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The University of Edinburgh
School of Social and Political Science

SOVEREIGN DEBT AND ECONOMIC POLICY: A RELATIONAL SOCIOLOGY OF DEBT IN THE UNITED KINGDOM, 1960S–1980S

By

José Tomás Labarca

Doctor of Philosophy in Sociology
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DECLARATION

I declare that this thesis has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where states otherwise by reference or acknowledgement, the work presented is entirely my own.

José Tomás Labarca

LAY SUMMARY

This thesis studies sovereign debt and economic policy from a relational perspective. While most social science research on government debt focuses primarily on the problems of indebtedness and repayment, this thesis proposes an alternative approach. It argues that to grasp the political, economic, and sociological significance of government debt, we must study how government elites (and non-government actors) distinguish borrowing according to who the creditor is and what the government borrowed for. The thesis focuses on the structure of the debt in terms of creditors, users, and purposes. It places the analytical gaze on the perspective of government elites in relation to the economic and political situation, the tools of knowledge employed to make sense of the economic situation and formulate economic policy, conflicting ideas and interests within the state, and the influence of third-party interests, ideas, and behaviour. Drawing on extensive archival work, the thesis provides a historical case study of 1960s-1980s United Kingdom. Part I presents the relational approach to sovereign debt and a catalogue of the causal processes at the core of the thesis' explanatory toolbox. Part II studies the role of numbers in framing economic policy and theorises symbolic fiscal practices—the accounting and conceptual decisions, technologies, and devices that compose budgetary reporting—as policy devices that mediate the relationship between economic policy and the climate of general and expert opinion. Part III studies how (i) strategic interactions between relevant actors—e.g., policymakers, civil servants, trade unions, financial investors, and international organisations—and (ii) specific policy and cognitive devices constrained government elites' perceptions of the range of available policy options.

ABSTRACT

This thesis studies how what I call relational fiscal practices shape government elites' (and non-government actors') understandings of economic policy options. It examines how symbolic fiscal practices, classification struggles, and interwoven relations contour policymakers' communication of these options to relevant stakeholders—Parliament, voters, financial investors, international organisations, etc.—and structure political debates over the size of the state and the allocation of resources to different purposes. Building on the relational frameworks proposed by economic and political sociologists (Block, 2012; Bourdieu, 2010; Tilly, 2005; Zelizer, 2005, 2012), I develop a relational approach to sovereign debt. With this aim, I define relational as comprising (1) inter-organisational relations, (2) intra-organisational relations, and (3) semantic relations—relations between concepts and categories at the core of symbolic fiscal practices. My central argument is that to grasp the political, economic, and sociological significance of public borrowing we must study how historical agents within and outside government distinguish borrowing according to who the creditor is and what the government borrows for. This entails looking beneath the overall quantity of debt and/or the problem of debt repayment per se, which have traditionally been at the centre of social science research on sovereign debt.

Drawing on original archival evidence, parts II and III develop the empirical argument. Part II studies the role of numbers and budgetary reporting in framing economic policy through an analysis of how symbolic fiscal practices—the accounting and conceptual decisions, technologies, and devices that compose budgetary reporting—are crucial sites from which sovereign debt and deficits acquire their historical and sociological meaning. By studying the social processes behind the production, uses, and understandings of public finance statistics, chapters 3-5 inquire why certain macroeconomic indicators become more salient and consequential for policy than others. They theorise symbolic fiscal practices and public knowledge infrastructures as key devices for structuring the relationship between economic policy and the climate of general and expert opinion. As non-neutral classification systems that result from classification struggles over what and how to report, symbolic fiscal practices influenced how people thought of the economy, government, and economic policy in the 1960s-1980s. The politics of official knowledge conditioned the terms and standards of economic policy debate. The three chapters analyse the interaction between (i) efforts at managing public opinion; (ii) attempts at managing financial market expectations; (iii) attempts at managing international creditors' assessments; (iv) intra-state bureaucratic conflicts; (v) the mobilisation of epistemic authority; (vi) the legacies of past classification struggles; and (vii) conflicts between evolving fiscal schemata.

Part III zooms in to specific fateful relational processes between government and key counterparties in the 1970s. It traces how (i) strategic interactions between relevant actors and (ii) specific policy and cognitive devices combined to constrain government elites' perceived menu of available policy options. Chapter 6 studies the strategic interactions between policymakers intending to legitimise an active fiscal policy and uncooperative financial

markets in the 1970s. It argues that the institutional and cognitive underpinnings of the relational setting of sovereign debt shaped government elites' (and financial investors') understandings of economic policy options, and proposes the notion of an economic policy trilemma to explain and theorise the way in which financial confidence became a binding constraint to government policy. Chapter 7 offers a novel interpretation of mid-1970s economic policy as cumulative polyvalent performances. It situates the 1976 IMF crisis within a larger relational process and presents the story of how relational pondering, polyvalent performances, and opposite matching games influenced the negotiations between the government and relevant counterparties during 1975 and 1976.

Overall, the thesis joins recent work in economic sociology by proposing a relational approach to public finances in general and public debt in particular. Beyond that theoretical contribution, the vast amount of original archival work conducted allows the empirical chapters to engage actively in scholarly debates relevant to the specific processes, topics, and periods considered.

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ABBREVIATIONS

£M3	The preferred measure of the money supply. Notes and coin in circulation plus the public and private sterling deposits of UK residents with UK banks
BIS	Bank for International Settlements
BoE	Bank of England
CAB	Cabinet Office, TNA records
CBI	Confederation of British Industry
CCC	Competition and Credit Control
CGBR	Central Government Borrowing Requirement
Cmnd	Command Paper
CSO	Central Statistical Office
DCE	Domestic Credit Creation
ECB	European Central Bank
EEC	European Economic Community
FDI	Foreign Direct Investment
FS	Financial Statement
FSBR	Financial Statement and Budget Report
HC	House of Commons, Parliamentary debates
HL	House of Lords, Parliamentary debates
HMT	Her Majesty's Treasury
IMF	International Monetary Fund
IMFA	International Monetary Fund Archives
M3	Broad money, a measure of the money stock. Notes and coin in circulation plus the public and private sectors' sterling and non-sterling deposits held with the UK banking sector
MES	Ministerial Committee on Economic Strategy
Mintech	Ministry of Technology
MLR	Minimum Lending Rate
MP	Member of Parliament
MTFA	Margaret Thatcher Foundation Archives
MTFS	Medium-Term Financial Strategy
NEDC	National Economic Development Council
NIA	US National Income Accounts
NLF	National Loans Fund
OBR	Office for Budgetary Responsibility
OH	Office of the Historian, Foreign Relations of the United States
ONS	Office for National Statistics
PDC	Public Dividend Capital
PM	Prime Minister
PPS	Principal Private Secretary
PREM	TNA records, Prime Minister's Office
PSBH	Papers of Sir W. A. Bryan Hopkin, Cardiff University Archives
PSBR	Public Sector Borrowing Requirement

PSNB	Public Sector Net Borrowing
PWLB	Public Works Loan Board
SBM	Structural Budget Margin
SDM	Sovereign Debt Management
T	Treasury, TNA records
TNA	The National Archives
TUC	Trades Union Congress
UK	United Kingdom
US	United States

