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Labour, Industrial Revitalization, and the Financial Sector, 1970–79 *

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Abstract

Financialization is a process often viewed askance, not least on the left of British politics. Yet in the 1970s elements of the left wing of the Labour Party developed the idea that financialization, in the form of growing middle and working class contributions to life insurance and occupational pensions, also offered an opportunity. With deindustrialization setting in, the Labour Left argued for the nationalization of banks and insurance companies, and the channelling of the funds flowing through insurance schemes and pension funds, into a new drive to boost manufacturing investment. The article examines the rise of these proposals and the reasons for their rejection using documents from the Labour Party archives. As such it makes contributions to the debates on deindustrialization in Britain and on the emergence of financialization.

Keyword: Financialization, Deindustrialization, Nationalization, Labour

The 1970s was a traumatic decade for British industry, for the industrial working class, and for the political party – Labour – that claimed to represent the interests of industrial workers and their families. The economic master process underlying the angst was deindustrialization or, to put it more positively, the shift in the balance of the economy towards services. This experience was shared by all advanced industrial countries in the late twentieth century, but it occurred sooner and more rapidly in Britain than in some of its rivals. Jim Tomlinson argues, correctly in our view, that the British economy in the 1970s and 1980s was undergoing deindustrialization rather than decline. For many of those living at the time, however, those terms appeared synonymous, for Britain's economic strength had always been underpinned by a large manufacturing workforce.[1] This essay deals with a relatively unknown aspect of the abortive plans by parts of the Labour Party to arrest deindustrialization and reverse perceived economic decline. Labour's concern for the fate of British industry and the industrial workforce is well known, but it is often assumed that the party had little to say about the role of the financial sector in a modern economy. This article traces how the emphasis within the party, or at least a substantial section of the party, evolved from registering the need to channel more funds into industrial investment, to issuing full-fledged proposals for using the financial sector as a tool to regenerate British industry.

[1] Jim Tomlinson, 'De-industrialization Not Decline: A New Meta-narrative for Post-war British History', *Twentieth Century British History*, 27 (2016), 76-99. For the evidence on deindustrialization, see also Robert E. Rowthorn and J.R. Wells, *De-industrialization and Foreign Trade* (Cambridge, 1987); Robert Rowthorn and Ramana Ramaswamy, 'Growth, Trade and Deindustrialization', *IMF Staff Papers*, 46 (1999), 18-41.

A key aspect of the debate within the Labour Party, to which historians have paid scant attention, is the growing awareness of the importance of the institutional investor and the increasing number of savers using investment vehicles provided by such entities. By the early 1970s, in Britain, more people than ever before were putting funds into financial markets, albeit indirectly and through financial institutions - mostly pension funds and life insurers - that invested mainly on the secondary rather than the primary market.[2] This development is one aspect of what today is called financialization.[3] Our main contribution is to show that Labour thinkers and policy-makers in the mid-1970s were not just aware of the process of financialization; they sought to take advantage of it. From the perspective of the Labour Left, the challenge was to use the funds generated by financialization, which derived in part from employee savings and pensions, to revitalize the industrial sector in the interests of the industrial fraction of the working class. In the wake of the Global Financial Crisis of the early twenty-first century, some economists on the left have argued that drawing members of the working class into a financial circuit through their savings and pension funds exacerbates – rather than mitigates – the socioeconomic inequalities caused by capitalism's cyclicality.[4] In Britain in the 1970s, however, policy-makers on the left of

[2] The primary market concerns new issues of shares and debt securities, whilst the secondary market sees trading in existing issues.

[3] For a discussion of pension funds and institutional investors as a key characteristic of financialization, see Robert W. Parenteau, 'The Late 1990s' US Bubble: Financialization in the Extreme', in Gerald A. Epstein, ed, *Financialization and the World Economy* (Cheltenham, 2005), 111-48.

[4] With regard to the American milieu, see John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis: Causes and Consequences* (New York, 2009); for a Western European perspective see Costas

the Labour Party adopted a markedly different perspective. They argued that the growth of working and lower middle class savings through the vehicles of life insurance policies and occupational pensions could provide a Labour government with the financial fire power to boost industrial investment and reverse the slide towards deindustrialization.

As Mark Wickham-Jones explains, disillusionment with the performance of the British economy under the 1964-70 Labour governments encouraged a shift to the left within the party after 1970.[5] A small group of left-wing MPs and researchers set the pace in the drafting of a new approach, the Alternative Economic Strategy (AES), which won considerable support at Labour's annual conferences, despite the opposition of party leaders including Harold Wilson, James Callaghan, and Denis Healey.[6] Through the AES, Labour Party policy-makers zeroed in on financial institutions. In 1971 the Labour Party conference voted in favour of a resolution that called for Labour's next general election manifesto to incorporate commitments to nationalize the banking and insurance industries.[7] During the mid-1970s work on bank and insurance

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Lapavitsas, 'Financialised Capitalism: Crisis and Financial Expropriation', *Historical Materialism*, 17 (2009), 114-48.

5 Mark Wickham-Jones, *Economic Strategy and the Labour Party: Politics and Policy-Making, 1970-83* (Basingstoke, 1996).

6 For background and analysis, see John Callaghan, 'Rise and Fall of the Alternative Economic Strategy: From Internationalisation of Capital to "Globalisation"', *Contemporary British History*, 14 (2000), 105-30.

7 The names of the financial businesses in the Labour Left's sights were not always spelled out, and even when they were their composition fluctuated. Amongst the main candidates for nationalization or state direction were the big four clearing banks, Barclays, Lloyds, the Midland, and National Westminster, and the large insurance companies including Commercial Union, Royal, Prudential, Guardian Royal Exchange,

nationalization, carried out in response to the 1971 conference decision, became enmeshed with work on the much more ambitious AES, which aimed to revitalize the British economy through partial nationalization of the manufacturing sector. As the Labour Party's elaborate proposals suggest, milking finance to nourish industry was no mere dalliance or flight of fancy; the party's economic thinkers were in earnest. Furthermore, they were inclined to believe that, in at least some respects, financialization offered an opportunity rather than a threat. By bringing this dynamic to light, the essay strengthens underdeveloped themes in the extant literature. We extend the analysis of Wickham-Jones who does not have room to explore the fine-grained detail of Labour's policies towards the financial sector in the 1970s.[8] Whereas George Lambie discusses the potential implications of the AES for London's international financial role, and the international constraints on the AES, we focus on the domestic side of the equation and the rise of vehicles that gathered savings for placement – in an age of exchange controls – on domestic financial markets.[9] For Lambie, the AES expressed 'the resistance of the Labour Left to the growing power of deregulated finance in the 1970s'.[10] We accept that the Labour Left was alarmed by moves towards financial deregulation and by the resurgence of transnational finance, but contend that

General Accident, Sun Alliance, Norwich Union and so on. For a list of 29 insurers on the left's shopping list in 1973 see Labour Party, *Banking and Insurance Green Paper: Report of a Labour Party Study Group* (London, 1973), 17.

