  - 1965 *National Board for Prices and Incomes*



# Attempts at planning

- In 1960s, increasing attention to economic growth.
- European peers (Germany, Italy, France) growing faster than UK and generally more competitive in international markets.
- Labour & Tories see economic planning as key to faster growth.
- The model was France's indicative planning.
- 1962: National Economic Development Council (*'Neddy'*)
  - Tripartite body that would study ways to increase growth and competitiveness.
- 1964: Department of Economic Affairs (DEA)
  - New economic department, responsible for economic planning, headed by George Brown.
  - A more growth-oriented counterweight to the Treasury.
  - The BoP crises undermines its 1964-65 National Plan from the start.

# Concluding thoughts on 1952-67

- Easy to highlight the policy mistakes
  - Conservatives' reckless pre-election tax cuts.
  - Labour's foolishness in (not) addressing the balance of payments crisis.
  - The Neddy and DEA fiascos.
- But it was also a period of ambition and experimentation
- The pursuit of full employment, the attempts at industrial policy, incomes policy, planning, the 300k houses a year....
- Never before and never since has the government been so ambitious in trying to steer the economy.



**Thank you for your attention**