PART I

CHAPTER 1. INTRODUCTION

1. Introduction

In 2007-2008, the financial system crashed. Besides bailing out financial institutions to avert economic collapse, the British Labour government, led by Prime Minister (PM) Gordon Brown, counteracted the ensuing economic recession by running large fiscal deficits. But news in 2009-2010 that the financial crisis turned into a sovereign debt crisis in countries like Greece, Ireland, and Portugal changed the situation. The Conservative Party, which had opposed the fiscal stimulus, managed to make budgetary policy and politics the central issue of the May 2010 general election. George Osborne, would-be Chancellor of the Exchequer, stated that the economic recovery depended on reducing government debt and deficits. By not doing so, the Labour government was 'testing the patience of international investors', which amounted to playing with 'economic fire' (Osborne, 2009). Labour had maxed out the nation's credit card and, should the public finances not be put in order, there would be a Greece-like situation in the UK. Conservative Party leaders were not alone in their claims. They had the support of internationally renowned economic experts, international financial institutions, the credit rating agencies, and most media outlets. Once in government, Osborne made sovereign debt the first economic policy priority. The Eurozone crisis showed that balancing the books to bolster government credibility with the financial markets was a prerequisite for economic growth. The government delivered its promises to a significant extent. It cut public spending and introduced austerity measures in the middle of the worst recession since the 1930s. Pro-cyclical policies put the economic recovery off, and public services were hard-hit.

This recent historical episode illustrates the importance of the politics of sovereign debt, the main topic of this thesis. For better or worse, government debts and deficits loom large in salient and politically consequential debates about the economy and the role of government. I study this topic by focusing on an earlier historical period.

This thesis studies how what I call relational fiscal practices shape government elites' (and non-government actors') understandings of economic policy options. It examines how symbolic fiscal practices, classification struggles, and interwoven relations contour policymakers' communication of these options to relevant stakeholders—e.g., Parliament, voters, financial investors, international organisations, etc.—and structure political debates over the size of the state and the allocation of resources to different purposes. My central argument is that to grasp the political, economic, and sociological significance of public borrowing we must study how actors within and outside government distinguish borrowing according to who the creditor is and what the government borrows for—what the borrowed money buys or is perceived to buy. This entails looking beneath the quantity of debt and/or the problem of debt repayment per se, which have traditionally been at the centre of social science research on sovereign debt. I show that symbolic fiscal practices, themselves the result of

classification struggles and their mediating role in interwoven relations, are tools for fact-establishing and meaning-making. The many accounting and conceptual decisions, technologies, and devices that compose budgetary reporting establish, highlight, or play down the sources, purposes, and boundaries of government borrowing. They embody state schemas and expectations about the appropriate role of the state.

In recent decades, economic and political sociologists have advanced relational approaches to social phenomena (Block, 2012; Bourdieu, 2010; Tilly, 2005; Zelizer, 2005, 2012). We can define relational sociology in general by briefly alluding to its ontological assumptions and contrasting relational and other types of explanations. Relations, not substances, are relational sociology's prime unit of analysis. From this perspective, social actors such as individuals, groups, and organisations, are constituted through their continual participation in social interaction. Far from being pre-fixed, social actors' identities, boundaries, interests, preferences, and ideas are constantly evolving through relational processes. This leads to a distinct type of explanation. For example, dispositional explanations take the individual as the unit of analysis and explain behaviour as the product of individual volition, conscience, interests, or preferences. In contrast, relational explanations explain individual action as the product of cumulative relations with other individuals and their environment (Tilly, 2005, 2008). Instead of assuming individuals or groups as independent units existing before engaging in relational processes, relational sociology understands actors as products of continual processes of social interaction.

Building on these relational frameworks, I develop a relational approach to sovereign debt. With this aim, I define relational as comprising (1) inter-organisational relations, (2) intra-organisational relations, and (3) semantic relations. Inter-organisational relations refer to relations between organisations within the state, e.g., public enterprises, the treasury, and the central bank, and between state and non-state organisations, e.g., creditors. I focus on four main types of relations: financial flows, organisational hierarchies, recurrent inter-organisational interactions, and symbolic ties. Intra-organisational relations refer to relations between individuals and organisational positions, and to networks of expertise within or across organisational units. In this case, the main unit of analysis refers to recurrent intra-organisational interactions and, more precisely, the conflicts between different types of expertise and interests that mediate the degree of recourse to organisational scripts or improvisation. I theorise organisations, their boundaries, interests, ideas, and behaviour as the (interim) outcome of evolving intra- and inter-organisational relations. Overall, this allows us to highlight the organisational foundations of public policy. Semantic relations are relations between the concepts and categories at the core of official knowledge infrastructures—most spectacularly symbolic fiscal practices. They refer to patterns of relations between the elements distributed within well-bounded graphic and numerical devices, which allow unparalleled access to study knowledge infrastructures as contested, causally relevant cognitive devices. I focus on two types of semantic relations: semantic ties and arithmetic ties, which I will elaborate further on.

The thesis studies the interaction between sovereign debt and economic policy in the

context of the national budgetary processes of 1960s-1980s UK. Her Majesty's Treasury (hereafter Treasury) provides a particularly well-suited case study for the purposes of this research. First, the institutional and organisational features of British economic policymaking make it an ideal object to study the processes, interests, ideas, and considerations behind economic policy. It allows to clarify existing theories of public finance and economic policymaking. Second, the Treasury is a singular finance ministry. Strategically situated in the institutional and organisational compound that shapes the British state, it is widely considered the government's most powerful organisation (e.g., Middlemas, 1991, p. 455; Thain & Wright, 1995, p. 3). The Treasury staff traditionally assembles the most skilful civil servants of Whitehall. It shapes high levels of economic, bureaucratic, and political expertise. Furthermore, different from other finance ministries, the Treasury is at one and the same time a ministry of finance, a ministry for budgetary control, and a ministry of economy. As finance ministry, it is responsible for macroeconomic policy and public finance, comprising public spending, taxation, and credit. As budgetary ministry, it performs as the state's accountant in chief, overseeing public spending, constantly struggling to keep spending ministers at bay, and aiming to balance the books. These two aspects of the Treasury's role as guardian of the public purse make it responsible for spending and financial policies and entrust it with power over most policy domains and government organisations. As a ministry of economy, the Treasury is mandated to guide the overall economic strategy towards whatever growth and development goals are defined.

Scholarly debates on post-war British economic policy share remarkable similarities. Scholars tend to conceive economic policy as the product of overarching and entrenched policy paradigms that dictated the economic strategy and determined the role of the state. According to this narrative, there was a post-war consensus around a Keynesian economic policy paradigm. In the 1970s, however, a shift from a Keynesian to a monetarist policy paradigm made inflation, instead of full employment, the overriding policy goal and elicited the retrenchment of state economic intervention and welfarist institutional arrangements. The critical juncture of the 1970s marked the transition from a Keynesian era to a monetarist or neoliberal era of policymaking (e.g., Clark & Dilnot, 2004; Davies, 2017; Dellepiane-Avellaneda, 2015; Green, 2020; Hall, 1992, 1993; Thain & Wright, 1995).