[8] Wickham-Jones, *Economic Strategy and the Labour Party*.

[9] George Lambie, 'Globalisation Before the Crash: The City of London and UK Economic Strategy', *Contemporary Politics*, 19 (2013), 339-60.

[10] Lambie, 'Globalisation Before the Crash', 357.

it also had some innovative ideas about how a regulated financial sector could make a larger contribution to national economic development.

In Richard Jobson's view, the prioritization of traditional industries under the AES is explained by Labour's class-cultural inheritance, which fostered a nostalgic and masculinist mind-set.[11] The aim was to preserve industries and communities in which male manual workers made physical objects. In the radical vision set out in the mid-1970s, the growing financial sector (with its white collar, and increasingly female labour force) would be conscripted to the task of enabling future generations of men to continue making physical objects. Richard Whiting observes that, during the late 1960s, the Labour government justified its Selective Employment Tax on the grounds that service employment should be taxed to subsidize employment in manufacturing.[12] The proposals of the Labour Left in the 1970s were more radical but also appealed to the superior virtue of industrial employment.

The idea of channelling savings collected by life insurers and pension funds into industrial investment took a while to germinate, and policy-making towards the financial sector evolved through several stages. Between 1971 and 1973 the focus was on the nationalization of banking and insurance with a view to improving customer services and removing one of the main sources of inequality in wealth in modern Britain. From 1973 to 1976 there was a growing recognition on the left that the nationalization or control of banking and insurance could be used in support of

[11] Richard Jobson, 'A New Hope for an Old Britain? Nostalgia and the British Labour Party's Alternative Economic Strategy', *The Journal of Policy History*, 27 (2015), 670-94.

[12] Richard Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth Century Britain* (Cambridge, 2000), 198-200.

Labour’s plans for industrial regeneration.[13] From late 1976 onwards, the advocates of banking and insurance nationalization were forced to confront the objections of sceptical unions of financial workers, as well as the wider unpopularity of the proposals. There was a gradual retreat to a policy based around the merger of existing state-owned financial institutions, combined with methods to tap the funds at the command of the banks and other financial institutions that fell short of nationalization. By the time of the 1979 election, interest in the financial sector had been superseded by other concerns, including Labour's desperate electoral position and the Winter of Discontent. The advocates of radical financial reform rallied briefly in the early 1980s but the essay concentrates on the 1970s, and especially the years from 1973 to 1979. Our purpose is not to discuss the feasibility or indeed the desirability of Labour’s proposals, to offer a detailed account of the public response to them, or to examine how the deindustrialization process played out.[14] Though we do not claim that our paper has direct relevance for contemporary policy concerns, we illuminate an important but neglected phase in the development of thinking on economic policy and financialization. In so doing, we contribute to recent work on the political history of finance in this

[13] The debate over the role of the banks in financing industrial expansion is one of the perennials of British economic and business history. See, for example, Duncan M. Ross, ‘Commercial Banking in a Market-Oriented Financial System: Britain between the Wars’, *Economic History Review*, 49 (1996), 314-35; Peter Scott and Lucy Newton, ‘Jealous Monopolists? British Banks and Responses to the Macmillan Gap during the 1930s’, *Enterprise and Society*, 8 (2007), 881-919.

[14] For an extended treatment of public perceptions of Labour’s plans and the banks’ use of the print media to oppose them, see James Reveley and John Singleton, 'Clearing the Cupboard: The Role of Public Relations in London Clearing Banks' Collective Legitimacy-Seeking, 1950-1980', *Enterprise and Society*, 15 (2014), 472-498. .

period, particularly that dealing with issues such as working class home ownership and the promotion of share ownership amongst a broader segment of the population.[15]

Deindustrialization, Declinism and the Institutional Investor's Rise

Despite mounting concerns about economic decline, in some respects the British had never had it so good. Between the early 1950s and the onset of economic crisis in 1973, Britain enjoyed a high rate of growth by the standards of earlier periods, accompanied by rapidly rising personal incomes.[16] Yet the country was gripped by a narrative of decline because other countries in Western Europe were growing even faster and some – including West Germany – were starting to overtake Britain. Post-war declinism had its origins in the 1950s, and was fueled in the 1960s by the accumulation of statistical evidence confirming Britain's relatively anaemic performance in economic growth, investment, productivity, and competitiveness in manufacturing.[17]

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[15] For exemplars, see Aled Davies, '"Right to Buy": The Development of a Conservative Housing Policy, 1945-1980', *Contemporary British History*, 27 (2013), 421-44; Amy Edwards, '"Manufacturing Capitalists": The Wider Share Ownership Council and the Problem of "Popular Capitalism", 1958-92, *Twentieth Century British History*, 27 (2016), 100-23.

[16] Stephen N. Broadberry, 'The Long Run Growth and Productivity Performance of the United Kingdom', *Scottish Journal of Political Economy*, 44 (1997), 403-24.

[17] On declinism as a socially constructed phenomenon, see Jim Tomlinson, 'Inventing "Decline": Falling Behind of the British Economy in the Postwar Years', *Economic History Review*, 49 (1996), 731-57. For a classic work of the 1960s that set off alarm bells in the UK, see Edward F. Denison, *Why Growth Rates Differ: Postwar Experience in Nine Western Countries* (Washington DC, 1967). A long-run perspective is

With the benefit of hindsight, the changes occurring in the British economy are better described as deindustrialization than decline. Britain would remain a prosperous developed economy with a large manufacturing capability in the twenty-first century, notwithstanding the shift of labour and other factors of production into services. During the troubled decades of the 1970s, however, it was tempting to see the accelerating loss of industrial jobs and the bankruptcy or contraction of well-known manufacturing firms as evidence of potentially terminal economic decline. British firms seemed to be falling behind their competitors and losing markets at home and abroad. Nowhere was the malaise more acute than in the car industry where the dominant British-owned firm, British Leyland, imploded in the early 1970s and had to be saved from closure by the state.[18] Critics on the right tended to blame obstructive labour practices and greedy trade unions for the woes of British industry, whilst those on the left condemned the lethargy and backwardness of firms and their managers. All sides were critical of successive governments' seemingly inept management of the economy.

