

Jim Callaghan: A Successful Prime Minister?

Written by Tom Pettinger

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TOM PETTINGER, DEC 7 2010

Callaghan faced what could arguably be described as some of the toughest times any Prime Minister has had to face post-war. Having held the three leading Cabinet posts (Home Secretary, Foreign Secretary and Chancellor), he became Prime Minister in April 1976 following Wilson's surprise resignation, inheriting an economy experiencing rampant inflation – "his prospects now were unenviable. Inflation had broken all records under the Wilson government"[1] reaching 24% in 1975. Trade Unions had found a stronger voice, one reason being that "unionisation [had] spread among the [white-collar] group",[2] and as inflation rose, Unions' demands for even greater pay increases grew. Britain's economy played a highly significant role in bringing down the Callaghan Government in 1979, the man himself conceding "the economy is always there, like Banquo's ghost, to haunt you".[3] However Shirley Williams, the then Education Secretary, stated that "being Prime Minister became Jim in a way that none of his other jobs did." [4] Indeed he managed to hold a minority government together from April 1976,[5] pulling in using his diplomatic skill the Liberals under Steel in the Lib-Lab Pact of 1977-8. So there are many more issues to consider than purely how Callaghan handled the economy, in order to reach a valid conclusion on whether he was 'successful' as Prime Minister. More than just a snapshot of the 3-year administration must be taken into account. The following will analyse the overall inheritance Callaghan received and what he made of it.

The economic inheritance Callaghan received was far from a stable or flourishing one. Callaghan had picked up the Prime Ministerial baton in the midst of skyrocketing oil prices due to the Yom Kippur War, which was causing cost-push inflation all around the globe. The cost of crude oil had nearly doubled from 1973-74[6], and the British economy was paying. As inflation rose to unprecedented levels, workers demanded higher wages to compensate for greater living costs. The miners were awarded a 29% pay increase by the Labour Government in 1974 under Wilson.[7] This deal meant a larger rise in aggregate demand which had caused a wage-price spiral; in 1975 inflation had risen over 24%. The country was submerged in stagflation. In the UK the inflation rate was higher than the G7, OECD and EC averages for five consecutive years, from 1973-7, and unemployment was rising comparatively.[8] Callaghan had to trade-off between increasing unemployment and decreasing inflation. He wanted spending cuts to be made; he had seen that government borrowing had grown massively as Keynesian economics had become the norm, and knew it was unsustainable.[9] But Callaghan, just months into his premiership, also knew the government could split over the issue. There were divisions in the Cabinet. Tony Benn and Michael Foot proposed an Alternative Economic Strategy employing a siege economy, putting in place serious import controls. Tony Crosland argued the cuts in July had been harsh enough, whilst Chancellor Healey argued further cuts were necessary.[10] Callaghan balanced and brought together the different groups, on the premise that the government could be brought down over the issue.[11] In this effect Callaghan had skilfully managed to keep the Cabinet heading in the same direction, on a potentially explosive issue which could have forced the party out of office. Healey believed Callaghan had dealt with the issue with "consummate skill... [which] was an object lesson for all prime ministers." [12]

During the International Monetary Fund (IMF) Crisis of 1976, possibly "the greatest economic and political crisis confronting a Labour Prime Minister since 1931", [13] Callaghan was in top-level talks with the United States (US) President Ford, the US Secretary of State and the German Chancellor, urging them to pressure the IMF into lending Britain the necessary funds.[14] This took a level of diplomatic skill that only politicians like Callaghan possessed – his experience in politics was extensive having been in Parliament for over 30 years and held all 3 leading Cabinet

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posts. He was exceedingly well equipped for “engaging in top-level diplomacy”[15] with his US counterpart and the German Chancellor. The accumulation of his developed diplomatic talent, networks and political know-how were all vastly important. One aide to the Government put it, “It was a bit like Churchill – all his life had been a preparation for this hour.”[16] Possibly other Prime Ministers, notably Heath whose charm was somewhat absent, or Major whose political experience was limited, could not have done what Callaghan did to secure a loan from the IMF.