There are several shortcomings in this traditional take on post-war economic policy. First, its punctuated-equilibrium notion of institutional change (Campbell, 2010; Capoccia & Kelemen, 2007; Streeck & Thelen, 2005) attributes more coherency than is warranted to each policy epoch, overlooks heterogeneity and discontinuity within them, and discards less dramatic evolutionary changes that occurred before or after the critical juncture. This thesis argues that, to the extent that a Keynesian post-war settlement existed, it was much less consistent and long-lasting than most researchers contend. Second, partly because of their political commitments, these narratives tend toward post-hoc rationalisations of the past. The causal role of policy and policymakers' determination in relation to economic outcomes is easily overstated. This leads to explanations almost purely based on policymaker's political will and identification with an economic theory. Full employment would have been the direct result of a specific economic policy paradigm, Keynesianism, and set of priorities, namely full

employment as the overriding policy goal. If the 1950s-1960s full employment reflects a cross-party consensus, the unemployment of the 1970s onwards must, by implication, indicate its breakdown. While political commitments are crucial to any account of economic policy, we should beware of this narrative. There was not much need for governments to showcase their Keynesian credentials during the post-war decades. Only in the 1970s were those credentials tested. Third, the ubiquitous and by no means entirely incorrect assumption that the Treasury dictated the terms, means, and goals of policy commonly leads researchers to ignore the precise processes through which the Treasury did, or not, or to what extent and for what reasons, impose its preferences over the rest of government. It also entails a static notion of the Treasury's views and interests.

A relational approach to sovereign debt has much to contribute to substantive debates on British economic policy. Instead of starting with the assumption of the existence of a Keynesian policy epoch followed by a monetarist era, it focuses, first, on the politics of official knowledge and how the resulting knowledge infrastructures conditioned the terms and standards of economic policy debate and, second, on how strategic interactions within and outside the state were a key influence on economic policy decisions. This allows me to highlight the discontinuities in post-war economic policy and question the common usage of concepts like Keynesianism, Keynesian welfare state, or Keynesian state, as categories of analysis that can fruitfully describe the period between 1945 and the 1970s. Of course, this is not to say that Keynesianism was unimportant or that these concepts have no analytical contribution to make. Keynesianism was a relevant category of practice for many actors at the time, including those in charge of economic policy. It was the key source of language for public economic policy debate. Along with recent research, however, I contend that we should question the way in which much of the literature defines and uses these concepts as all-encompassing labels covering the general philosophy of government and almost every policy domain, as well as the implication that there was a seamless post-war economic policy epoch until the so-called neoliberal or monetarist revolution (Edgerton, 2021b; Wincott, 2013). These concepts tend to be defined in very general terms and, when specified, are commonly used as categories of analysis without much reference to historical actors' own terms and understandings. This blurs the different meanings, implications, and scope of Keynesianism as a researcher's category and as a category of practice. For example, Labour government efforts in the 1960s and 1970s to promote industrial policies, regional development, public ownership, and incomes policies, among others, are far from being grasped by a historically grounded concept of British Keynesianism (Edgerton, 2018, p. 374; Skidelsky, 1979).

The thesis contributes to academic debates in two different dimensions. On the one hand, its main purpose is to propose a relational approach to public debt. This structures the thesis' overall analytical strategy and concepts. On the other hand, the original archival evidence gathered allows each empirical chapter to actively engage in scholarly debates relevant to the specific processes, topics, and periods concerned.

This introduction proceeds as follows. First, I place the proposed relational approach within the broader interdisciplinary literature on sovereign debt. I succinctly outline dominant

discussions and ways of studying government debt in the economics, political science, and sociology literatures. Second, I situate the thesis within contemporary research traditions in economic sociology. Third, I discuss the methods and analytical strategy before providing a brief overview of things to come.

2. Dominant Debates and Approaches to Sovereign Debt

2.1.The Problem of Enforcement

Despite the existence of vast interdisciplinary research on public finances, there is relatively little sociological knowledge of credit relations at the sovereign level. Economics and political science have been at the forefront of social science research on public debt. These works largely focus on two kinds of problems, the problem of enforcement and the problem of indebtedness, and work with a somewhat restricted concept of sovereign debt. They tend to use a relatively narrow analytical scope that concentrates on external debt, specific outcomes of formal negotiations (e.g., international conditionality), and non-rich, relatively powerless countries. To study the political, economic, and sociological significance of public borrowing, this thesis analyses how sovereign debt dynamics enter and affect the continual process of economic policymaking. I work with a broad conception of sovereign debt and conceive credit relations as a component of the public finances.

A vast literature coming from economics and political science focuses on the problem of enforcement and, therefore, external debt (Tomz & Wright, 2013).[1] This has, implicitly or explicitly, placed a binary between the domestic and international arenas, with creditor power traditionally imposing itself from the international arena. Two puzzles make up the problem of enforcement: first, why and at what cost do creditors decide to lend money to sovereign states, and second, why sovereign debtors repay their debts. When the debtor is a sovereign government, compliance, understood as the ability and willingness to pay, is significantly different than in the case of private debtors. The absence of a global sovereign able to enforce international contracts means that sovereign debt repayment is difficult to enforce, and government borrowing is vulnerable to a credibility problem. As any other financial asset, government bonds involve a promise of future repayment, which means that 'their value depends on the credibility of the debtor's promise' (Stinchcombe & Carruthers, 2001, p. 122). Debt allows governments to defer part of the burden of financing necessary public goods and avoid excessive immediate tax increases. But governments may later 'face incentives to defer repayment or even to default' on their financial obligations to ease the tax burden (Stasavage, 2003, p. 1). A government's decision to repay or declare default has significant distributional consequences, which can reduce its room for manoeuvre. This is why debt repayment has been historically contentious (Arrighi, 2010). The decision is not purely economic but also political. Accordingly, much scholarship advances theories of reputation and argues that, before lending, creditors analyse debtors' previous behaviour. History matters. This structures debtors'

[1] Reinhart and Rogoff (2011) have recently called for more research on domestic debt even if information about it is scarce.

incentives: should they want to preserve their access to credit, it is in their best interest to repay (Eaton & Gersovitz, 1981; Tomz, 1998, 2007).

To complement reputational theories of repayment, scholars study diverse creditor strategies to discipline sovereign debtors. From the threat of losing access to credit in the future to more coercive instruments such as so-called gunboat diplomacy, asset seizure, and trade sanctions, scholars have paid much attention to the contested and commonly protracted processes behind debt repayment and default (Reinhart & Rogoff, 2011, Chapters 4–5). International conditionality, which makes debtors' access to financial resources conditional on policy reforms, stands out as the most controversial mechanism of enforcement in modern times (Babb & Carruthers, 2008). Accordingly, the focus on enforcement commonly leads researchers to emphasise the outcomes of formal loan negotiations. Recent research argues that powerful creditor states use international financial institutions like the International Monetary Fund (IMF) and the World Bank to impose harsh conditionality upon over-indebted countries and reduce their policy space. These accounts show that while the Bretton Woods twin institutions are legally mandated to political neutrality and, therefore, to assist debtor countries on the basis of technical economic expertise, since the 1980s they have imposed politically contentious structural adjustment conditions (Babb & Kentikelenis, 2018; Kentikelenis et al., 2015, 2016; Kentikelenis & Babb, 2019). This restricts the power of democratic polities to determine their politico-economic arrangements and is a well-known mechanism of policy convergence by the imposition of policy programmes from the US to the rest of the world.