It has been argued that the competitive pressures required to spur investment, technological change, and rising productivity were hindered in Britain by a mixture of protectionism, collusion, and dysfunctional labour practices; in essence there is plenty of blame to share around.[19] These problems were intensified in the 1970s by a series of policy errors and shocks. Edward Heath's Conservative government ignited an

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supplied by Stephen N. Broadberry, *The Productivity Race: British Manufacturing in International Perspective, 1850-1990* (Cambridge, 1997).

18 Roy Church, *The Rise and Decline of the British Motor Industry* (Basingstoke, 1994).

19 Nicholas Crafts, 'British Relative Economic Decline Revisited: The Role of Competition', *Explorations in Economic History*, 49 (2012), 17-29, at 24.

inflationary boom in 1972-73 and provoked confrontation with the trade unions. An international oil crisis in 1973-75 destabilized the global economy, raised fuel costs, increased unemployment, and brought to an end the so-called golden age of high growth in Western Europe and other advanced capitalist economies. The 1974-79 Labour governments struggled to cope with the multiple challenges of inflation, labour unrest, recession, a secondary banking crisis, low growth, a weak pound, and balance of payments instability. Separating the short term from the long term threats would not have been easy for any government.[20]

Although parts of the manufacturing sector were struggling in the 1960s and early 1970s, life insurance companies and pension funds (they overlapped because some pension funds appointed insurers to make investment decisions on their behalf) were expanding rapidly. As real wages and salaries increased in the decades after the Second World War, professionals, white collar staff, and some manual workers, especially skilled and/or public sector employees, were able to set aside more income for future needs. The average Briton was not a particularly good saver, but in so far as he or she did save it was quite likely to be through an insurance policy or a company or public sector pension scheme. Generous tax concessions and the absence of an attractive state earnings related scheme boosted the demand for occupational pensions. Between 1956 and 1971 the proportion of the British workforce with an occupational pension rose from 33 per cent to 45 per cent; coverage was higher in the public than in

[20] For Britain's economic circumstances, consult Alec Cairncross, *The British Economy Since 1945* (Oxford, 1992), 182-225; the resulting political difficulties are addressed by Michael Artis, David Cobham and Mark Wickham-Jones, 'Social Democracy in Hard Times: The Economic Record of the Labour Government 1974-1979', *Twentieth Century British History*, 3 (1992), 32-58.

the private sector.[21] Some life insurance companies and mutuals, as well as pension funds, started to accumulate large holdings of corporate securities, including debentures and various classes of share, in the 1920s and 1930s, a trend that accelerated after 1945, not least with respect to ordinary shares.[22] These financial institutions came to play an important role in the collection of individual savings and their allocation to different users in the economy. Pension funds and insurance companies were required to protect their clients' funds, as far as was possible, as well as to seek good returns. They allocated funds across various asset classes, the most important of which were central and local government securities, company shares and debentures, and land and property. Funds were reallocated from time to time in search of the best returns. Investment in overseas securities was minimal because of exchange controls which sought to bolster the balance of payments by restricting outflows of portfolio capital.[23] But institutional investors could obtain some external exposure by purchasing shares in established British multinationals. In 1971, private sector pension funds held 12.7 per cent of their assets in gilts (British government bonds), 60.6 per cent in ordinary shares, 14 per cent in debentures and preference shares, and 19.7 per

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[21] Leslie Hannah, *Inventing Retirement: The Development of Occupational Pensions in Britain* (Oxford, 1986), 67.

[22] Peter Scott, 'Towards the "Cult of the Equity"? Insurance Companies and the Interwar Capital Market,' *Economic History Review*, 55 (2002), 78-105; Mae Baker and Michael Collins, 'The Asset Portfolio Composition of British Life Insurance Firms, 1900-1965', *Financial History Review*, 10 (2003), 137-64; Yally Avrahampour, '"Cult of Equity": Actuaries and the Transformation of Pension Fund Investing, 1948-1960', *Business History Review*, 89 (2015), 281-304.

[23] Bank of England, 'The Effects of Exchange Control Abolition on Capital Flows', *Bank of England Quarterly Bulletin*, September 1981 (1981), 369-73.

cent in land and property.[24] Pension funds and insurers were becoming major – albeit fairly passive – holders of British company securities. Between July 1957 and December 1969 they increased their stake in the ownership by value of British quoted equities from 12.2 per cent to 21 per cent, whereas that owned by persons, executors, and trustees fell from 65.8 per cent to 47.4 per cent.[25] The age of the institutional investor had arrived.

Employers and skilled and white collar workers and their trade union representatives were intensely protective of their pension funds. In the 1950s and 1960s affluent workers fought and overcame several proposals from the Labour Party to introduce a comprehensive state earnings related pension scheme, not least because they did not want their own contributions to subsidize lower paid workers.[26] While the rise of institutional investment was premised upon absorbing the retirement savings of employees into a quickening circuit of finance capital, it was welcomed by a large number who evidently preferred it to the alternative of leaving the management of their savings to the government and its agencies.

The Emergence of Banking and Insurance Nationalization Proposals

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[24] Ivan K. Cohen, 'Modelling the Investment Behaviour of the UK Pension Funds', *Managerial Finance*, 7 (1981), 32-6, at 33.

[25] Cohen, 'Modelling the Investment Behaviour', 32.

[26] Dennie Oude Nijhuis, 'Rethinking the Beveridge Strait-Jacket: The Labour Party, the TUC and the Introduction of Superannuation', *Twentieth Century British History*, 20 (2009), 370-95; Hugh Pemberton, 'The Failure of "Nationalization by Attraction": Britain's Cross-Class Alliance Against Earnings-Related Pensions in the 1950s', *Economic History Review*, 65 (2012), 1428-49.

Between the 1920s and the 1940s the Labour Party debated various proposals, some more serious than others, for the nationalization of the banking system or elements of that system. Bank nationalization was a general election commitment in 1931 and 1935, though Labour was defeated heavily on both occasions. Although the Bank of England was nationalized in 1946, it was a bank with unique functions. Labour's 1949 policy statement envisaged the nationalization of industrial assurance, but this unpopular proposal was soon dropped, having raised the ire of the insurance companies, their employees and the public.[27] After twenty years in which the issue did not figure prominently in Labour policy debates, the 'New Left' proposed bank nationalization in the late 1960s, and at the 1971 Labour Party conference adopted a policy of nationalizing the banking and insurance sectors and building societies.[28] The National Executive Committee (NEC) followed up the conference resolution by establishing a Banking and Insurance Study Group (BISG) which would determine how it could be implemented. Ian Mikardo, a prominent Left-wing MP, was appointed to chair the BISG, and from time to time its meetings were graced by some renowned economists including Thomas Balogh and Nicholas Kaldor.[29]

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[27] Specifically on the banks, see Sidney Pollard, 'The Nationalisation of the Banks: The Chequered History of a Socialist Proposal', in David E. Martin and David Rubinstein, eds, *Ideology and the Labour Movement: Essays Presented to John Savill*e (London, 1979), 167-90; the wider political context is addressed by John Singleton, 'Labour, the Conservatives and Nationalisation', in Robert Millward and John Singleton, eds, *The Political Economy of Nationalisation in Britain 1920-50* (Cambridge, 1993), 13-33, at 16 and 25.

