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Learning and Change in Twentieth-Century British Economic Policy*

by

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ABSTRACT

Despite considerable interest in the means by which policy learning occurs, and in how it is that the framework of policy may be subject to radical change, the "black box" of economic policymaking remains surprisingly murky. This article utilizes Peter Hall's concept of "social learning" to develop a more sophisticated model of policy learning; one in which paradigm failure does not necessarily lead to wholesale paradigm replacement, and in which an administrative battle of ideas may be just as important a determinant of paradigm change as a political struggle. It then applies this model in a survey of UK economic policymaking since the 1930s: examining the shift to "Keynesianism" during the 1930s and 1940s; the substantial revision of this framework in the 1960s; the collapse of the "Keynesian-plus" framework in the 1970s; and the major revisions to the new "neo-liberal" policy framework in the 1980s and 1990s.

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The relationship between changing ideas and public policy change has been much debated (see for example Blyth 1997; Berman 1998; Hall 1989, 1993, 1997; Hay 2001; Richardson 2000; Supple and Furner 1990). There is widespread agreement that there is a complex interrelationship between ideas, interests and institutions (Hall 1997; Walsh 2000). There can also be few who would disagree with Judith Goldstein and Robert Keohane's (1993, 11) strictures against assuming a causal connection between an idea and a policy choice. Berman's (1998, 22) assertion that "ideas do not have any impact by themselves ... [but] influence politics only by acting through or on a particular political actor" seems to be generally accepted. However, as Mark Blyth (1997) has noted, the mechanism by which ideas insinuate themselves into policymaking remains surprisingly opaque. The relationship between new ideas and policy change, the means by which ideas become translated into policy, and the conditions for successful ideational and policy change remain unclear. The "black box" of policymaking has been opened, but its interior remains murky and badly in need of illumination.

This article suggests that theories of economic policy learning would benefit from a closer collaboration between political science and economic history, with the latter providing empirical detail that allows theory better to be tested and refined. In support, we note that the late J.C.R. Dow (2000, 5) suggested that a "close confrontation with historical reality may fertilize productive theorizing." Dow was thinking more in terms of economics but his remark applies equally to theorizing about politics and policy. Lieberman (2001), for example, has recently noted that historical institutionalism, rather than adding cross-country cases, might benefit from a shift to a comparative historical analysis in which scholars cover longer time spans. We also note appeals from Dennis Kavanagh (1991) and, more recently, Lowe and Rollings (2000: 99-100), for a greater degree of interdisciplinary cooperation between political science and history.

The article uses Peter Hall's (1993) concept of "social learning" as its starting point and focuses on the most significant of Hall's three orders of change, paradigm change. As Hay (2001, 202) has remarked, although paradigm shifts are "truly strategic moments" in the development of the state, examination of the process of paradigm change remains curiously focused on the "monetarist revolution" of the late 1970s. We widen the scope of the analysis to cover the development of British economic policy during seventy years of the twentieth century. We begin with a discussion of the "Keynesian revolution" in British economic policymaking during the 1930s and 1940s. We go on to examine the substantial revision of the Keynesian paradigm that occurred in the 1960s, then discuss the "monetarist revolution" of the 1970s, and finally examine the marked changes made to the framework of British economic policy in the 1980s.

Thus the article radically extends Hall's application of his typology to British economic policy (Hall 1993). By considering the initial adoption of Keynesianism as well as the "neoliberal revolution," it examines not one but two examples of "third order change." Moreover, through its analysis of policy in the 1960s and 1980s, it reveals two instances where "third order change" did not occur but where the changes made to the prevailing paradigm were far greater than allowed in Hall's "second order change" of policy instruments. In the former case we argue that a battle to institutionalize a new policy framework occurred, that it failed, but that a subset of the defeated policy framework was incorporated into the prevailing paradigm. In the latter, we argue that alterations to goals and instruments occurred through coping with operational problems in the new "monetarist" framework. The article concludes that paradigmatic change is both less clean and more contingent than Hall allows. In particular, it argues that the power of existing institutions to channel forces of change requires the presence of a powerful exogenous shock (or shocks)

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sufficient to undermine a well-entrenched policy paradigm. Thus the article argues for a more sophisticated model than that advanced by Hall; one which distinguishes policy learning from policy change and which acknowledges that paradigm failure does not necessarily lead to wholesale paradigm replacement.

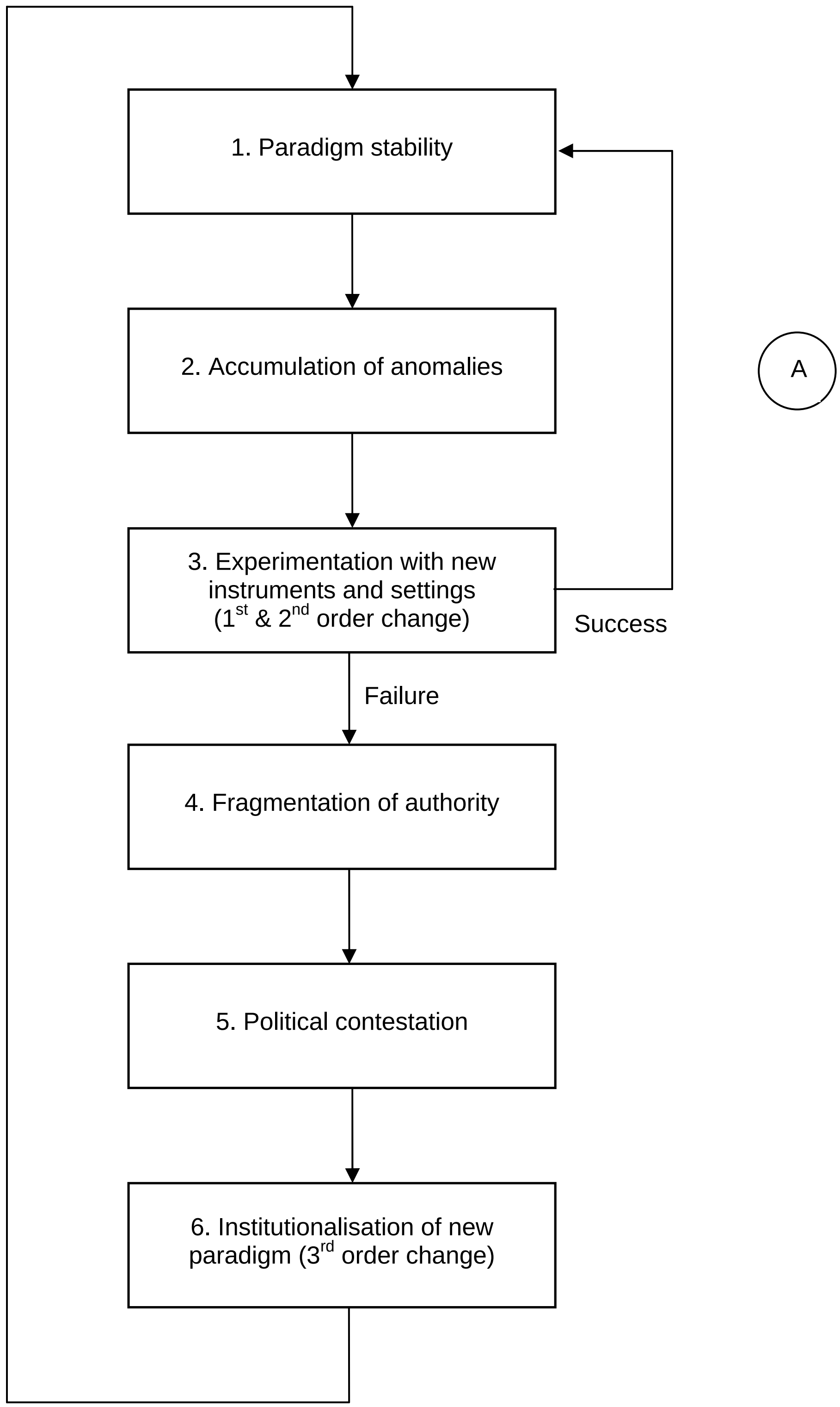
A MODEL OF POLICY LEARNING AND POLICY CHANGE