There are domestic mechanisms of enforcement as well. Some authors criticise one-sided approaches that overstate external factors behind the structural economic reforms of the 1980s-1990s. For example, they incorporate into the analysis the domestic roots of capital account liberalisation (Brooks & Kurtz, 2012) and argue that government elites may be thankful for creditors like the IMF to serve as ‘ogre of last resort’ (Lindert & Morton, 1989, pp. 74–75). Whenever domestic political conditions seem insurmountable, government elites may welcome and even ask for international financial institutions' willingness to assume the political costs of economic adjustments and reforms. Overall, conditionality and compliance are not necessarily completely imposed from the outside. For example, domestic distributional politics determines government behaviour in a debt crisis and, therefore, the likelihood of default (Frieden, 1991). This means that the relationship between democratic pressures and debt compliance is not linear. Citizens' preferences are dynamic, and they do not always pressure in favour of debt repayment (Tomz, 2002).

Some authors within political science see the problem of enforcement as intrinsically related to the question of the structural dependence of the state on capital (Przeworski & Wallerstein, 1988; Strange, 1994). This highlights the latent contradiction between economic growth and distribution. While growth or capital accumulation is a precondition for any successful redistribution, investment decisions are relegated to the private sphere of business. This limits the state's ability to pursue redistributive policies. Capitalist interests constrain state action with the result that democratic politics and citizens' interests do not always determine economic management. Some scholars call this the fallacy of the accountability of economic

power: in the presence of a capital strike or the threat of it, 'the presumed sovereignty of the democratic citizenry fails' (Bowles & Gintis, 1986, p. 90). Structural power works in an intrinsically anticipatory manner. The role of American bond rating agencies in globalised financial capitalism illustrates this point. Rating agencies are one of the most relevant sources of the information upon which creditors assess potential debtors. By dictating and re-actualising the rules governing international capital markets and conceptions of creditworthiness, rating agencies influence borrower behaviour (Dyson, 2014). In adjusting the ground rules and norms of capital markets, they affect and constitute market participants, who try to understand the agencies' views and anticipate their future decisions. The rating agencies became the 'new masters of capital' and have significant influence in shaping understandings about the 'appropriate scope and purposes of state action' (Sinclair, 2005, p. 145).

More recently, in response to what he deems neoclassical economics' inability to grapple with the complexities of sovereign debt repayment, Roos offers a dynamic theory of the structural power of finance to explain why recent decades have seen sovereign debt repayment prevail over defaults. Three mechanisms of enforcement, or mechanisms of creditor power, stand out in this context: market discipline, conditional lending, and the bridging role of elites. Each mechanism refers to 'the capacity of a different group of lenders or intermediaries—foreign private creditors, foreign official creditors, and domestic elites, respectively—to withhold the short-term credit lines' (Roos, 2019, p. 11). Market discipline relates to how private international creditors can impose costly spill overs in cases of debtor noncompliance. Particularly since the advent of financial globalisation, financial investors acquired new powers to constrain national democratic policymaking (S. Gill, 1995, 2017; but, Helleiner, 1994, 1999; Krippner, 2011). Government bond markets are 'a *most likely* location for the operation of financial market pressures' (Mosley, 2000, p. 741). For example, financialisaton reduced emerging market governments' capacity to borrow, thereby constraining their policy space significantly (Hardie, 2011). This is consistent with research claiming that the contemporary preference for marketable debt instruments restricts economic policy options and renders the state dependent on private financial actors (Lemoine, 2017a; Pixley, 2018). Borrower status and the structure of government debt in terms of financing instruments and creditors—whether investors are domestic or international, their motivations, ability to exit, etc.—determine actual outcomes. The notion of bond vigilantes' veto power, which became common sense from the 1980s onward, conveys a misleading idea of permanent market dominance and tends to substitute for concrete knowledge of precisely how financial investors influence policymakers (Tooze, 2020a).

Conditional lending revolves around formal conditionalities imposed by official creditors like the IMF. As we saw, there is extensive scholarship on how structural conditionality imposed by international financial institutions constrain the policy space of heavily indebted countries from the 1980s onwards. While some scholars consider that structural conditionalities produce a detachment of economic management and national democratic political systems (Babb & Carruthers, 2008; Babb & Kentikelenis, 2018; S. Gill, 1995; Kentikelenis et al., 2016), some economists argue that conditionality defends the interests of voters vis-à-vis rapacious politicians, even if not always successfully (Shleifer, 2009; Svensson, 2003). This perspective

welcomes the power of creditors and conceives conditionality as the mechanism through which creditors can ensure debt repayment and promote adequate economic policies. Bridging elites refers to the process by which fiscally conservative domestic elites may act to internalise 'discipline into the debtor's state apparatus' (Roos, 2019, p. 11). This is similar to previous macro-sociological work on the 'internalisation of external interests' (Cardoso & Faletto, 1979, p. xvi). For example, fiscally orthodox financial and political elites may succeed in pressuring governments to repay their debts at the expense of the interests of most citizens, thereby complementing the other two enforcement mechanisms.

The generalised stalemate regarding enforcement at the international level has prevented scholars from appreciating other significant aspects of credit relations. This literature tends to focus on how debt dynamics affect government elites' decision-making in non-rich countries since the early 1980s by looking primarily at one specific channel of influence, i.e., formal international conditionality. External debt has been much more studied than domestic debt. This raises questions about the causal significance of creditors' identity. How does the identity of creditors affect credit relations? For example, Gelpern and Setser (2004) argue that states tend to favour domestic over foreign creditors even when they hold the same debt instruments (see also Drake, 1989, p. 241). Different creditors behave differently (Hardie, 2011) and, by the same token, the state may also behave differently according to the identity of its creditors. Similarly, because of its focus on international conditionality, this literature tends to remain at a macro scale of analysis, paying little attention to the actual processes of policymaking, its instruments, and members. Instead, this thesis focuses on the structure of the debt regarding creditors and instruments and places its analytical gaze upon the perspective of government elites vis-á-vis the economic and political situation, the tools of knowledge employed to make sense of the economic situation and formulate economic policy, conflicting ideas and interests within the state, and the influence of third-party interests, ideas, and behaviour. A relational approach to debt from the perspective of government elites, which conceives civil servants and politicians as immersed in the policy process, is better equipped to overcome the traditional domestic/international binary.

2.2.The Problem of Indebtedness

Concerns that high levels of sovereign debt hamper the economic growth and development of so-called advanced and developing economies alike are widespread. Another strand of literature, mainly but not only coming from economics, focuses on government over-indebtedness and its (negative) consequences. A particularly noteworthy example is provided by 'ultrarespectable' and influential academic research in the aftermath of the 2008 financial crisis, most famously the work of former IMF economists Carmen Reinhart and Kenneth Rogoff (Tooze, 2019, p. 347). They studied the relationship between government debt and growth and concluded that whenever debt exceeded 90% of GDP, economic growth was 'notably lower' (Reinhart & Rogoff, 2010, p. 577).[2] While the argument was based on weak methodological foundations and was later contradicted (Herndon et al., 2014), the fact remains

[2] Rogoff later declared to have 'carefully avoid[ed] claiming causation' (Abbas et al., 2020, p. 4).

that most economics research focuses on the negative consequences of public debt (Eichengreen et al., 2021). Generally speaking, economists identify four potential sources of excessive government indebtedness (Fatás et al., 2020, pp. 118–123). First, political budget cycles, which refer to politicians' use of fiscal stimulus—in the form of tax cuts or higher spending—with electoral goals. The classic example of this strand is the Virginia school of public choice economics (Buchanan & Tullock, 1962). Second, intergenerational transfers result from the inter temporal redistribution of resources from future to current generations. Third, strategic manipulation refers to processes in which a governing party attempts to constrain, through the debt level, the margin of action of successor governments if headed by a different party. And fourth, common pool problems emerge when externalities lead the private benefits of additional spending to be different from the 'social marginal cost of funding it' (Fatás et al., 2020, p. 121).