[28] For details of 'New Left' thinking about the banks, see Raymond Williams, ed., *May Day Manifesto 1968* (Harmondsworth, 1969), 103.

[29] People's History Museum, Manchester (hereafter PHM), NEC Sub Committees, Box 62, Minutes of BISG Meeting, 20 September 1972.

John Hughes, later to become one of the architects of the AES, wrote a paper for the Banking and Insurance 'Working Party' in April 1972 in which he discussed the formation of a 'state investment agency' that would allocate 'a very large part of the institutionalised savings of the community'.[30] Hughes's paper foreshadowed the line that would be taken by 1974, but his proposal to nationalize the investment process was somewhat premature. The fruits of the BISG's deliberations were published in 1973 as a green (or discussion) paper, *Banking and Insurance* (hereafter *B&I*).[31] The green paper was not regarded within Labour Party circles as a particularly cogent document.[32] Nonetheless, as a preliminary exploration of the territory, it initiated a debate that would continue until just before the 1979 election.

Significantly, *B&I* addressed the existing financial system's shortcomings, and sketched out some tentative models of state-ownership. The green paper noted that over the previous decade or so the 'greater involvement of banks in industrial investment and the accumulation of vast equity portfolios by insurance companies have made financial institutions truly commanding heights of the economy.'[33] A policy of nationalizing banks, insurance companies, and building societies was justified in *B&I* on three main grounds: firstly, their failure to provide a satisfactory service to the public; secondly, their involvement in the misallocation of resources; and thirdly, their

[30] PHM, NEC Sub Committees, Box 81, RD 343, 'Public Ownership and Control: The Financial Sector, Why Intervene?', by John Hughes, April 1972, 10.

[31] Labour Party, *Banking and Insurance Green Paper: Report of a Labour Party Study Group* (London, 1973).

[32] PHM, Labour Party Research Series, RE17, A Note on Institutions and Investment Policy, November 1974, 2.

[33] Labour Party, *Banking and Insurance Green Paper*, 9.

involvement in the perpetuation of inequality.[34] With regard to the culpability of banks and other financial institutions for the misallocation of resources, the second justification for nationalization, and the central interest of this essay, it was argued that banks 'sometimes' favoured the support of 'speculation in property, land and securities' over more productive activities. British banks were also less inclined than some of their foreign, especially West German, counterparts to take an active interest in the strategy of their corporate clients.[35] According to *B&I*, nationalization of the English, Scottish and Northern Irish clearers (commercial banks, that is) and the British overseas banks would be sufficient to bring at least 70 per cent of current banking business into the public sector.[36] A development bank would also be created within the 'British Bank' group to provide medium and long term finance. Despite these concrete proposals, in his foreword to the green paper, Ron Hayward, the General Secretary of the Labour Party, drew attention to the fact that the study group that had worked on the document had not found it easy to reach agreement on banking policy.[37] Indeed, in discussions with the BISG, the Co-operative Bank, the banking institution most closely allied with Labour, had warned against any rash action that could threaten the flexibility of the

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[34] Labour Party, *Banking and Insurance Green Paper*, 9. While interesting, the case of the building societies is beyond this essay's scope because it is not germane to the question of industrial finance.

[35] Labour Party, *Banking and Insurance Green Paper*, 11.

[36] Labour Party, *Banking and Insurance Green Paper*, 20.

[37] Labour Party, *Banking and Insurance Green Paper*, foreword. The BISG's minutes do not shed light on the terms of the debate, for although they indicate who was present and identify the topics discussed they do not reveal what was said.

banking sector.[38] Lack of consensus would be a recurring problem in the years that followed.

As insurance companies expanded their stake in the ownership of quoted British companies, their role in the allocation of funds for investment became more vital. The rise of the pension funds and life insurers posed a dilemma. How could the interests of savers be reconciled with the mobilization of their savings to promote economic growth? *B&I* acknowledged that a balancing act was involved.

> We recognise that the contractual savings of policy-holders must be invested to yield the highest possible return. The State must not use these funds for uncommercial projects, however socially desirable they may be. However, a more active supervision of the management of the companies in which these funds are invested would be beneficial to the policy-holders, the companies and the country as a whole.[39]

B&I recommended nationalization of the bulk of the insurance industry, with the exception of the mutuals, Lloyds of London, and those international operations of the insurance companies that needed to be privately owned for regulatory reasons in their host jurisdictions. The green paper concluded that on balance the 'basic purpose of rationalizing and reorganizing the insurance industry under public ownership is to provide a better and more efficient service to the policy-holder… [and] not to secure

[38] PHM, NEC Sub Committees, Box 81, Minutes of Banking and Insurance Study Group, 31 January 1973.

[39] Labour Party, *Banking and Insurance Green Paper*, 10.

control over the companies' investments, large and important as they are.'[40] In a paper submitted to the BISG, the Co-operative Insurance Society had thrown cold water on any suggestion that insurance company funds could be commandeered to boost manufacturing investment. The only effect of such an approach, concluded the Society, would be to reduce returns for policy holders.[41] Nevertheless, in the years following *B&I*, the Labour Left would show increasing interest in just such an approach.

The AES and the Financial Sector

John Hughes's aforementioned paper to the BISG in April 1972 suggested that funds collected by pension funds and insurers could play an important role in a future Labour government's plans for raising the level of industrial investment. This sentiment was congruent with the AES, which was in essence about strengthening the manufacturing sector through government intervention. Labour policy-makers in the 1970s often took a much more jaundiced view of the capabilities of the capitalist firm than had their predecessors in the late 1950s and the 1960s.[42] Such hostility to big business – not least multinational business – was fully reflected in the AES.

A weekend conference on industrial policy in February 1972 helped to launch the debate that would usher in the AES. Stuart Holland, an academic economist who had

[40] Labour Party, *Banking and Insurance Green Paper*, 14.

[41] PHM, NEC Sub Committees, Box 81, Paper Submitted by the Co-operative Insurance Society Limited to the Labour Party's Study Group on Financial Institutions, October 1972.