One of the problems with illuminating the "black box" of policymaking is the real definitional issue we encounter when we treat ideas as an independent variable, and the difficulty of devising empirical tests of the power and impact of ideas (Berman 1998, 14). Berman has suggested that for ideas to influence political behavior two conditions must be fulfilled: there should be "carriers" (individuals or groups) who will promote the idea and build coalitions of support; and the ideas need to become embedded in institutions. But how does this process operate? Peter Hall (1993) has postulated a process of "social learning" with three levels or orders: changes to the setting of existing instruments (first order change); adoption of new instruments (second order change); and goal alteration (third order change). Third order change is the most fundamental since it represents a marked shift in the intellectual framework within which policy is made. This framework, Hall argued, is like a *gestalt* – embedded in the minds of policymakers, it governs not only the goals of policy and the choice of instruments and settings to achieve these goals, but also policymakers' perception of the very problems they are meant to be addressing (Hall 1993, 279). It is a "policy paradigm" – a deliberate evocation of Thomas Kuhn's argument that scientific paradigms "gain their status because they are more successful than their competitors in solving [the] problems that the group of practitioners has come to recognize as acute" (Kuhn 1996, 23). In Hall's schema, therefore, first and second order change are essentially the equivalent of Kuhn's "normal science" but third order change amounts to a revolution in ideas and practice in economic policy and the replacement of one policy "paradigm" by another.

Hall suggested that a once stable policy paradigm might begin to weaken if it ceased adequately to provide solutions for policy problems. He assumed that, if the policy problem lay outside the scope of the prevailing paradigm, it would become increasingly unstable. As anomalies accumulate under the prevailing paradigm, policymakers would alter instrument settings and experiment with new policy instruments (i.e. make first and second order policy changes) as they tried to correct the problem. In Hall's analysis, mounting evidence of failure would lead to a breakdown in the authority of policymakers at the center of government, to the development of a "market place for ideas" and then to a political contest in which rival parties expounding different paradigmatic solutions would fight for control of policy (Hall 1993, 289). Thus, while economic ideas are central to paradigm change, Hall also emphasized that interests and institutions were deeply imbricated in the process. The victory of one or other party would then cause these ideas to become institutionalized. Henceforth, economic policy would be made within the new paradigm.

This process is illustrated in Figure 1. In effect, Hall envisaged an initial sequence of boxes 1, 2 and 3 in Figure 1, with policy experimentation in response to mounting anomalies that might or might not be successful. Success would return the paradigm to stability by insuring that it evolved to cope with the new problem (i.e. the sequence would be 1, 2, 3, 1, marked "A"). In this case, one might say that the paradigm had "evolved"; and one might expect that this "A" loop could well recur in an "iterative evolutionary cycle" (Hay 2001, 200-202). In Hall's analysis, however, failure of experimental instruments and settings to cope with policy anomalies would be a step on the road to a paradigm change for, if the solution to the policy problem lay outside the prevailing paradigm, first and second order changes made within the prevailing policy framework would be doomed to failure. Such a failure would then act as the trigger for paradigm change via a sequence of boxes 4, 5 and 6.

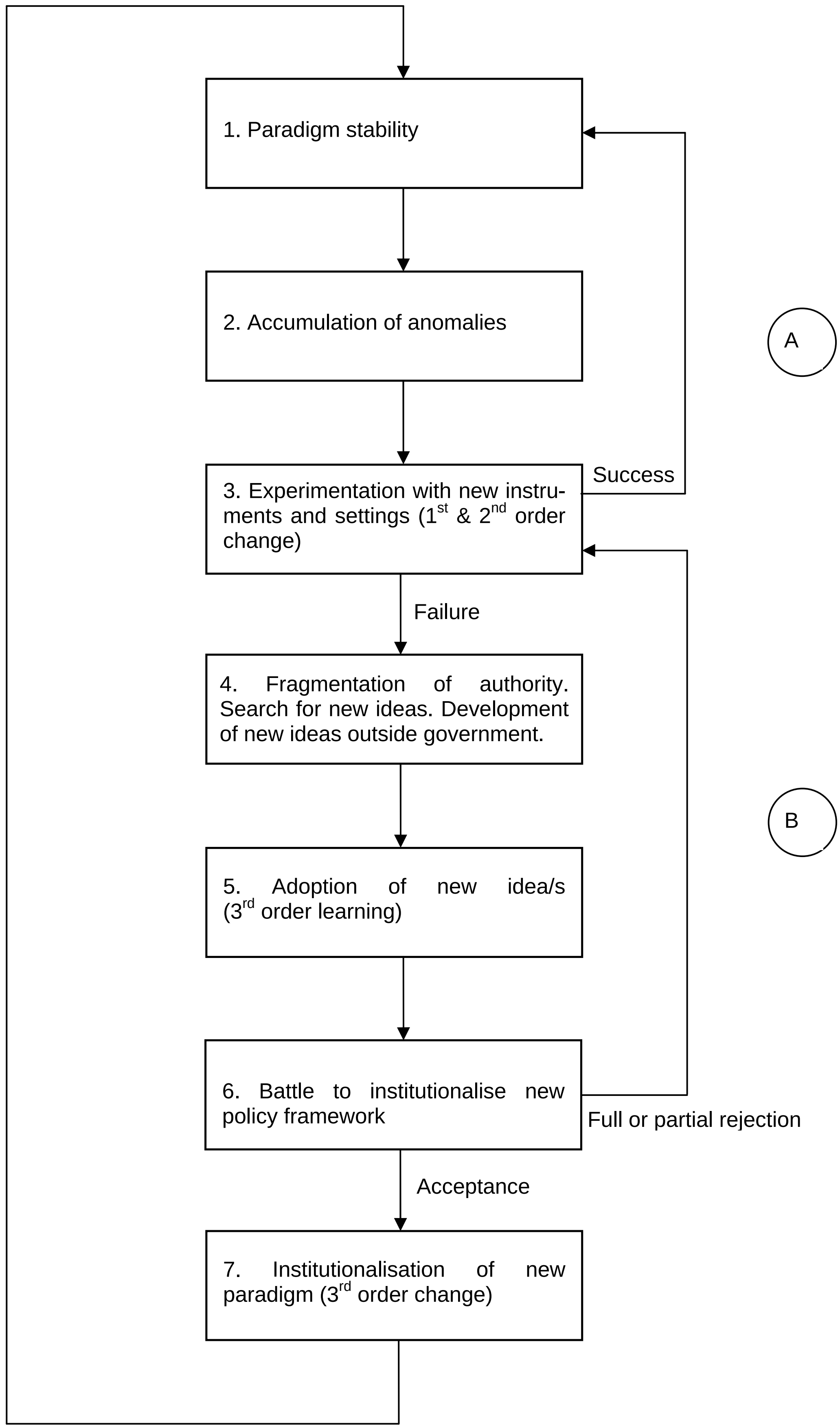
Figure 1 - Paradigm evolution and revolution