Reinhart and Rogoff's work was highly influential at the time of the Eurozone crisis. It was invoked by the German Finance Minister to justify his government's decision to reduce the fiscal deficit even if the economic crisis, the deepest since 1930 with 50 million people unemployed in rich countries, was far from ended (Tooze, 2019, p. 354). Its conclusions were also supported by the research agencies (and actions) of the Bank for International Settlements (BIS), the IMF and the European Central Bank (ECB), among others. BIS and Cambridge University economists, for example, argued that government debt over 85% of GDP is bad for growth. Over-indebted governments with debt shares larger than the critical threshold represent an obstacle to economic growth. Moreover, 'prudence' considerations led them to recommend governments to keep significantly lower debt levels in normal times to make sure that 'even extraordinary events are unlikely to push their debt to levels that become damaging to growth' (Cecchetti et al., 2011, p. 1). While they mentioned some, to maintain the normative tone, positive aspects of government borrowing, Cechetti et al. focused on the need to prevent government borrowing from hampering economic growth. Debt is good and has desirable effects on economic growth only when kept at low levels. In the case of rich countries, the authors called for decisive action to deal with looming fiscal problems and alerted that the longer governments delayed fiscal adjustment, the bigger the negative effect on growth.

An IMF report followed suit and stated that reducing post-crisis government debt ratios was crucial to avoid weakening global long-term economic growth. It had been adequate for governments to step in to prevent 'economic catastrophe', but policymakers should not forget the need to get government debt back to pre-crisis levels (IMF, 2010, p. 28).[3] ECB economists similarly concluded that any short-term positive impact of government debt on growth decreases when debt ratios increase. Beyond 95% of GDP, any additional government indebtedness harms economic growth. On the contrary, debt ratios up to 67% of GDP stimulate economic activity. The key implication of these arguments is that justifying government borrowing by referring to its stimulatory impact on the economy is only valid 'if the initial debt

[3] Narratives in favour of counter-cyclical policies to prevent economic collapse were common and strong (if unexpected by many) in the aftermath of the financial crisis. Even if short-lived and variegated across nations, the episode is a testament to the enduring appeal of Keynesian reasoning in economic policy (Mann, 2017, Chapter 1).

level is' low (Baum et al., 2012, p. 18).

This reasoning is not new. Similar arguments and worries led from the 1980s onwards to an increasing focus on the fiscal deficit as a share of GDP, which became the 'most influential numeric risk indicator in European narrative reasoning about debt sustainability' (Dyson, 2014, p. 467). The first significant milestone of this process were the convergence criteria imposed by the 1992 Maastricht Treaty in the name of fiscal debt sustainability. Any country willing to become a member of the European Monetary Union had to observe two fiscal rules, a 3% GDP ceiling for annual budget deficits and a 60% GDP ceiling for government debt.

Of course, however, there is disciplinary diversity. In *In Defense of Public Debt*, Eichengreen and co-authors pose the critical question of the changing uses of public debt and stress the need to consider debt as a crucial economic policy instrument that, precisely depending on its uses and contexts, can be harmful and beneficial (Eichengreen et al., 2021). They provide a long-run historical perspective to highlight not only the dangers involved in public debt but particularly examples in which government debt had beneficial or positive consequences for state formation, economic development and growth, social welfare, financial stability, and so on. Similarly, Fatás and co-authors contend that 'one of the reasons why it is difficult to identify common patterns and pin down the *causal* effect of debt on growth is that not all debts are equal' (Fatás et al., 2019, p. 31). Similar debt levels may have significantly different consequences for growth and fiscal sustainability depending on factors such as 'what the debt was used for, who holds government debt, its currency composition and its maturity' (Fatás et al., 2019, p. 31, 2020, p. 137).[4] Of course, economists' tendency not to consider these complicating aspects and their consequent focus on the total debt or annual deficit number is, to some extent, explained by the fact that such data are much harder to find, if at all, let alone compile in a cross-country longitudinal database. A remarkable recent effort to that end is that of Abbas and colleagues at the IMF, Harvard University, and Cornell University, who compiled historical information on the structure of sovereign debt for a sample of 13 rich countries between 1900-2011 (Abbas et al., 2014). Others have followed the example, although major gaps and complications make progress slow (Abbas & Rogoff, 2020). Be that as it may, it remains the case that 'treating debt as a *black box* and imposing the restriction that any given level of debt has the same consequence on economic growth, regardless of its structure is too simplistic' (Fatás et al., 2019, p. 31). This thesis takes inspiration from these attempts to change the tendency to approach government debt with a negative bias and a one-dimensional perspective.

The over-indebtedness framework is hardly exclusive to economists. In the 1960s-1970s, there was much debate among sociologists and political scientists about the fiscal crisis of the state, the point at which public indebtedness could simply hollow the state out. They started from the notion that 'fiscal potential' was the only definite limit of the state and thought,

[4] Some of these aspects have been more explored than others. This is the case of the literature on the 'original sin', a situation in which governments are unable to borrow long-term in their domestic currency either at home or abroad, first discussed by Eichengreen and Hausmann (1999). The original sin was subsequently narrowed to refer to countries' inability to borrow long-term abroad in their domestic currency.

accordingly, that the collapse or reproduction of the state depended on the continual process of bargaining between rulers and ruled (Martin et al., 2009, p. 4; Schumpeter, 1918/1991, p. 110). State legitimacy depends on its capacity to mediate between its people's demands and its limited capacity to satisfy them. A structural discrepancy between state expenditures and the revenues necessary to finance them configured the perceived fiscal crisis of the state in the 1960s-1970s. This 'structural gap' in public finances resulted from the tendency to socialise costs but privatise surpluses (O'Connor, 1973/2002, p. 9). Increasing demands on government spending coupled with increasing resistance to pay the taxes necessary to finance them reflected deep conflicts at the level of the socio-political foundations of democratic capitalism. The fiscal crisis of the state would result from lagging tax revenues, a direct result of the state's need to preserve its legitimacy, and continuing budget deficits to stimulate the economy and provide social services (Block, 1981; Campbell, 1993; Crouch, 1979; Offe, 1984). While O'Connor understood debt as both constraining and enabling state power, he stressed the constraining factor: debt increases government's fiscal capacity at the price of tightening 'capital's grip on the state' (O'Connor, 1973/2002, p. 188). This is similar to Goldscheid's argument that, whatever debt enabled, it would be 'foolish self-deception to believe that the dispossessed and heavily indebted state is capable of fulfilling major social tasks' (Goldscheid, 1958, p. 206). Marx had similarly deemed public debt to represent the 'alienation of the state' (Marx, 1976, p. 919).