[42] Jim Tomlinson, 'The Labour Party and the Capitalist Firm, c. 1950-1970', *The Historical Journal*, 47 (2004), 685-708.

worked in an official capacity for the Wilson government in the 1960s co-authored the key paper for the weekend conference.[43] Holland and John Hughes were the intellectual motors of the AES. On the parliamentary side the AES was advocated most vigorously by Tony Benn, who became Secretary of State for Industry in 1974. The AES is expounded in greatest detail in Holland's book *The Socialist Challenge*.[44] Holland argued that British industry was failing the nation. Monopolistic power enabled firms to raise prices at home, whilst the resulting profits were shifted abroad to avoid tax. Many leading firms were multinationals with, in Holland's opinion, no firm commitment to the British economy. Manufacturing investment had fallen to unacceptably low levels, posing a threat to national prosperity over the long run. The solution was for the state to compel industry to invest through direct intervention. One-quarter of the hundred biggest industrial firms would be nationalized, while other large firms would be required to enter into 'Planning Agreements' with the government, covering many aspects of their activities including their investment programmes.[45]

A major policy document to which Holland contributed, *Labour's Programme for Britain 1973*, incorporated proposals for the formation of a state holding company, the National Enterprise Board (NEB), which would take a 'controlling [ownership] interest'

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[43] PHM, NEC Sub Committees, Box 53, RD 271, Conference on Industrial Policy: The State Holding Company, by Stuart Holland and Richard Pryke, February 1972.

[44] Stuart Holland, *The Socialist Challenge* (London, 1976); the original publication date is 1975.

[45] The extent to which planning agreements should be imposed on recalcitrant firms was a matter for debate, with the left more than willing to opt for compulsion. On this point, see Callaghan, 'Rise and Fall of the Alternative Economic Strategy', 113, 118.

in twenty-five leading manufacturers spread across a range of industrial sectors.[46] A system of planning agreements was envisaged for other firms. When discussing the factors to be considered when implementing the 1971 conference resolution on the nationalization of banking and insurance, *Labour's Programme for Britain 1973* (which came out before the *B&I* green paper) accorded priority to how financial institutions 'can be used to aid a Labour Government's industrial policy'.[47] However, Labour's manifesto for the October 1974 general election was singularly vague: proposals would be developed to 'ensure that banking and insurance make a better contribution to the national economy'.[48]

Tony Benn and his supporters tried, and in the end failed, to persuade the Cabinet and the Parliamentary Labour Party that the AES was a realistic option. As soon as Harold Wilson was elected Prime Minister in 1974, the new government began to distance itself from radical economic proposals. Not only were Labour's social democratic leaders averse to massive direct industrial intervention, their attention was occupied by other matters including prices and wages, the oil crisis, macroeconomic instability, sterling, and the balance of payments. Labour's flagship policy was the Social Contract, an informal agreement on wage restraint in return for a commitment by the government to rein in price rises and maintain expenditure on key social services. The 'Industrial Strategy' was pushed into the background.

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[46] Labour Party, *Labour's Programme for Britain 1973* (London, 1973). 34. Holland's contribution and his initial reluctance in the early 1970s to propose 'outright nationalisation' is noted by Lambie, 'Globalisation before the Crash', 349. By 1975 his attitude had changed: the rationale 'for taking leading banks and financial institutions into public ownership' appears in Holland, *The Socialist Challenge*, 215.

[47] Labour Party, *Labour's Programme for Britain 1973*, 35.

[48] Dale, ed, *Labour Party General Election Manifestos*, 202.

Despite the unfavourable climate within the wider Labour Party, work continued within the NEC and the party's research office to integrate the left's financial and industrial proposals. A Financial Institutions Group (FIG) was set up early in 1974 to take over from the BISG.[49] However, the FIG moved at a snail's pace, and no-one was keen even to take the chair.[50] Policy in the area of public ownership of the financial sector was increasingly driven by those whose main concern was industrial regeneration, including the Industrial Policy Sub-Committee (IPSC).

Industrial profits were unusually low during the economic crisis of the mid-1970s, and firms relied to a greater extent than was normal on external finance – including from banks – to fund their activities. When the immediate crisis was over, suggested 'A Note of Investment Problems', a paper prepared for the IPSC, it would be worth considering the implications of returning to a situation in which investment expenditure was dependent on high profits. The Social Contract could be weakened if rebounding profits led workers to question why they should show continued wage restraint when firms and their owners were enjoying rising returns.[51] Perhaps there were other ways of providing funds for investment that were both less threatening to the Social Contract and more effective in satisfying the needs of manufacturing. Consequently, as the note suggests, it was primarily in relation to the Social Contract and wage restraint that the left's proposals for the financial sector overlapped with mid-

[49] PHM, Labour Party Research Series, RE17, A Note on Institutions and Investment Policy, November 1974, 2.

[50] At the first meeting, in May 1974, the Chancellor of the Exchequer, Denis Healey, declined to take the chair, and at the second meeting Ian Mikardo indicated that he had no wish to chair the group. PHM, LP/RD/14/4 Minutes of Financial Institutions Group, 14 May 1974 and 21 January 1975.

[51] PHM, Labour Party Research Series, RE12, A Note of Investment Problems, November 1974, 8.

1970s concerns about inflation. The note also observed that firms in more dynamic industrial nations in Western Europe, and in Japan, were inclined to fund their investment plans by borrowing from banks and other financial institutions. If British banks were also to become more involved in allocating funds for investment, there would be a strong case for subjecting them to some form of 'public ownership or accountability.'[52] A subsequent paper by John Hughes proposed encouraging pension funds and life insurers to form consortia to supply funds for investment in British industry, possibly with the assistance of guarantees provided through the NEB.[53] Pension funds and life insurers would be asked to divert funds that, for example, might otherwise have gone into the property sector.

A further research paper for the IPSC in March 1975 reviewed the options for increasing the availability of funds for investment, and for making certain that the bulk went into manufacturing. The market mechanism had not performed well in allocating funds to the most important long term projects, which were assumed to be in manufacturing. The research office concluded that, in order to achieve its industrial goals, the state must 'control the sources of capital funds, whether from retained profits or external sources', and also 'control the channels through which industrial resources are allocated.' It followed that there ought to be 'active consideration of the public ownership and control of financial institutions' (although the identity of the institutions

[52] PHM, Labour Party Research Series, RE12, A Note of Investment Problems, November 1974, 10.