For Hall, the question was not whether paradigm change would ultimately occur in this scenario, but the form that it would take. He postulated a fragmentation of authority and ensuing battle between political parties over their respective proposals for change in the underlying ideational framework of policy. This has the attraction of theoretical economy, but is it too simplistic? In this article, we suggest that it is. We propose the more sophisticated model of paradigm evolution and "revolution" shown in Figure 2. In this model, a failure to stabilize the paradigm via first and second order changes does not necessarily result in paradigm change as argued by James Walsh (2000, 486).

We concur with Hall's assumption that the failure to stabilize the prevailing policy paradigm will weaken the authority of economic policymakers and encourage them to look outside government for a solution, while simultaneously encouraging the development of new policy ideas by non-governmental actors. Thus, the triumph of a new policy framework depends (obviously) on a workable new idea (or more likely, a set of ideas) being available. We suggest, however, that such a triumph also depends on the preparedness of interest groups to adopt it, on their ability to promote the new idea and to secure its endorsement by those in power, and on its subsequent adoption by the institutions of economic policy. We therefore propose an institutional battle, which may or may not encompass the political contest that Hall envisaged, and which may or may not result in the institutionalization of the new paradigm. Like Ian Greener (2001, 134), we see an important role for some sort of exogenous shock in securing the triumph of the new policy paradigm in this institutional battle (like many analysts of ideational change, Greener based this claim solely on the experience of the 1970s, but we find support for the claim in our analysis of the initial transition to Keynesianism in the 1940s). However, we also allow for cases in which such acceptance will not occur. In this instance, rejection of the competing policy framework in box 6 in Figure 2 results in a return to box 3 via the loop marked "B." This might not be a wholesale rejection. If it was wholesale, it would be highly likely that one would immediately embark on an immediate return to the sequence 4, 5, 6 for a solution to the mounting policy problem would still be outside the prevailing ideational framework. If the rejection was less than wholesale, however, one can envisage a subset of the new ideas being incorporated into the prevailing policy paradigm and being used in further experimentation with new instruments and settings. If successful, this would return the (further evolved) paradigm to stability via loop "A." If unsuccessful it would result in a further fragmentation of authority, search for new ideas and consequent institutional battle. Like the "A" loop, therefore, the "B" loop might also iterate and both are capable of producing an evolution of the prevailing paradigm. Only success in the battle to institutionalize the new framework would result in wholesale paradigm replacement.

Figure 2 - Paradigm evolution and revolution



In the following four sections, we consider key moments in the development of British economic policy during the twentieth century – focusing on changes to the framework of domestic policy.[*] We conduct our examination of this development in terms of this refined model of learning and policy change.

THE KEYNESIAN REVOLUTION

Rather surprisingly, given his desire to construct a generalizable theory of economic policy learning and change, Hall (1993) failed to examine the other obvious example of paradigmatic change in twentieth-century British economic policy – the "Keynesian revolution." This section addresses that omission. It argues that there were, in effect, two "Keynesian revolutions": in ideas and in administration (Peden 1988, 9). It suggests that both flowed from exogenous shocks. It concludes that the administrative triumph of the "Keynesian" paradigm was not the result of a political contest, as Hall's model of social learning predicts, but the product of the gradual intellectual conversion of those responsible for economic policy-making, of a battle that occurred not between parties but within the administrative apparatus of government and, crucially, of the exigencies of war.

The worldwide depression of the 1930s brought into question the foundation stones of interwar neoclassical economics – balanced budgets, free trade and the gold standard (Booth 2001a, 171). As the slump deepened, anomalies accumulated that the prevailing neoclassical paradigm could not adequately deal with: the stickiness of wages and prices; the catastrophic failure of the labor market to clear; and the divorce between savings and investments. In academia, the failure of the neoclassical framework led directly to Keynes's theoretical revolution.

Mark Blaug (1990, 25) has noted that within a decade of the publication of Keynes's *General Theory* in 1936, most economists had been "converted to the Keynesian way of thinking" and, for Blaug, this academic "revolution" has very close parallels with a Kuhnian "scientific revolution" (see also Mehta 1977). The academic revolution ushered in by the *General Theory* was certainly remarkable. However, academics do not make policy. To change British economic policy, Keynesian ideas had to penetrate the core of British government and influence the strategic calculations of its members. This took some time.

In the early 1930s, policymakers reacted to the challenge of the slump by experimenting with new economic policy instruments and settings, but applied within the prevailing neoclassical framework (Clarke 1988; Peden 1988, 88). So, for example, the gold standard was abandoned in 1931 and the interest rate was the primary weapon used to counteract the depression, it being hoped that low interest rates would stimulate private investment (Howson 1975, 90-95). This experimentation was not without success. There was, for example, a marked recovery between 1932 and 1937. In effect the Treasury was able temporarily to stabilize the paradigm by returning to box 1 on Figure 2 via loop "A" as a consequence of experimentation with new instruments and settings within the prevailing framework of policy.

This success proved fleeting. Between 1937 and 1938 there was a 10 percent decline in output. This precipitated a fragmentation of authority and the development of a "market place for economic ideas" as predicted by Hall (1993, 296). Keynes and his academic disciples such as Richard Kahn were able to supply this market. They waged a vigorous campaign promoting the new analysis embodied in the *General Theory*. They persuaded other academics, particularly those of the younger generation; advocated to official bodies such as the Macmillan Committee and the Economic Advisory Council the new policies that the theoretical revolution demanded; wrote pamphlets and newspaper articles; gained the support of influen-

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[*]We focus on domestic policy because it is in the domestic arena that changes were most marked. There is, however, an interesting article to be written examining the degree to which policy learning differed between the domestic and external spheres.

tial journalists; recruited to the cause pressure groups such as Political and Economic Planning (PEP) and politicians such as Douglas Jay and Harold Macmillan; and directly lobbied Treasury officials (Booth and Pack 1985, 170-171; Peden, 1988, 13; Howson and Winch 1977, 28-40; Skidelsky 1994 and 2000, 18-26). George Peden (1988, 34) has complained that the fact that many of the measures advocated by the "Keynesians" were also advocated by pressure groups means that the subsequent redirection of policy cannot be labelled a "Keynesian revolution." Alan Booth (1989, 23) has also complained about the problem that such "background noise" poses when assessing Keynes's influence. This, however, misses the point. Policy is made by those who can construct coalitions of support (Gourevitch 1989, 87). The key to the success of the Keynesians was not just the creation of a new theory but also their creation of a widespread network advocating new policies, and thereby the formation of a widespread climate of opinion that was favorable to their adoption.