More recently, Streeck's (2014, 2017) work carries similar implications. He has been a leading voice stressing the growing incompatibility between capitalism and democracy. Contradicting public choice economics' theory that democratic excess is at the core of growing government indebtedness, Streeck shows that capitalist failure is the main cause of rising public debt. Financialisation delayed the fiscal crisis of the state by calming and dissipating 1970s distributional politics. There was a transition in rich political economies from a tax state to a debt state, and from there to a consolidation or austerity state. Governments' rescue of the financial system in 2008 had the contradictory effect of doing so at the expense of their citizens, and of transforming the problem of private over-indebtedness into one of public over-indebtedness again. It was capital demands, not citizen entitlements which worsen the structural gap between revenue and expenditures. But the consolidation state is being built to regain financial markets' confidence. A new political system emerged in the neoliberal decades in which finance capital exercises not only indirect, e.g., investing or not in a country's economy, but also direct political influence, e.g., financing or not the state itself. In this system, the citizenry is not entitled to affect economic management anymore. Streeck's work is highly compelling and deservedly influential. However, the argument does not differentiate between internal and external debt, different debt structures regarding instruments, or the purposes of the debt. In the attempt to debunk traditional conservative arguments, he ends up reproducing some of their core assumptions. Debt is bad. While public choice economists associate debt with the failure of democratic politics, Streeck connects it with the failure of financial capitalism. Current high levels of public debt in rich countries reflect capitalism's atavistic attempts at hoaxing its inevitable demise, at buying time. This even leads him to see public debt as one of the three 'apocalyptic horsemen of contemporary capitalism' in addition to stagnation and inequality (Streeck, 2016, p. 18).

Overall, this discussion of the literature on the problem of indebtedness points to the need to pay more attention to the policymaking process behind public finance. The purposes, sources, context, and overall structure of the debt should figure at the centre of research. For research focusing on the policymaking process from the perspective of government elites, this means that we need to look carefully at the processes of representational labour that constitute the official knowledge infrastructures that make possible government elites' and non-government actors' assessment of the economic situation and policy options.

We have to take the tenets of the sociology of quantification seriously (E. P. Berman & Hirschman, 2018; Espeland & Sauder, 2007; Espeland & Stevens, 2008; Mennicken & Espeland, 2019). Theoretical and ideological debates on the causes and effects of government deficits are usually based on shaky grounds. While the concept of a fiscal deficit is straightforward and the fact that it leads to a number makes it comparable with past deficits or with the deficits of other governments, fiscal indicators are not necessarily comparable. The general comparability of fiscal numbers, a direct consequence of the standardisation brought about by quantification, is an illusion. Measuring government incomes and outlays is hard. Several accounting and classification decisions underly fiscal aggregates and have significant impacts on the resulting number. Some accounting methods are better equipped to measure economic impacts than others and, therefore, are more suitable indicators of the economic impact of government transactions. Moreover, countries do not necessarily follow the same accounting and classification standards. If these aspects are disregarded, as they commonly are, arguments about the causes and effects of government deficits may have little empirical support. The correspondence between any fiscal indicator and the assumptions of different theoretical economic traditions is not warranted (Boskin, 1982; Buiter, 1984). The numbers conceal consequential and debatable decisions regarding accounting methods, classification, and concepts. As the following chapters show, these debates were not absent from bureaucratic civil service discussions about the most appropriate accounting conventions and indicators for economic policy statistics and documentation.

3. An Economic/Historical Sociology of Sovereign Debt

3.1.The Economic Sociology of Money and Credit

The new economic sociology provides a good place to look for concepts and tools to study sovereign debt from a different perspective. In recent decades, sociological concepts of money and credit have enriched our understanding of economic life. Drawing a strict distinction between money and credit is difficult. They are not categorically different. In Carruthers' terms (2005, p. 362), both represent legitimate claims on value, facilitate exchange, and raise trust issues. Standard economics traditionally advances a functional definition of money as a means of exchange, a store of value, and a unit of account. This definition leads to understandings of money as homogeneous and undifferentiated (e.g., Menger, 1892).[5] It highlights money's

[5] For an economist's critique of this traditional definition of money, see Aglietta (2018).

fungibility, the notion that ‘money has no labels’ (Thaler, 1990, p. 194, 1999). Monetary units are perfectly interchangeable and substitutable for one another, regardless of what they buy, who pays, and who receives payment. Classical social theorists such as Marx, Weber, and Simmel did not disagree with this conception (but see Ingham, 2004, Chapter 4). They tend to see money as anonymous, homogeneous, fungible, and universal. From this perspective, money destroys personal bonds and replaces them ‘with calculative instrumental ties, corrupting cultural meanings with materialist concerns’ (Zelizer, 1997/2017, p. 2; Carruthers & Ariovich, 2010). Accordingly, the expansion and generalisation of monetary-exchange relations inexorably homogenises and flattens social ties.

From this fungibility perspective, money represents the advent of a quantitative calculative logic interested in quantities, e.g., how much, instead of qualities, e.g., what and how (Carruthers & Espeland, 1998, p. 1389; Zelizer, 1997/2017, Chapter 1). Money embodies and causes capitalist development, with the consequence of rationalising and anonymising social relations. Understanding the process of rationalisation of modern life requires, to a significant extent, grasping with the nature and effects of money. According to Polanyi, for example, the monetisation and marketisation of social relations meant the subordination and disappearance of forms of social integration based in reciprocity and solidarity (Polanyi, 2014). A market economy, based in the price system that money and monetisation make possible, transforms the motives of economic action. Economic behaviour becomes exclusively oriented to and dependent on the existence of profit, disregarding human volition, sentiments, and ideals (Polanyi, 1940, p. 2). Moreover, the process by which the economic sphere was autonomised led to the subordination of society to the competitive and materialist requirements of capitalist markets, with the consequence of threatening social bonds and cohesion (Polanyi, 2001, pp. 74, 170). Social life became subject to the impersonality of money and the market mechanism. Social relations were dehumanised, and social values and bonds eroded.

Without rejecting money's fungibility in principle, economic sociologists have recently argued that in real life money is not uniform, multipurpose, and fungible (Carruthers & Ariovich, 2010, p. 72). Money is subject to ‘pervasive differentiation’, for example, according to the purposes to which it is put by money users, who may employ it ‘as a means of creating, transforming, and differentiating their social relations and economic transactions’ (Zelizer, 2012, p. 155). This means that whatever effects money has on human interaction, they do not follow directly from its mere presence. Money may acquire different meanings according to how it was obtained (its sources), who uses it (its users), and for what purposes (its uses) (Carruthers & Espeland, 1998; Zelizer, 1997/2017). Through processes of classification, fungible money becomes less substitutable in practice. The meaning and uses of money are intrinsically related to processes of classification. To the extent that money can be, and is, separated or earmarked into different categories, it loses at least part of its fungibility. Once users earmark, divide or classify money ‘they treat it differently... even though strictly speaking the money is indistinguishable’ (Carruthers & Ariovich, 2010, pp. 4–5). Furthermore, besides its material value and symbolic meaning, money has symbolic value. The meaning associated with an amount or category of money can affect perceptions of its importance or significance (Mickel & Barron, 2008). ‘Special’ or segregated monies rich in symbolic meanings lose

fungibility and gain incommensurability vis-à-vis other monies (Zelizer, 1997/2017, pp. 21–24). Overall, then, the relationship between culture and money is two-sided. Money is cultural. It influences and is influenced by culture. Money and credit are agents of social change but not necessarily in the sense meant by standard economic or classical sociological theories. Money and monetisation change social values, norms, and bonds in different, and not necessarily dehumanising ways.