[53] PHM, Labour Party Research Series, RE90, The 'Institutions', Risk Capital, and UK Real Investment, by John Hughes, March 1975.

concerned was not specified), together with reform of the Bank of England to enable the central bank to support the chosen strategy.[54]

At its meeting on 25 March 1975 the IPSC considered the above papers and acknowledged that the question of the use of institutional funds should have been addressed earlier. The meeting 'agreed that the idea of channelling institutional funds into direct industrial investment was right in general terms', but did not make it clear whether or not they favoured compulsion.[55]

The trend of the debate, however, was towards compulsion, although that would not be acceptable to moderates. Tony Benn, Frances Morrell and Francis Cripps argued in a policy document in April 1975 that British manufacturing was in a 'spiral of decline'.[56] In order to reverse that decline it would be necessary to increase the level of manufacturing investment by at least 10 per cent per annum over the next ten years. The institutional framework for the industrial recovery programme would be supplied by the NEB and planning agreements; some of the additional funds would come from taxation. But incomes could only be squeezed so far, and other measures would be necessary.[57] Investment spending would have to be diverted from other sectors including property development, services, and overseas projects. The locus of 'financial

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[54] PHM, Labour Party Research Series, RE97, The Institutions, Profits and Investment, March 1975.

[55] PHM, NEC Sub-Committees, Box 54, Minutes of Industrial Policy Sub-Committee Meeting, 25 March 1975.

[56] PHM, NEC Sub Committees, Box 54, RE126, 'A Ten Year Industrial Strategy for Britain', by Tony Benn, Frances Morrell and Francis Cripps, April 1975 , 5.

[57] The high level of income tax was already a major headache for the Labour government, not least because of the resistance of its own supporters. On this point, see Whiting, T*he Labour Party and Taxation*, 224, 230-6, 246-57.

power in the private sector' had shifted 'away from wealthy owner-managers into the hands of [a few] financial companies in the City', including pension funds and life insurers that had demonstrated an appetite for property and land speculation.[58] Benn and his colleagues envisaged that pension funds and insurers would be forced to channel a proportion of their annual fund flows into manufacturing investment. This could be achieved in several ways: through loans to the NEB and other state agencies, through loans and the provision of new equity to firms participating in planning agreements, and perhaps through a mechanism to help small and medium sized firms. About half of the requirements of the manufacturing investment programme could be met in this way.[59]

The debate over the source of funds for investment began to revolve around the role of the pension funds and insurers rather than that of the clearing banks. The banks would not be forgotten, but they were no longer the only option. Commenting on the Benn, Morrell and Cripps paper, Wilfred Brown, a Labour peer and former minister, opined that the spiral of decline thesis was exaggerated. He agreed that there was a need to divert institutional funds, but thought incentives would work better, and involve less political risk, than compulsion.[60] Shirley Williams, the Secretary of State for Prices and Consumer Protection and a right-winger, argued that low manufacturing investment was not the only economic threat to Britain. Increasing the rate of

[58] PHM, NEC Sub Committees, Box 54, RE126, 'A Ten Year Industrial Strategy for Britain', by Tony Benn, Frances Morrell and Francis Cripps, April 1975, 11-12.

[59] PHM, NEC Sub Committees, Box 54, RE126, 'A Ten Year Industrial Strategy for Britain', by Tony Benn, Frances Morrell and Francis Cripps, April 1975, 12.

[60] PHM, NEC Sub Committees, Box 54, RE190, Comment on the Document 'A Ten Year Industrial Strategy for Britain', by Wilfred Brown, June 1975.

investment might not be enough to tackle the more fundamental problems of low productivity and a lack of competitiveness. While there might be a case for using some institutional funds to boost industrial investment, pension funds and insurers were required by law to seek the best returns for their clients or members, and would need some sort of guarantee if they were to be expected to take on more risk.[61] Barbara Castle, the Secretary of State for Social Services and a moderate left-winger, feared that any attempt to divert pension fund savings by compulsion would cause the Labour Party 'immense political damage' because it would alienate 8 million occupational pension holders.[62] After considering the Benn paper, the IPSC itself expressed some uncertainty over how best to reallocate the nation's savings: 'On the one hand it was felt that detailed guidelines could be given to institutions, on the other hand it was felt that an element of public ownership of financial institutions was imperative.'[63] Which financial institutions were to be nationalized was not spelled out.

Harold Wilson removed Tony Benn from the key post of Secretary of State for Industry in June 1975 and transferred him to the Department of Energy. This switch – seen with some justification as a demotion by Benn – was designed to squash the AES.[64] Wilson had no intention of implementing Benn's and Holland's radical industrial strategy. Later in the year the NEC published *Labour and Industry (L&I*), a policy

[61] PHM, NEC Sub Committees, Box 54, RE 198, Comment on 'A Ten-Year Industrial Strategy', by Shirley Williams MP, Dr Joan Mitchell and colleagues, June 1975.

[62] PHM, NEC Sub Committees, Box 54, RE 215, Comments on 'A Ten Year Industrial Strategy' by Barbara Castle MP, June 1975.

[63] PHM, NEC Sub Committees, Box 54, Minutes of Industrial Policy Sub-Committee Meeting, 22 April 1975.

[64] Tony Benn, *Against the Tide: Diaries 1973-76* (London, 1989), 388-95.

document that criticized the government's backsliding. *L&I* provided more detail than previous publications on the connections, both actual and desirable, between the industrial and financial sectors. There was an urgent need to double the quantity of investment in manufacturing industry, and the funds would have to come from external sources. Industrial profits had been hit badly in the economic crisis and could not sustain a high level of investment. In any case, high profits were deemed socially divisive and it was better for investment to be funded externally. Since the early 1960s there had been an increasing use of bank loans to support investment, but the British financial sector was not designed to cater for industrial needs. Clearing bank nationalization was still being considered, and had worked well enough in France. An expanded NEB could perhaps offer an alternative model of state-banking. *L&I* considered it essential that the vast quantities of savings collected by pension funds and insurers be tapped for industrial investment purposes. Although there might be ways of inducing institutional investors to contribute to some form of investment fund, the compulsory direction of funds could not be ruled out. Inspired by Swedish experience, *L&I* also discussed the possibility of requiring industrial firms to place a share of pre-tax profits into an Industrial Reserve Fund (IRF), to be released when implementing approved investment projects under a planning agreement.[65] All of these ideas had been discussed in internal documents, especially those submitted to the IPSC, as well as in the meetings of the IPSC.

Although the left encountered an implacable obstacle in the Wilson cabinet, the process of internal policy-making continued. During 1975 the NEC's Home Policy

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[65] Labour Party, *Labour and Industry: The Next Steps: A Statement by the NEC to the Labour Party Annual Conference, Blackpool 1975* (London, 1975).

Committee took over the work of developing policy towards the banking and insurance sector. According to the Home Policy Committee, the FIG was 'not successful', and 'little was accomplished' when it was in charge.[66] The Home Policy Committee was more energetic, receiving a range of papers on current British and overseas experience in the financial sector.[67] Particular attention was given to corporate finance and the revitalization of the industrial economy. The situation was understood to be comparable to that faced by defeated nations in 1945:

> If the sort of national programme of reconstruction is to be mounted in Britain as was mounted after the war on the continent and in Japan, finance will have to be planned as industry is planned. This means that the Government will have to establish in Britain similar kinds of channels for savings to flow into investment as now exist abroad. And the market mechanisms, which in Britain prevent capital being available to industry at a cost industry can afford, should be replaced by institutions which, like the Caisse des Depots in France, collect savings at a fair return for the saver, and then allocate financial resources in line with national priorities.[68]

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[66] PHM, Labour Party Research Series, RE 551, Financial Institutions: The Policy Options, March 1976, 1.