Nevertheless, the overturning of the neoclassical paradigm governing British economic policy and the institutionalization of its "Keynesian" replacement took at least six years from the publication of the *General Theory* – commentators disagree on the precise date. In part, the long delay was a function of the time it took to construct the Keynesian advocacy network and to refine the theory in policy terms. Perhaps more important, however, was that the Treasury proved adept at resisting pressure to adopt the Keynesian framework wholesale, while simultaneously utilizing those Keynesian instruments that it could reconcile with a fundamentally neoclassical policy stance. The result was a return to further experimentation with new policy instruments and settings (loop "B" in Figure 2), but within a modified neoclassical framework. Thus, for example, the Treasury, had begun actively to manage demand by the end of the 1930s, constructed a "recognizably modern regional policy," and instituted control of overseas investment as advocated by Keynes. It was, however, still far from accepting as a goal of economic policy the maintenance of a "high and stable level of employment" via macroeconomic management (Middleton 1985, 173-6), relied on monetary rather than fiscal policy (Peden 1984, 177-8), and remained committed to balanced budgets (Howson 1993, 123; Booth 1989, 26; Middleton 1985; Peden 1991, 88). Fundamentally, therefore, while the Treasury was prepared to adopt aspects of Keynesian theory to stabilize the neoclassical paradigm, it continued to make policy within that paradigm (Winch 1989).

Given the continuing hold exercised by the neoclassical paradigm over policymakers, and given the ability of the Treasury to absorb sufficient of the new ideas to stabilize the model (at least in the short-term), there must be some doubt if an administrative Keynesian revolution (i.e. the adoption of Keynesian goals as well as Keynesian instruments) would have occurred had it not been for the Second World War (Booth 1983; Winch 1989, 116). The coming of war had several effects. First, the defeats of the early part of the war reinforced the public's repudiation of the safety-first policy of the Baldwin era (Addison 1975). Second, rearmament and conscription (i.e. an active state) seemed now to succeed in reducing unemployment where *laissez-faire* had failed. Most importantly, "total war" required the state to take control of much of the economy and generated inflationary pressures that the government felt it must attempt to control. To support this increased role for the state in the economy, academic economists, not least Keynes but also high-caliber Keynesians such as Meade, were injected into government, with an important new source of official economic advice created in the Central Economic Information Service (subsequently split into the Central Statistical Office and Economic Section in 1941). This led the government to a wider acceptance of the ideas which the Keynesian advisers brought with them (Booth 1989, 48-57; Weir 1989). Within eighteen months of the outbreak of war the 1941 budget saw the adoption of macroeconomic aggregate demand management to control inflation, using a framework of national accounting inspired by the *General Theory* (Booth 1989, 62-9; Peden 1988, 40; Feinstein 1983, 12-13). From this it was but a "short step" to the 1944 commitment to maintain a "high and stable level of employment" – the key indicator of a Keynesian revolution – and in 1947 to the first use of stabilization policy to achieve it (Cmd. 6527; Feinstein 1983, 13).

Whether or not a "Keynesian revolution" really occurred has, of course, been the subject of intense debate for many years. A number of commentators have questioned the degree to which policymakers became committed to "Keynesianism" and have identified strong policy continuities between the interwar and postwar periods (Matthews 1968; Howson 1975; Peden 1988, 1990; Middleton 1996; Rollings 1988, 1994). Such "revisionist" analyses are a useful corrective to earlier commentators writing in the heyday of Keynesian era (Dow 1965; Little 1952; Winch 1969) and to more recent work by comparative political economists such as Gourevitch, Hall and Weir (in Hall 1989) who, it might be argued, placed too much emphasis on Keynes when discussing the replacement of the neoclassical paradigm. Acknowledging the revisionist standpoint allows us to arrive at a more nuanced account of the "Keynesian revolution." Nevertheless, to pursue such revisionism to the extent of asserting as Jim Tomlinson has done that this revolution never happened is to take too narrow a view of what exactly one means by "Keynesian" (Tomlinson 1981 and 1984, 259). That the "Keynesian revolution" did not involve the wholesale implementation of Keynes's theoretical model seems unarguable (Peden 1988, 16; Laidler 1999). It is also necessary to acknowledge that the "Keynesian" policy model was developed in an evolutionary process that built on previous theoretical work by economists such as Wicksell and Marshall (Laidler 1999) and was refined via input from economists other than Keynes (Passinetti 1999).

Yet, between the mid-1930s and 1950, there was clearly a decisive shift in the economic policy framework, with major changes to both the goals and instruments of British economic policy. Indeed, it is in the arena of policy that the "Keynesian revolution" was most obvious (Passinetti and Schefold, 1999, xiii). While it is possible to find continuing evidence of Treasury scepticism in the 1944 Full Employment white paper, the commitment to maintain "a high and stable level of employment" *was* a major revision of economic goals and it required extensive changes to, and re-prioritization of, policy instruments. The obsession with unemployment figures during the 1950s (with unemployment of 1.5 – 1.7 percent judged sufficient to justify action) and the enormous faith placed in demand management at this time suggests that both politicians and officials felt they were operating on radically different policy terrain compared with the interwar period (H.M. Treasury 1971, 60-63). If Keynes's program had been substantially revised, Keynesian *analysis* was firmly embedded in the economic policies of the UK core executive, and not least in the Treasury's Economic Section (Booth 2001b, 307). The significance of this, particularly the political significance, *did* amount to a radical change in the policy framework.

This shift in the framework of policy was therefore a product of the prolonged institutional battle that had occurred. During this battle, the framework had been transformed not by a simple sequence of boxes 1-7 in Figure 2 (as predicted by Hall) but by a complex series of iterations of loops A and B; and it had occurred without a political contest but with an institutional battle within the government's administrative apparatus. The key to the institutionalization of the new paradigm was the shock of war – the decisive factor in forcing the Treasury radically to reappraise its ideas on economic policy. Even then, however, the Treasury was able to channel the change that occurred and to preserve elements of the neoclassical model in its creation of a modified Keynesian policy framework (Peden 2000). In the process of paradigm change the original Keynesian ideas had therefore been subjected to an "iterative evolution" in response to institutional resistance and changing circumstances (Winch 1989, 107; Clarke 1998, 303; Booth 2001a and 2001b). The result was not exactly Keynesian, nor was it revolutionary in the sense of a complete replacement of one paradigm by another, but it was most definitely very different from the neoclassical framework that had preceded it and had involved a major revision of both the goals and instruments of economic policy.