So Callaghan ensured currency security where a freefall of sterling could have ensued. He had believed where the pound was below \$2 it was dangerous. The pound fell to \$1.50.[17] However the consequences could have been much worse. Callaghan made a landmark speech at the Labour Party Conference in September 1976, declaring that Britain had “been living on borrowed time... [and] that cosy world is gone.”[18] This speech was deemed by Healey and the Americans to have steadied the markets whilst signalling a change of direction of British economics.[19] Hennessy sees Callaghan as an “agent of... change himself rather than a mere victim of it.”[20]

Healey’s view is that in post-war Britain, economic conditions have always been enormously precarious,[21] and so whilst going to the IMF for support in 1976 was humiliating, riled Labour backbenchers and gave the Opposition chance to gloat, there were important factors outside of Callaghan’s control (such as the worsening stagflation during the 1970s and the Keynesian, inflationary economics employed since World War Two) which made the application to the IMF almost unavoidable. So regarding to the IMF situation, with what he inherited, according to sources close to him – Healey and Williams for example – the job he did was well accomplished. However, on the other side of the coin there was that destiny-shifting nature about Callaghan; Callaghan can be seen as “an active change-maker rather than the passive onlooker gazing incomprehensibly at a shifting economic scene.”[22] So he must be given responsibility for choosing the path to the IMF loan, as opposed to other doors that may have been open to him. But while Callaghan was faced with “an economy in turmoil; and a Labour movement... being torn apart by a damaging left-right cleavage”,[23] as he could keep the different factions on board and could steer to some extent where the country was going economically in these conditions, he can be seen as a Prime Minister who was effective in the sense that he formed solutions and pushed ahead in the face of opposition, even from senior figures within his own Cabinet.

The Lib-Lab Pact of 1977-1978 was of mixed success. Callaghan saw that “what made the life of the [his] government constantly perilous was that it never had an overall majority”[24] and he tried to amend the situation. He brought in the Liberals under Steel in order to keep Labour in power, and indeed the coalition won the motion of ‘no confidence’ vote proposed by Thatcher, leader of the Conservatives in 1977; with the Liberals supporting Callaghan’s government she could not realistically hope to win a motion of ‘no confidence’.[25] Callaghan now “had an effective majority of thirty,”[26] however it came at a cost – his desired plans for reform were stifled, as “the pact period saw the final abandonment of any attempts at radical reform by the Callaghan administration,”[27] though Callaghan managed to retain power more comfortably to the aggravation of Thatcher, who claimed that the “government is more concerned to cling to office than it is to seek the verdict of the people”.[28] Callaghan’s politicking served the needs of Labour however, as it enabled them to win the ‘no confidence’ vote of March 1977[29] and to govern with greater confidence. One highly negative consequence of the Lib-Lab Pact was that the Liberals pursued devolution of Scotland and Wales, which, as they were unsuccessful in their attempts, resulted in the Scottish Nationalist MPs withdrawing their support for Callaghan.[30] Their support would have enabled Callaghan to win the motion of ‘no confidence’ in 1979 (as the motion was lost by one vote), and possibly would have put Labour on a stronger footing in the General Election of 1979. So in this sense, the coalition that Callaghan initiated with the Liberals was highly unsuccessful, as it indirectly caused Labour to lose the motion of ‘no confidence’.

Callaghan, having been Foreign Secretary, saw an opportunity to dominate British foreign policy when Crosland, the Foreign Secretary, died. Callaghan promoted the relatively inexperienced and junior David Owen to the prestigious post. Callaghan therefore, in effect led Britain in foreign affairs, when Rhodesian independence and Britain’s desire for peace in the African nation was at the forefront of global politics, and when the situation in Northern Ireland could have caused greater problems had Callaghan not responded in the way he did. The Chancellor Healey claimed that “Callaghan handled the situation with incomparable skill and understanding, both on the spot and in Westminster”,[31] and Hennessy that “[Callaghan’s] calm, constructive approach won him admirers in disparate political camps”.[32] Callaghan’s posture as the global statesman can be said to have increased his influence at

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home; as he could be trusted on the world stage, he could be trusted on domestic issues.