[67] PHM, Labour Party Research Series, RE 324, Comparison of Banking Systems in the EEC: The Policy Implications, October 1975; RE 507, Corporate Finance, Banking and Economic Planning: A Review of Practice in Britain and Elsewhere, February 1976; RE 541, Insurance, March 1976.

[68] PHM, Labour Party Research Series, RE 507, Corporate Finance, Banking and Economic Planning: Review of Practice in Britain and Elsewhere, February 1976, 38.

The Caisse des Depots was a state owned financial institution that supplied long-term funds to the French public sector, including nationalized manufacturing concerns such as Renault. It received funds from savings banks, institutions that were under close government control, and lent them long term to industry and other favoured sectors.[69] One possible approach would be to set up a British version of the Caisse des Depots and compel insurance companies and pension funds to purchase its bonds. The new institution could then fund approved investment projects in the manufacturing sector.[70] Of course, if the insurance companies were nationalized the process would be even smoother.

Directing savings collected through life insurance schemes and pension funds into long-term industrial investment was not envisaged as an alternative to the reorientation of the banking sector. Irrespective of the extent of the government's future stake in the ownership of the clearing banks, the banks too would be required to play a larger role in the provision of long-term industrial finance within the context of the overall planning framework. The British banking sector would have to emulate its counterparts in continental Europe and Japan.[71] The two approaches, based on pension funds and insurers and on the banks, were complementary. The pendulum, moreover,

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[69] PHM, Labour Party Research Series, RE 507, Corporate Finance, Banking and Economic Planning: Review of Practice in Britain and Elsewhere, February 1976, 9. See also Olivier Butzbach, 'From Thrifts to Universal Banks: The Sources of Organisational Change in French Savings Banks, 1945-2000', *Business History*, 57 (2015), 1155-91, at 1162-63

[70] PHM, Labour Party Research Series, RE 541, Insurance, March 1976, 25.

[71] PHM, Labour Party Research Series, RE 551 Financial Institutions: The Policy Options, March 1976, 3, 7.

was swinging towards compulsion, despite the warnings of Barbara Castle that this would not be popular.

The fruits of these lengthy internal policy deliberations were published by the NEC as *Banking and Finance* (*B&F*) in time for the Labour Party conference at Blackpool in September 1976. *B&F* was situated towards the radical end of the policy spectrum. Emphasis was given to the need for a much larger flow of industrial investment. As matters stood the financial sector was not providing industry with the service that it so urgently required. Banks, insurance companies and pension funds exhibited 'questionable priorities' when allocating the savings of the population. When these financial businesses put their clients' savings into inflation hedges such as art and farm land, or speculated in property, they were doing 'nothing to restore the industrial base on which future prosperity, real incomes and pensions depend.'[72] *B&F* proposed, first, the establishment of an Industrial Investment Fund, along Swedish lines, into which a proportion of firms' own savings would be deposited, and then accessed for use in 'productive investment' with the approval of the Bank of England.[73] Secondly, two existing state-owned financial institutions, the National Savings Bank (NSB) and National Giro, would merge. Thirdly, citing the example of France, *B&F* proposed the nationalization of the seven biggest insurance companies, the four big clearing banks,

[72] Labour Party, *Banking and Finance: A Statement by the NEC Presented to the Labour Party Annual Conference, Blackpool 1976* (London, 1976), 14.

[73] Labour Party, *Banking and Finance: A Statement by the NEC Presented to the Labour Party Annual Conference, Blackpool 1976* (London, 1976), 19.

and an unnamed merchant bank.[74] The whole state-owned financial sector would be put under the control of a reformed and politically accountable Bank of England which would act as a holding company, and assume responsibility for securing the flow of funds into industrial investment in accordance with the national plan. The savings of the public, including millions of union members, would in effect be commandeered by the government and channelled into British industry. Delegates at the Blackpool Conference voted to endorse the contents of *B&F*, despite being warned by Jim Callaghan, who had succeeded Wilson as Prime Minister, that such a policy would be an 'electoral albatross'.[75]

The Backlash and Retreat

This section concentrates on the development of policy within the Labour Party between the 1976 conference decision and the May 1979 general election that brought Margaret Thatcher and the Conservative Party into office. The campaign mounted by the clearing banks to thwart the left's proposals to nationalize the banks had public opinion as well as most of the Cabinet on its side. Clearing banks may not always have been popular with customers, but they continued to possess considerable legitimacy in

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[74] Commercial Union, Royal, Prudential, Guardian Royal Exchange, General Accident, Sun Alliance & London, and Legal and General are the insurers; the banks are Barclays, Lloyds, Midland, National Westminster.

[75] Michael Hatfield, Bank Nationalization 'Electoral Albatross', Mr Callaghan Says, *The Times*, 25 September 1976, 1.

the eyes of the general public.[76] Members of the public could scarcely conceive of a feasible government-run alternative to keeping banking in private hands, and any such proposal was likely to have been unpopular with the electorate. By cooperating through their trade association – the Committee of London Clearing Bankers – the banks used modern public relations techniques to tap into the British public's collective suspicion of state interference in their financial arrangements. Through a carefully crafted print media campaign, the CLCB solicited public comments on the bank nationalization proposals. The subsequent outpouring of anti-nationalization sentiment was projected back at politicians, bolstering the determination of Labour's leadership to resist the demands of more radical elements within the wider Labour Party.[77]

The Labour Left also faced stern resistance from those bank and insurance workers who had not yet been consulted. A Working Party on Banking and Insurance (WPB&I) was established by the NEC to conduct what proved to be sensitive and irksome consultations with the unions. The first and, arguably, the most important union to meet the WPB&I was the National Union of Bank Employees (NUBE) in March 1977. NUBE felt that *B&F* did not provide a convincing justification for its radical proposals. Moreover, 'NUBE expressed real anxiety about the possible effects of the Labour Party's proposals on NUBE members' job security and career prospects.'[78] The union feared job cuts if nationalization led to the rationalization of existing high street and suburban branch networks.

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[76] Reveley and Singleton, 'Clearing the Cupboard', 472-498.

[77] Reveley and Singleton, 'Clearing the Cupboard', 486-495.

[78] PHM, NEC Minutes and Papers, Working Party on Banking and Insurance, Minutes of Meeting, 28 March 1977.