THE SHIFT TO "KEYNESIAN-PLUS" IN THE 1960s

During the 1950s, important battles over economic policy were fought within the Treasury; most notably in 1951-52 over the "Robot" proposal to float sterling; and in January 1958, when the entire Treasury ministerial team resigned after their proposals to tighten fiscal and monetary policy were defeated (Booth 2001c, 359; Lowe 1989; Burnham 2003). That the new "Keynesian" paradigm had continually to be defended after 1947 might be taken to suggest that its hold over policymakers was relatively weak. Yet, while such battles had to be fought they were also won. During the 1950s, the Economic Section consolidated its role as the principal exponent within government of "actually existing Keynesianism." Its rise in influence was at the expense of those remaining officials in the Treasury, particularly in its Overseas Finance section, who clung to the neoclassical view and who wished to prioritize external over domestic goals (notably the commitment to full employment) and monetary policy over fiscal policy (Booth 2001a and 2001c, 363-4; Cairncross and Watts 1989, 281).

During the 1950s, however, anomalies with "actually existing Keynesianism" began to accumulate: the emergence of inflation (which appeared to be an inevitable consequence of full employment policies); the problem of "stop-go" that characterized Keynesian stabilization policy; and emerging evidence of Britain's relative economic decline (Tomlinson 1996a; Pemberton 2000). The Treasury's Economic Section "learned" from this and ultimately this learning caused it to recommend and secure a significant redirection of economic policy in the early 1960s; not least the adoption in 1962 of a 4 percent per annum target for economic growth and the consequent implementation of many new policy instruments such as "indicative planning." However, while this shift should count as a "third order change" according to Hall's typology, in the event it did not amount to a paradigm shift – though it did involve a significant adjustment of the prevailing "Keynesian" paradigm (Pemberton 2004a).

The effect of emerging problems with the "Keynesian" framework in the 1950s was to create a new "market place for ideas" (Tomlinson 1996b; Shonfield 1958, 278-96; Phillips 1958). New ideas about how to achieve higher growth were developed by economists and taken up by an array of financial commentators, pressure groups, think tanks, industrialists, government officials and politicians. Financial journalists were particularly significant in this process (the most commonly quoted examples are Shonfield 1958; and Shanks 1961). By making academic concepts more easily understood by the public, politicians and officials, they played an important role in transmitting these ideas to a wider audience and changing both the electoral and intellectual environment. The importance of their role in simplifying ideas for politicians should not be underestimated for, as pointed out by Nelson (1987, 86), in order for academic ideas to be politically influential they must first be politically intelligible. By 1960, both major parties were advocating new policies on growth that, behind the rhetoric of adversarialism, were actually remarkably similar (Brittan 1964 and 1969; Ringe and Rollings 2000; Pemberton 2004a).

There was therefore no political contest over how to address emerging shortcomings in the Keynesian framework. Instead, a battle took place inside the government machine during the early 1960s. Intellectually, a study of how to raise growth by the pressure group PEP (1960) and a conference on planning in April 1961, jointly organized by PEP and the National Institute of Economic and Social Research, had a marked impact on a Treasury which was casting around for solutions to mounting problems with the Keynesian policy framework (Pemberton 2000). By such means the idea that economic policy goals needed to be changed and that radical new policies were required penetrated the heart of British economic policymaking. Despite resistance from some Treasury officials, the Treasury and the Prime Minister were able to use a sterling crisis in July 1961 to persuade the Chancellor of the Exchequer to embrace an interventionist growth strategy (Ringe and Rollings 2000; Lowe and Rollings, 2000; Pemberton 2000). The consequence was a major alteration in the policy framework during 1961-62 with the adoption of an explicit 4 percent annual growth objective, the introduction of indicative planning in the new National Economic Development Council, the first steps towards a permanent voluntary incomes policy, the long-term planning of government expenditure the better to relate it the achievement of higher growth, and an array of other policies designed to improve stabilization policy, encourage industrial investment and tackle supply-side shortcomings (Pemberton 2004a).

Those who have argued that the Treasury had not been converted to "planning" and was merely awaiting an excuse to take its revenge on a policy designed to prioritize domestic rather than external goals may do it a disservice (Opie 1972; Leruez 1975, 90-2; Shanks 1977, 89-91; Middlemas 1990; Alford 1996, 260–1); certainly elements in the Treasury remained skeptical, but the department as a whole was persuaded to give the new approach a serious chance because it saw it as the means by which emerging problems with the Keynesian policy framework might be solved (Pemberton 2004b). Instead, the primary problem in institutionalizing the new framework lay with resistance from the ministries upon which the Treasury depended to implement the new policy framework and from vested interests outside government (Ringe and Rollings 2000; Pemberton 2000 and 2004a). The problem was that, while advocates of a new policy framework succeeded in creating a broad base of support for a redirection of policy, the narrative of "declinism" did not amount to a fundamental policy crisis (Tomlinson 1996b). Without such a crisis, there was no reason for vested interests to accept major change. In indicative planning, for example, the new National Economic Development Council was bolted onto otherwise unchanged institutions, and its planning targets were later widely judged to have failed to achieve any substantive change (Eichengreen 1996; Kirby 1992, 652; Middleton 1998, 2004). Similarly, in incomes policy, the Trades Union Congress was able largely to exclude wages from planning and individual unions colluded with employers to subvert those national agreements that were achieved on wages (Jones 1973, 63-4; Jones 1987, 82; Kirby 1991, 248). Similar problems were found in supply-side policy change; in the field of industrial training, for example, employers and craft unions were able to prevent a major overhaul of their cosy modus operandum (King 1995, 130; Pemberton 2004a). The new policy framework therefore failed to produce the results expected of it.

The result was that the radical change in the goals and instruments of economic policy ushered in during 1961-62 proved relatively short-lived. Although it had been hoped that the new framework, by delivering higher growth, would remove the constraint posed by Britain's fixed exchange rate, its failure to do so led to a severe sterling crisis in 1966. In defending sterling, the government was forced to jettison both the growth objective and indicative planning (Opie 1972, 170; Jones 1987; Blackaby 1978, 652-5). Other changes, for instance in tax policy, also failed to fulfil their "revolutionary" potential (Pemberton 2001). Although several of the new policies continued, such as incomes policy, the NEDC and supply-side changes in the field of industrial training, they did so within a set of policy goals that no longer included a target for higher growth. The basic goals of the prevailing Keynesian paradigm therefore prevailed, though in the process it had been substantially amended. Instead of a paradigm shift, as had seemed possible in the first half of the 1960s, the Keynesian paradigm had evolved into what came to be termed "Keynesian-plus" (Gamble and Walkland 1984: 80-5).

In summary, therefore, the accumulation of "anomalies" in the 1950s and the failure of successive first and second order changes to solve them led economic policy from box 3 in Figure 2 into the sequence of boxes 4, 5 and 6. At this point a battle occurred, initially within the Treasury and then between the Treasury and those on whom it depended to implement the new framework – both inside and outside government. Without an exogenous shock to challenge these vested interests it proved impossible to defeat them. The battle to institutionalize a new policy framework had therefore been lost. In the process, however, a partial acceptance of the new policy ideas had occurred. This had returned policymaking, via loop "B," to further experimentation with new instruments and settings, but still within a broadly "Keynesian" policy framework.