But economic sociologists have largely neglected sovereign credit, national budgets and the budgetary process.[6] Take the example of Carruthers & Ariovich's textbook, *Money and Credit: A Sociological Approach* (2010). The book devotes whole chapters to examining credit at the individual and corporate levels, but none to credit at the sovereign level. This is even more significant considering that the book is both a seminal building block for a sociological approach to money and credit, and a curated review of recent influential work in economic sociology. Moreover, Carruthers himself is the author of a prominent book on the co-constitution of modern states and financial markets (Carruthers, 1996). Another example is that of relational accounting, Wherry's extension of Zelizer's concept of earmarking. In his definition, relational accounting is 'the set of cultural and social processes used by *individuals* and *households* to organise, evaluate, justify and keep track of financial activities' (Wherry, 2016, p. 132, my italics).

3.2.An Economic/Historical Approach

What happens when (the new) economic sociology meets historical sociology to study public finances? Strangely enough, the answer to this question is still largely unknown. Economic sociologists based in North America and Europe have largely concerned themselves with studying market institutions, the significance of social networks, market behaviour, and the performativity of economic knowledge and socio-technical devices (Callon, 1998a, 1998b; Granovetter, 1973; MacKenzie, 2006; Zelizer, 1978, 1981).[7] For its part, anglophone historical sociology, particularly in its influential second-wave variant, has a long tradition of studying the origins of capitalism, state formation, social revolutions, and political mobilisation (e.g., Arrighi, 2010; Centeno, 2002; Skocpol, 2015; Tilly, 1990). Historical sociologists' focus on big cases, large-scale outcomes, huge comparisons, paradigmatic outcomes, and the like narrowed down the field's thematic area of interest (Lange, 2013, 2017; Thelen & Mahoney, 2015; Tilly, 1984, 1997). Topics that had been central for classical sociological theory debates were almost entirely 'exiled' from historical sociology, 'most notably economic sociology' (Clemens, 2005, p. 499). The more micro-oriented perspective of economic sociology contrasted with historical sociologists' devotion for macro (particularly social, and political) phenomena.

Besides thematic preferences and political commitments, the idiographic-vs-nomothetic

[6] Notable exceptions that prove this rule are, e.g., Carruthers (1996), Quinn (2017, 2019), and Padgett (1981).
[7] On the complementarities and differences between the US and European variants of the new economic sociology, see (Mcfall, 2009; McFall & Ossandón, 2014).

distinction played a critical role in the parting of economic and historical sociology. In their attempts to establish a legitimate jurisdiction within the sociological profession, second-wave historical sociologists sided with nomothetic approaches and activated the boundary to distinguish themselves from what they considered historians' idiographic, descriptive work (Abbott, 1991; Steinmetz, 2005, pp. 139, 149–153). Their inclination to the search for law-like explanations, and probably the need to justify their endeavours, led them to prioritise large-scale phenomena. As a side effect, this decision required them to assume their objects of study, such as states and nations, to be 'neatly-bounded, self-motivated, rule-following actors' (Tilly, 1997, p. 226; Go & Lawson, 2017).

In the other camp, the new economic sociologists emerged mainly as sociologists of markets. Some authors even equate economic sociology with the social studies of markets (McFall & Ossandón, 2014, p. 512). This partly reflects their jurisdictional tensions with economists who, until only some decades ago, were largely successful in claiming that the study of markets ought to be the exclusive concern of economics (Aspers & Dodd, 2015). Thus, probably resulting from jurisdictional conflicts with economics, the new economic sociology inadvertently took as given mainstream economics' ontological depiction of the economy as that-sphere-which-is-not-the-state. In so doing, it helped naturalise the concomitant dichotomy between state and markets or between state and capitalism that historical sociologists had previously questioned. This does not, in my reading, result from any explicit ontological commitments. In practice, however, it has oriented most empirical work within economic sociology. By omission, it seems as if the state and public finances were beyond the professional jurisdiction of the new economic sociology.

At different points in time since the 1980s, there have been notable exceptions to this rift. While not explicitly aiming to bring economic sociology and historical sociology together, some sociologists have contributed outstanding works on government budgets and the relationship between states and finance (Carruthers, 1996; Krippner, 2010, 2011; Padgett, 1981; Quinn, 2017, 2019). Academic and non-academic discourses tend to associate indebtedness with debtor subjugation to creditors and, in the case of sovereign debtors, as leading to the handover of sovereignty. But creditors may become tied to debtor states as much as vice versa. Carruthers conceptualises this as the Eumenes effect. Besides being a mechanism to raise financial resources, borrowing is also a way to create allies, particularly reluctant allies. While debtors depend on creditors to access funds, once the loan is made, and particularly when creditors' stakes are high, creditors depend on their debtors' success. Carruthers reminds us that sovereign debt is a bidirectional *relation* with the potential to make way to a 'complex balance of power between debtors and creditors' (Carruthers, 1996, p. 9). Similarly, Arrighi (2010, p. 126) states that the concentrated business strategy of the Fuggers, a prominent European banker family, 'made them the servants rather than the masters of Charles V's continual financial straits' in the 16th century. This is consistent with Weber's insight that 'there are all kinds of intermediate stages between indebtedness and debt slavery' (Weber, 1921/2019, p. 340).

Quinn highlights how mortgage markets interact with political institutions, shedding light

on the agency of government officials and the politics of credit allocation. Policymakers not only regulate financial markets but also govern through them (Quinn, 2017, 2019). The budgetary, political, and ideological lightness of credit makes it particularly well-suited to circumvent different obstacles. As a tool of statecraft, credit played a crucial role in shaping the US developmental state. Off-budgetary instruments moulded the flow of credit socially, among different groups, economically, among different industries, and geographically, among different regions. Through credit allocation, policymakers managed to govern the economy while avoiding the emergence of overt conflicts over wealth redistribution commonly triggered by tax policy and public spending. Institutionally, federal credit programmes allowed policymakers to circumvent veto points. Quinn shows how fiscal constraints can be both limiting and generative, as 'in the face of a budget crunch, officials sometimes creatively engage with financial markets in pursuit of policy alternatives' (Quinn, 2017, p. 51). The selection and design of specific financial policies result from pressures coming from budget politics more than from an ideological pre-commitment in favour of governing through financial markets. Thus, she theorises budgetary politics as critical for the development of financial markets. This shares the critical insight by Carruthers, Tilly, and others on the co-evolution of modern states and financial institutions. Quinn's focus on the centrality of budgetary politics and its organisational dimension is a key inspiration for this thesis.

While not directly studying sovereign debt, other scholars analyse the intimate relationship between fiscal developments and financialisation (e.g., Crouch, 2009). Krippner's account of the process of financialisation in the US takes as starting points historical perceptions of a looming fiscal crisis and conflicts over how to deal with it. Financialisation did not result from policymakers' initial intentions in dealing with a slowing economy. It was an unintended consequence of policymakers' ad hoc responses to the economic and legitimation crises of the 1960s and 1970s. The turn to the market and consequent financialisation were only explicitly pursued, in an ideological and political sense, after a process of trial and error. This was a historical-contingent process, in which the result owed more to an 'inadvertent discovery' than to a well-designed plan from the outset (Krippner, 2011, pp. 140–141). Policymakers were looking for a way of extricating themselves from the problem of deciding who should bear the costs of slower economic growth. They initiated deregulation amid that search. In the context of a generalised crisis of legitimation, policymakers turned to finance as a way of coping with the consequences of inflation. Financialisation replaced inflation as a means of dissipating social tensions and, thereby, deferred the crisis. Credit expansion and a perception of a return to prosperity allowed policymakers to dissolve political tensions and extricate themselves from the role of arbiters in zero-sum struggles (Krippner, 2010, p. 164).