After consulting eight more financial sector unions – APEX, ASTMS, CPSA, NUIW (Prudential Section), POEU, USDAW, and UPW – the WPB&I submitted an interim report to the Labour Party Conference in 1978.[79] The results were not altogether encouraging: 'On the whole the unions consulted were, to varying degrees, hostile to the proposals on nationalisation'.[80] Nevertheless, the unions acknowledged the need for some reform of the financial sector, and were broadly supportive of the proposed NSB-National Giro merger, the reform of the Bank of England to enhance regulation and control over the financial sector, and the introduction of a Swedish-style Industrial Reserve Fund.

The working party adopted a defensive tone: 'We feel that there has been a certain amount of misunderstanding of the [NEC's] analysis which has led to an underestimation of the strength of the arguments advanced.'[81] Several unions had expressed scepticism about the argument that industry was constrained by the supply of funds, and some had suggested that an increased volume of investment would be no panacea unless it could be put to more effective use than was common at present.

NUBE and NUIW, explained the working party, were inclined to defend the record of the financial sector and worried about the effects of banking and insurance nationalization on their members' jobs as well as on savers' returns. Several unions

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[79] Respectively, the unions are: Association of Professional, Executive, Clerical and Computer Staffs; Association of Scientific, Technical and Managerial Staffs; Civil and Public Services Association; National Union of Insurance Workers; Post Office Engineering Union; Union of Shop, Distributive and Allied Workers; Union of Post Office Workers.

[80] Labour Party, *Report of the Seventy-Seventh Annual Conference of the Labour Party, Blackpool, 1978* (London, 1978), 450.

[81] Labour Party, *Report of the Seventy-Seventh Annual Conference of the Labour Party, Blackpool, 1978* (London, 1978), 452.

were willing to consider some form of scheme involving the direction of funds from the financial institutions into industrial investment, but that need not have entailed their nationalization.[82] In fact there were as many views as there were unions consulted. The interim report concluded, somewhat defiantly, that 'the strength of the arguments' in *B&F* had been neither fully 'appreciated' nor 'refuted', but it was obvious that the consultations had not gone according to plan.[83] A poorly attended meeting of the WPB&I, chaired by Eric Heffer MP, on 13 December 1978, recommended that, in view of the 'deep reservations' of many unions, it would be unwise at this stage for the Labour Party to 'press for the full implementation of proposals for public ownership' of banks and other financial institutions.[84]

As the Winter of Discontent of 1978-79 unfolded, the Labour government was preoccupied with crisis management. Labour's 1979 general election manifesto was a desperate attempt to shore up moderate support in the face of the challenge from Margaret Thatcher. The manifesto was reticent about the financial sector. Financial institutions and markets were said to have an important role to play in assisting the

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[82] Labour Party, *Report of the Seventy-Seventh Annual Conference of the Labour Party, Blackpool, 1978* (London, 1978), 455.

[83] Labour Party, *Report of the Seventy-Seventh Annual Conference of the Labour Party, Blackpool, 1978* (London, 1978), 459.

[84] The meeting was attended by four MPs and the secretary. PHM, NEC Minutes and Papers, Working Party on Banking and Insurance, Minutes of Meeting, 13 December 1978. For the progress report considered at this meeting see PHM, Labour Party Research Series, RE 1943, Working Party on Banking & Insurance, The Final Report of the Working Party: An Office Note on the Main Issues, December 1978. A final report was drafted but not released externally. See PHM, Labour Party Research Series, RE 2061, The Final Report of the [Banking and Insurance] Working Party, March 1979.

revival of British industry. Greater competition in banking would be encouraged, and the government would develop the NSB and Girobank to their full potential. No mention was made of the NSB-Girobank merger proposal, which had stalled because of opposition on technical grounds from the Treasury, combined with a spat between several of the unions involved over how such a merger could affect their members.[85] By 1979 the debate appeared to have fizzled out, except for a rather parochial dispute over the NSB-Girobank merger, which at best would have made a marginal contribution to restructuring the financial sector. The Labour Left would have taken the view that the plight of Callaghan in late 1978 and 1979 was a reflection of his suppression of radical policies but that question is beyond the scope of this article.

Conclusion

In the wider critical historical literature the financialization of Western-style economies is generally regarded not as an opportunity but rather a threat to the income security and wider fortunes of the working class. Intuitively, tying any part of wage-earners' incomes or savings to the performance of financial markets seems inherently risky. From the perspective of a post-industrial society, and especially in the wake of the Global Financial Crisis, such a view is perhaps understandable, but this article is not intended as a contribution to current policy debates. Its main purpose rather is to

[85] Dale, ed, *Labour Party General Election Manifestos*, 222. On the merger dispute see PHM, Labour Party Research Series, RE 2061, The Final Report of the [Banking and Insurance] Working Party, March 1979, 12-23.

contribute to another important debate, namely that on policy responses to deindustrialization in Britain in the late twentieth century.

In fairness the Labour Left may be forgiven, at a time of exceptional economic instability in which the jobs of many Labour voters were in jeopardy, for confusing deindustrialization with national economic decline. The novelty of this essay, however, is its investigation of how elements of the Labour Party grasped that the financialization of workers' retirement savings was creating a resource that a radical Labour government could use to regenerate British industry. Simply put, the financialization cloud appeared to have a silver lining. The bifurcation of economic history and political history has made it difficult to see both sides of this story. It is only when the Labour Left's plans for using the financial sector to provide a fillip to industry are set and evaluated in their economic context that their logic becomes apparent. Yet that logic was contingent on acceptance of the Labour Left's contentious premises about how an economy should be organized and by whom. With hindsight we might question the viability of a scheme that assumed the general public would allow the state to grab their savings and perhaps even nationalize the financial institutions through which they saved. Success depended on the willingness of the majority to sacrifice or put at risk their own future welfare for the sake of the possible redemption of British manufacturing. We might also question whether deindustrialization could have been resisted for long in an era of nascent globalization and rising consumer expectations.

The prime contextual dimensions of Labour's proposals are Britain's comparative economic performance and accelerating deindustrialization on the one hand, and the rise of institutional investors on the other hand. The former is well-known and documented by historians; the latter less so. The rapid growth of insurance companies and pension funds (institutional investors as they were commonly known) lent an air of economic feasibility to the proposals of the Labour Left. When set against this backdrop, Labour's ideas for tapping the financial sector in the interests of economic development were not outlandish. But, if the economic dimensions of the situation are important to explaining the origins of the proposals, it was practical political realities that stymied them. The left could not even get its nationalization proposals past the financial sector unions, let alone the Cabinet, the Parliamentary Labour Party, or the voters.