LEARNING IN THE 1970s

It is not surprising that Hall's original study of the shift from "Keynesianism" to "monetarism" in UK economic policy has attracted the attention of academics. Most of this work echoes his claim that there was a paradigm shift in the 1970s. However, a careful review of the evidence indicates not only that the

1970s paradigm shift was more intricate than Hall assumed (the subject of this section) but that, as demonstrated in the next section, it continued to evolve in response to emerging problems. This subsequent process of evolution was to result in a considerable revision to the new framework.

The 1970s began with the promises made by Prime Minister Edward Heath during the 1970 election that the Conservatives would cut taxes, reform industrial relations and reduce state intervention – all of which appeared to reject "Keynesian" (or more correctly, "Keynesian-plus") policies (Gamble 1980; Holmes 1982). Following the election of the new Conservative government, Heath initially tightened fiscal policy, and adopted a restrictive monetary stance. However, in the face of rising unemployment after 1971, the government quickly reverted to traditional Keynesian demand management (Kavanagh 1987; Seldon 1996).

Nevertheless, in response to emerging problems with the Keynesian-plus paradigm, there were some important first and second order changes in monetary policy during the early 1970s. One, which proved to be a major mistake with serious repercussions for the future direction of economic policy, occurred after the floating of the pound in 1972. Once the UK had been released from the fixed exchange rate, it was essential to impose a new nominal anchor to prevent an escalation of inflation. However, while the Bank of England (the Bank) pronounced on several occasions that it intended to give greater emphasis on monetary aggregates "as guide lines for policy" (Bank of England 1971, 44), in reality the authorities showed little interest in controlling the money supply, and increased the lending power of the banking system in the spring of 1971. Qualitative and quantitative controls were abandoned in favor of Competition and Credit Control (CCC), which applied a reserve asset ratio to all banks while retaining the Bank's power to call in special deposits. CCC was designed to encourage competition between the clearing banks for new business while ending the existing distortions in the financial system that had favored the development of secondary banking (Dimsdale 1991, 117-125). The spirit of CCC reflected a preference for indirect rather than direct government control and a belief in market forces. As such, it was a decisive shift away from the tolerance of low competition in the money markets, which had existed since the 1930s. The introduction of CCC, however, because it was implemented within a set of policy goals that remained fundamentally unchanged, was only a case of second order change.

A big problem for the Heath government was tackling the rise in unemployment. Although the unemployment rate had not risen above 2.5 percent since the war, it now rose from 2.5 percent in the fourth quarter of 1970, to 3.1 percent in the second quarter of 1971, and then to 3.8 percent by the first quarter of 1972. As the number unemployed steadily climbed, it was expected that the government would act to reduce it, through the established Keynesian process. It duly responded with higher public expenditure plans and taxes were cut in the 1972 Budget (Schulze and Woodward 1996, 112-13).

Given their belief that inflation expectations were and would remain static, the last thing Keynesian policymakers expected after reflating the economy was a simultaneous rise in unemployment and inflation, but this is what occurred. Notwithstanding the imposition of quantitative restrictions on the banking system via the Supplementary Special Deposit Scheme (the "corset") in December 1973, the rise in world commodity prices in the same year and the quadrupling of oil prices in 1973-74 added to the upward trend in both inflation and unemployment in the UK. The statutory incomes policy that had been introduced in November 1972 to limit the growth of wage and price rises was simply unworkable by the time Stage III was implemented (October 1973 to March 1974). Following industrial action by the miners (who were claiming wage increases outside the limits set in Stage III), the government was forced to introduce a three-day week for industry, called a general election and lost its mandate to govern.

Despite the rhetoric of the 1970 manifesto, therefore, there was no paradigm shift under Heath. There was a gradual accumulation of anomalies to the existing Keynesian-plus paradigm and a brief experimentation with changed instrument settings and new instruments. Between 1970 and 1974, policy essentially moved through boxes 1, 2 and 3 in Figure 2 and back to box 1 via loop "A." This "iterative evolutionary cycle" then continued for a time in the new era of stagflation or, to use Robert Triffin's (1984, 13) more appropriate phrase "infession" (inflation followed by recession) that came after OPEC 1. Further experimentation within the prevailing "Keynesian-plus" paradigm came after the election of a Labour government in 1974. However, no amount of experimentation with new instruments and settings could hold the paradigm together, and during the next five years Keynesianism gradually disintegrated, as captured in boxes 4 to 7 in Figure 2.

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 onwards. It is clear that 1976 was one of the defining moments in the move towards neoliberalism. As Peter Middleton (1989, 48) commented, "in the minds of markets, and probably also in terms of public perceptions within the UK, the IMF agreement [in 1976] 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. With the imposition of a new economic policy by the International Monetary Fund (IMF) the Treasury lost its virtual monopoly of authority over matters of macroeconomic management, "And even the Chancellor of the Exchequer lost enough faith in his own officials that an unusual number of them left the Treasury after 1976" (Hall 1993, 286).

It is essential to emphasis that the IMF intervention *did not* mean that the Labour government had accepted the intellectual case for monetarism. As Chancellor Denis Healey later acknowledged, he had introduced the targets for political purposes and not as an intermediate target that was seriously intended to control nominal GDP (defined as "genuine" monetarism by Pepper and Oliver 2001, xxvi-xxviii). Moreover, as Thain and Wright (1995, 16) argue, even if the change in economic policy had been imposed domestically by the financial markets as well as externally by the IMF, this still did not mark the "repudiation of the postwar consensus. [Healey's] approach was to use whatever means were at hand to shore up that consensus while responding to the particular crises of the time." The *Dies Irae* of the postwar consensus was therefore played out for a little while longer and reached a climax in the bellicose 1978-79 "Winter of Discontent" when, as Hay (2001, 209) notes, "all hopes for a corporatist (far less monetarist) solution to the problems of Britain's peculiar Keynesianism were abruptly terminated. If there is one single point in postwar British political development that can be referred to as a cathartic moment of crisis, it is surely this."

While Labour attempted desperately to salvage the Keynesian-plus paradigm via further adjustments to it, the Conservative Party, now led by Margaret Thatcher, proved receptive to new economic ideologies during the 1974-79 period. Oliver (1997, 144-145) has suggested that a period in opposition is a particularly conducive to social learning. It allows a time to analyze where it has gone wrong in government and the party is more open to new ideas and willing to engage in the learning process. Several Conservatives politicians, chief among them Margaret Thatcher, Nigel Lawson, Keith Joseph and Geoffrey Howe, felt in the 1970s that the Conservative Party needed to adopt a new economic philosophy. They began publicly to repudiate demand management and incomes policies and to argue that the expansion of the money supply, by itself, was responsible for inflation. The search for a new economic philosophy culminated in what Nigel Lawson (1980, 3) labeled "new Conservatism," which rejected "the false trails of post-war social democracy, with its profound faith in the efficacy of government action." It is crucial to stress that the intellectual stimulus for new Conservatism was drawn not only from monetarism ("monetarism was not enough," Joseph had declared in his Stockton Lecture of 1976), but also from supply-side economics and public choice theory. To describe all developments in economic policy post-1979 as monetarist is technically incorrect: they were "new Conservative" or in our preferred definition, "neoliberal."