Although Callaghan could be almost ruthless in his approach,[33] he was inclusive and preferred to let issues be talked over rather than impose his views. Callaghan believed that he acquired his collegiate style from Attlee.[34] An example of how much of a balancer he was is seen during the IMF Crisis where 26 ministerial meetings and 9 full Cabinet meetings were held to discuss the options available to the government.[35] This appeared to be a successful method, as “Healey, who worked more closely with him than most, rated him second only to Attlee among Labour leaders”[36] and through this method the Government was kept together where a split was a very real potentiality. He realised that the party could be split on several issues, and managed to play the factions off each other to generate the most favourable outcome for him and the party. Callaghan was someone “who put careful, sensible improvements to the lives... of the bulk of people way ahead of any overarching left-wing ideology,”[37] which worked for a government that needed pragmatic leadership in turbulent times who would not be constrained by ideology, as seen in his speech signalling the end of Keynesian economics. However, his critics would suggest that “Callaghan was a pragmatist with no commitments,” who had no driving force directing him or the country.[38]

In 1977 “new oil revenues [were being exploited, and] there were improvements in the balance of trade”; the economy was looking up, and Britain did not need to draw from all of the IMF funds made available.[39] However, Callaghan believed the economy would recover further and resisted pressure to go to the polls on the back of this success, saying “why go to the country when I myself was convinced that we wouldn’t win and nobody could prove to me that we would?”[40] He instead decided to wait until the parliamentary term was over in 1979. This decision was arguably Callaghan’s biggest mistake of his premiership; it “contributed to the explosion of pay claims and the industrial strife of the winter of 1978-9”[41] which became known as the ‘Winter of Discontent’. It was to have disastrous consequences for the Labour Party, sending it into 18 “Wilderness Years”[42] in opposition to the Conservative Party. Waste filled town centres, schools closed, the sick went untreated, and bodies started to pile up[43] as strikes grew in response to the deeply unpopular pay policy employed by the Government. What enraged the situation was Callaghan’s response. He had returned from an overseas trip, only to play down the devastation that was searing Britain. The Sun spun his comments, publishing the famous, “Crisis, what crisis?” headline; whilst Callaghan did not say those specific words, the feeling arose that Callaghan was severely out of touch with Britain.

The blame for the infamous winter of 1978/9 “was attributed neither to the strikers nor to the unions but to... the Government [which] had driven the low paid to a spontaneous outburst of protest” by following through with the spending cuts and the continuation of the 5% pay policy. [44] The Winter of Discontent, the effects of which arguably Callaghan could have lessened had different choices been made, was seen to have brought the Government “crashing to the ground”, and “eliminated any prospect of Labour holding on to power.”[45] Callaghan’s economic record is tarnished heavily and dominated by the Winter of Discontent. Possibly if he had called a General Election earlier the Government may have gained the necessary seats to be better equipped to deal with the second substantial economic crisis in 3 years, but instead lost the election the next year.

Even though, among other failures, Callaghan lost the ‘no confidence’ motion in March 1979, which had not occurred since 1924, he appears to have done much more impressively than he is largely reputed to have done. And whilst the Callaghan era remains “one redolent of economic failure”,[46] “the defeat... of 1979 [was]... long in the making [suggesting] that Labour’s ensuing crisis [transcended] the mistakes of Callaghan.”[47] Often opinions are formed with merely his 3-year premiership in mind, whereas the problems were, as Callaghan’s senior policy adviser said, “deep-seated and daunting”[48] and Callaghan cannot take the blame for the economic instability he inherited. Callaghan held successes throughout his term in office – inflation fell from 16% and 24% the two previous years before he took office, down to nearly 8% in 1978.[49] The Callaghan government can be said to have left “the economy and the policy-making machinery in better condition in 1979 than they had found them in 1974.”[50] Also without Callaghan’s political astuteness Labour would never have “preserved its fragile hold on Parliament”[51] but he cleverly drew in the Liberals in the Lib-Lab Pact enabling 2 more years of governance. Whilst Callaghan was successful to an extent, there were clear failings; his premiership is tainted, in retrospect, by the decision not to go to the polls in the autumn of 1978, and the IMF crisis which is seen to be a blot on his economic record. Also Callaghan’s handling of the disastrous Winter of Discontent is seen to be poor. Callaghan and the infamous winter are often spoken in the same breath, suggesting possibly that the inherited problems are overlooked, and the fact

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that his choices were severely limited by circumstances is disregarded. The winter of 1978-9, “and a general sense that Labour’s allies and paymasters in the unions were running the country... opened the way to 18 years of Conservative rule.”[52] So for Labour supporters in particular, Callaghan was unsuccessful in that Thatcher was able to attain power, and Labour was banished to the opposition benches for 18 years. It can be seen that “Labour tumbled to an *inevitable* and major defeat” (emphasis added)[53] and so whatever Callaghan’s choices were, Labour were always going to lose the 1979 election.

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