The years between 1974 and 1979 were thus a time of intense debate about economic policymaking and the search for new ideas was not just confined to government or opposition circles. The importance of new ideas developed outside government is captured in box 4 of Figure 2. Arguably, this period saw a more forceful public discussion about the future direction of economic policy than any other time in the twentieth century; and the quest for a new policy framework in the UK was given an additional boost by some of the ideas emanating from the United States, particularly New Classical macroeconomics and supply-side economics (Middleton 1998, 288-89). As Hall (1993, 288) noted, the debate spilled out well beyond the boundaries of the state to include “think tanks” (in particular the Institute of Economic Affairs and the Centre for Policy Studies), the financial press (for example, *The Times*, *Financial Times*, the *Economist*) and City firms (notably W. Greenwell & Co). This “marketplace in economic ideas” helped to publicize the new ideas about how to deal with the economic crisis to a wider audience, allowed the public to respond (through, for example, the letters pages of *The Times* and *Financial Times*), and offered policy solutions to central government went far beyond the established Keynesian boundaries. In so doing, these ideas helped shape and were shaped by the climate of opinion, which steadily moved away from the Keynesian paradigm by the end of the decade.

In contrast to Greener (2001), we have argued that it is rather simplistic to suggest that one exogenous shock of the 1970s – the oil crisis – was by itself responsible for the disintegration of the Keynesian-plus paradigm. Third order change occurred because existing instruments and instrument settings could not deliver the required combination of full employment, price stability, and economic growth. Ironically, it was the Conservative government under Heath that had the last fling with modified Keynesianism, via the “A” loop in Figure 2, and the Labour government that was forced to negotiate the move down the “failure” route of boxes four through six in Figure 2 to final paradigm replacement in box seven with the election of the Conservative government in 1979. This does modify Hall’s (1993) account of social learning in the 1970s, providing a more nuanced account of the evolutionary process that was the Keynesian end-game. However, like Hall, we would accord greater weight than Greener to the 1979 election. If the oil crisis was the exogenous shock that precipitated the failure of the Keynesian-plus paradigm, this was the endogenous shock that insured that, rather than a further evolution via loop “B” in Figure 2, a definitive paradigm change occurred. Although the public might not have fully understood the implications of the outcome of the 1979 election, and while there might not have been an endorsement of “new Conservatism” among all of the Conservative Party, the battle of ideas had been won by the neoliberals.

THE ECONOMIC PARADIGM POST-1979

While the discrediting of Keynesianism in the 1970s allowed the Thatcher government to implement a new neoliberal economic framework, its sustainability was threatened at an early stage as its kernel – monetarism – suffered two major setbacks. First, the authorities appeared unable to hit their new broad money supply targets. Secondly, although it had been the intention of the authorities to apply a “gradualist” approach to reducing inflation, the effects proved more akin to “shock therapy” as the main burden of adjustment was borne by falling output and rising unemployment, resulting in Britain’s worst recession since the 1930s.

Resisting the considerable bellicosity of the Keynesian contingent within it, the Government instead tightened fiscal policy in March 1981. However, the 1981 budget also marked the beginning of the dismantling of the strict monetary regime. The missed monetary targets prompted the authorities to revise the target ranges, and in subsequent budgets, new monetary aggregates were also introduced (M1 and PSL2 in 1982, M0 in 1984). Aside from changing the instrument settings, the authorities also began to place a greater emphasis on monitoring the exchange rate (Cobham 2002, 17). There was not an implicit target, unlike the later “shadowing” exercise in 1987-88, but intervention in the currency markets between 1981 and 1983 showed that the authorities were aware of the problems for British industry that an overvalued pound had brought (Keegan 1989, 106-107 et seq.). Exchange rate management, however, was certainly not part of the Conservative's pre-1979 monetarist creed and, coupled to the missed monetary targets, it did suggest that the government was struggling to balance theoretical monetarism with practical implementation.

Indeed, in considering the progress of economic policy after 1979, there are clearly difficulties with suggesting that the "Keynesian paradigm" was simply replaced by a "monetarist paradigm." We need to caution both against Hall's claim that "by 1982, the operating routines at the Treasury and the Bank of England as well as the terms of policy discourse had shifted decisively towards monetarism" (Hall 1993, 287), and Walsh's (2000, 495) assertion that the Prime Minister exercised a "high level of concentrated authority over monetary policy." While it is indisputable that Thatcher took her role as First Lord of the Treasury more seriously than her immediate predecessors, the extent to which she was at the fulcrum of monetary policy needs to be qualified, as does the claim that monetarist ideas permeated throughout central government. Probing more closely into Hall's claim, it is hard to find evidence to suggest that the institutions charged with executing government policy, the Bank and HM Treasury, were ever seriously converted to "genuine monetarism." For instance, although the green paper on Monetary Control (Bank of England and HM Treasury 1980) suggested that the Conservative Government intended to control underlying monetary growth and not merely to use monetary targets for political purposes, the main body of the text was much more agnostic to monetary control than the introduction. The Bank was particularly successful in seeking to dissuade the Prime Minister from introducing monetary base control (MBC) in 1980. The case for MBC was occasionally revived in the 1980s but it was always rejected because of the deep hostility of the Bank (Lawson 1992, 452). For the bulk of the monetarists, the decision that MBC would not be introduced in the UK was a clear sign that "Thatcher's policies [were] being 'sabotaged' by the bureaucracy," and rejected by the "Bank of England as unworkable on the basis of what it regarded as good economic arguments, deeply rooted in the . . . Keynesian tradition" (Laidler 1989, 1154). Insofar as Thatcher had ever wrested control of monetary policy away from the Treasury and the Bank between 1979 and 1983, she was later to relinquish greater control to her new Chancellor, Nigel Lawson (Oliver 1999).

Thus the economic policy framework continued to evolve after 1979, with significant changes in instrument settings and in the instruments themselves (first and second order change) in response to anomalies. This led to a movement away from the monetarist goals at the core of the framework via loop "A" in Figure 2. Between 1985 and 1990, macroeconomic policy began to exhibit some of the old tendencies of Keynesian demand management: not least a variety of targets and poor forecasts (Oliver 1997, 105-107; Smith 1992). By the end of the 1980s, rules were discarded for discretion and macroeconomic policy had once more returned the British economy to a traditional "stop-go" cycle. Despite the abandonment of monetarism, however, the neoliberal paradigm did not collapse and go down the "failure" route of Figure 2, but became more entrenched via a process of evolution that allowed it to be sustained, with varying degrees of success, throughout the 1990s. This "iterative evolutionary cycle" carried the neoliberal paradigm into the twenty-first century.

Three factors contributed to the evolution of the paradigm. First, although money supply targets were abandoned, the Conservative government eschewed direct controls on wages and prices as a means to control inflation throughout the 1980s and 1990s, and emphasized that unemployment could only be eradicated through supply-side changes to the economy and not by short-term Keynesian demand management. Although this had been one of the central pillars of "new Conservatism" since 1979, it was stated most starkly in Lawson's Mais lecture of 1984 to show that the government's economic strategy had not been derailed, in spite of the setbacks to monetarism (Oliver 1997, 90-91). This anti-Keynesian stance was maintained despite the ending of overfunding (at the heart of the UK's peculiar system of monetary control, see Congdon 1989) and joining the Exchange Rate Mechanism in 1990. By the mid-1990s, even the Labour Party was keen to emphasize that a future Labour government intended to place a renewed emphasis on a long-term macroeconomic framework to keep inflation low and stable, while stressing that the growth rate of the economy could only be raised through supply-side measures (Blair 2001).

Second, there was no exogenous shock in the 1980s and 1990s that forced economists to confront the inadequacy of the prevailing paradigm, although two sterling crises threatened the government's economic strategy and prompted second order change. The mini-sterling crisis in January 1985 tempered Lawson's enthusiasm that the rate of exchange should be determined in the foreign exchange market and reaffirmed his preference for a semi-fixed peg. Lawson (1992, 420-421) claims that the choice between the ways of defining monetary objectives are a "second order" decision, and that "it is perfectly sensible to target the money supply in some countries and at some times, and to target the exchange rate at others." More active exchange rate intervention followed post-1985, which culminated in the shadowing of the Deutschmark between March 1987 and May 1988 (Cobham 1997). Following the pound's ejection from the Exchange Rate Mechanism in September 1992, the Conservative government was forced to change policy again and decided to adopt an inflation target. So, although the strategy to control inflation was not monetarist after 1985 (inasmuch that it had ever been genuinely monetarist prior to 1985), policymakers did not seek to return to Keynesian economics and attempt to "set" real variables for the economy; instead they continued to define objectives in money terms, experimenting with other intermediate targets.

Finally, unlike the 1970s, there was no "crisis of the state" post-1979, which required a full-scale replacement of the prevailing economic *gestalt*. Although monetarism proved untenable, the neoliberal paradigm as a whole proved more resilient. Evolution proved to be the key to its survival. Indeed, by the end of the 1990s, both the Conservative Party and Labour government shared the same economic philosophy – if not the means to achieve it – for the first time since the "golden age."

Post-1979 economic policy had therefore evolved through the sequence of boxes 1, 2 and 3 and the experiment with new instruments and settings was successful, via loop "A" in Figure 2, in restoring paradigm stability. Any disagreements about economic policy (and there were many, the most famous of which involved whether to fix or float the exchange rate in the 1980s) were contained within the neoliberal paradigm. There was no fragmentation of authority, search for new ideas and ensuing institutional battle.

CONCLUSION

Britain's shift away from a Keynesian economic policy paradigm in the late-1970s has generated enormous interest and Hall's (1993) analysis of "social learning" at this time, and his associated typology of policy change, has proved particularly influential. There are dangers, however, in seeking to construct a generalizable theory from a single case study. We have analyzed changes in the framework of British economic policy over a period of around seventy years. This comparative historical approach leads us to conclude that Hall's (1993) analysis of paradigmatic change in which both the goals and instruments of economic policy are altered ("third order change") is inadequate.

We agree that Hall's model of social learning is a reasonable description of policy change in the 1970s but that the replacement of the prevailing "Keynesian" (or perhaps more correctly "Keynesian-plus") policy paradigm by a "monetarist" policy framework was a combination of an endogenous and exogenous shock. We argue, however, that Hall's analysis considerably underestimates the degree to which the new paradigm was subsequently changed in the years after 1979.

Our examination of the initial adoption of the "Keynesian" paradigm in the 1940s also leads us to conclude that it was far more complex than allowed for in Hall's analysis. The framework of policy changed via a process of change which involved a complex series of iterations of first and second order changes during the 1930s combined with partial integration of Keynesian instruments into the prevailing neoclassical framework by the Treasury as it battled to stabilize the framework. This process unfolded over more than a decade and we conclude that the "Keynesian revolution" is far better labeled a "punctuated evolution." Examining this second example of successful third order change also suggests that, while the process also involved a battle of ideas this was not a battle fought out in the electoral arena, as predicted by Hall. Instead, while the adoption of a Keynesian policy framework did involve an ideational battle, this was a fight that principally took place within the government machine.

In both these cases of paradigm change we also find strong indications that the full institution of a new paradigm requires an exogenous shock capable of destroying confidence in the possibility of stabilizing the existing policy framework. Where such an exogenous shock is not present, as in the 1960s, for example, we find that paradigm failure does not necessarily lead to paradigm replacement. In the case of the 1960s, we have argued that emerging problems with Britain's Keynesian policy framework in the 1950s proved too great to be solved by experimentation with new instrument settings and new instruments (i.e., by successive first and second order changes). As predicted by Hall, this led to a fragmentation of authority, the opening up of economic policymaking to new ideas developed outside government, and to their adoption – with important changes made to both the goals and instruments of economic policy in the early 1960s as the government adopted an explicit 4 percent annual growth objective and implemented an array of important new policy instruments in the fields of wages, consensus planning and supply-side reform. This shift in the framework commanded broad cross-party support but was contested by those on which the center relied for its successful implementation. A battle to institutionalize the new framework took place. This battle was lost, largely because the lack of a sufficient shock to the system allowed vested interests successfully to resist radical change. In the process, however, a subset of the new ideas was incorporated into the prevailing framework of policy, which thereby underwent a marked evolution.

Our analysis of policy developments after 1979 also indicates that substantial changes to the framework of policy can occur through a process of evolution arising from everyday adjustments to policy – "normal science" in Kuhnian terminology. In this case, our analysis indicates that a succession of first and second order changes required by the inherent instability of the new "monetarist" framework led to the abandonment of money supply targeting in the 1980s and a renewed emphasis on long-term reform of the supply-side of the economy. In the process, the framework evolved to a new state that might better be labeled "neoliberal."

Thus paradigm change seems to be far more evolutionary than Hall's typology of change allows. As Backhouse (1983) remarks, paradigm shifts are problematic because schools of thought in economic policy are difficult to define and subject to change as policy develops. The evidence of our analysis is that such change can result to alterations in the prevailing framework of policy that, while not sufficient to justify the term "'paradigm shift," are certainly much more significant than is captured by the "second order change" in Hall's typology. We have outlined a model of change that builds on Hall's work and provides a much more sophisticated model of the mechanics of policy learning and policy change.

We conclude, however, by emphasizing the important role that institutions, both governmental and non-governmental, play in mediating learning. In each of the four instances of paradigm alteration examined in this article, institutions were at the heart of the learning which occurred; in the initial shift to a Keynesian policymaking framework, in the marked revision of that framework in the 1960s, in the shift to neoliberalism in the 1970s and in the subsequent entrenchment of the neoliberal paradigm in the 1980s and 1990s.

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