Following this emerging tradition, this thesis aims to bring economic and historical sociology together. To do so, it deploys the theoretical and conceptual toolkit of relational sociology to propose a relational theory of public finance.

4. Data and Methods

This thesis draws on process tracing for data analysis and primary historical research for

data collection. There has been increasing interest on process tracing and the possibilities it offers. While some highlight its focus on causal mechanisms, others distinguish its potential for theory building, theory testing, and for explaining specific outcomes (Beach, 2017; Collier, 2011; Falleti & Mahoney, 2015; Lange, 2013). As employed here, process tracing is a type of causal narrative that focuses on the causal mechanisms that connect events in a broader sequence of events.

The main corpus of evidence from which I develop the argument consists of primary source archival research. This places the thesis within the third wave of historical sociology (Adams et al., 2005, p. 27; Mayrl & Wilson, 2020). The data collection strategy aimed to gather quantitative and qualitative evidence. Given my analytical interest in the efforts of government elites to make sense of the world regarding, e.g., the economic situation, the political context, the use of resources, the financial situation, bureaucratic conflicts, and the international environment, I aimed to collect as much raw materials as possible. I draw on documents from multiple physical and digital archives. I collected material from The National Archives (TNA), physical and digital collections, the IMF digital archives (IMFA), the Margaret Thatcher Foundation's digital archive (MTFA), the Papers of Sir. W.A. Bryan Hopkin (PSBH) held at Cardiff University archives, the official online Hansard report of all Parliamentary debates (House of Commons, HC, and House of Lords, HL), the UK Historical Data Repository (online), Public Information Online, Gale Primary Sources (online), and published first-person accounts.

Most physical archival research took place between mid-October 2019 and mid-March 2020. At TNA, Kew, the data collection strategy consisted of three steps. First, after analysing the evidence referenced in secondary literature and TNA's catalogue, I started by looking at critical papers for economic policymaking, for example the budget and finance bill papers of the records of the Chancellor of the Exchequer's Office (T171), and the papers of Sir Douglas Wass, Permanent Secretary to the Treasury (T364). At this stage, I also looked at critical dates or events (e.g., 1976) to get a first rough idea of the kinds of debates, actors, and considerations involved. Then, I conducted keyword searches in TNA's online catalogue. For example, to decide which folders to order in relation to the fiscal deficit, I searched ‘Public Sector Borrowing Requirement’ and similar terms. Third, the rest of the data gathering process was mostly guided by the findings of the previous steps in combination with the parallel progress of data analysis. Starting from preliminary findings, I traced specific discussions into other folders.

I gathered the bulk of the material from TNA's physical and digital collections. It mostly consists of transcripts or minutes of meetings, internal reports (documents shaping the background of the policymaking process), analyses and proposals prepared by, e.g., Treasury and Bank of England (BoE) officials for the Chancellor's or the PM's private use, and internal correspondence between officials, politicians, and between either of them and non-government actors. The meeting transcripts or minutes correspond, among others, to Cabinet meetings, meetings between Treasury officials, between Treasury officials and politicians, Treasury officials and BoE officials, Treasury officials and IMF representatives, Treasury officials and

financial investors, politicians and the trades unions, politicians and industry representatives, politicians and heads of international governments, and between politicians and representatives of international financial institutions. Most of the material gathered at TNA corresponds to records from the Treasury (T), the PM's Office (PREM), and the Cabinet Office (CAB). See the bibliography for more information.

The material collected from the IMF digital archives corresponds to transcripts of executive board meetings, background documents and analyses prepared by the IMF staff for the board, and internal correspondence between staff. From the Papers of Sir. W. A. Bryan Hopkin I collected drafts of written pieces by Hopkin, former Chief Economic Adviser to the Treasury, and some communications with other former officials like Andrew Britton. From Hansard I collected the budget speeches and debates over specific policy issues and proposals that emerged as relevant from the analysis of the other sources. From Public Information Office, I gathered several command papers by the government (e.g., white papers), and reports of Select Committees of the House.[8]

The Margaret Thatcher Foundation's digital archive offers free access to declassified documents from archives placed all over the world, including documents held by TNA at Kew. From the UK Historical Data Repository, I gathered all the official published budgetary documentation, as well as other economic and financial statistics. I also gathered other official publications, like the BoE's *Quarterly Bulletin*. From Gale Primary Sources, I gathered journalistic articles from the specialist press, e.g., *The Economist* and the *Financial Times*. Finally, archival work was partly guided and complemented by analysis of insiders' published accounts (e.g., Barnett, 1982; Benn, 1990; Callaghan, 1987; Castle, 1980; Dow et al., 2013; Healey, 1990; Lawson, 1992; Pliatzky, 1982; Wass, 2008).

Conducting historical research can be challenging, particularly when the amount of data gathered is larger than what is possibly manageable. To deal with this aspect, and aiming to minimise as much as possible the chance of unconsciously gathering the same documents more than once, I used Scrivener, a fantastic tool for anyone conducting historical research. The first versions of each chapter were also written in Scrivener.

Finally, a note on the citation styles employed. References to published materials, regardless of whether they are secondary literature or primary sources, follow APA 7th generation in-text citation style. References to unpublished archival material adhere to the Chicago 17th edition full-note style. This will allow the reader to get all the necessary information about direct quotations to unpublished archival materials. I think this is the most transparent method available for historically oriented social science.

5. Thesis Overview

The rest of the thesis is structured as follows. Chapter 2, the last chapter of part I, presents

[8] White papers are statements of government policy. Green papers are government consultation papers.

the relational approach to sovereign debt. It discusses what public debts and deficits are, considers some key foundational concepts of a relational approach to debt, and presents a catalogue of the causal processes at the core of the thesis' explanatory toolbox.

Part II, 'Feeding the Beast: The Politics of Symbolic Fiscal Practices', studies the role of numbers in framing economic policy. It theorises symbolic fiscal practices as policy devices that mediate the relationship between economic policy and the climate of general and expert opinion. More concretely, it traces the evolution of the Financial Statement and Budget Report (FSBR), a political document at the core of economic policy whose contents and layout the government determines without formal external constraints. Published as support of the budget speech, it is crucial to any government's attempts to structure and influence public economic argument. The FSBR is a good entry point to study processes of representational labour and their effects. It allows studying how the purpose and intended audiences of fiscal statistics, their 'communicative goals' (E. P. Berman & Hirschman, 2018, p. 266), shape their elaboration and public uses. Following Mennicken and Espeland's (2019, p. 233) call for more research on the relationship between quantification and public debate, part II examines the role of numbers in imagining, legitimising, and shaping economic policy. In so doing, it inverts a long-established mode of discussing fiscal politics in academic outlets and public opinion. Scholars and commentators commonly label strategies to reduce public spending and state intervention by shrinking the fiscal base as 'starving the beast' (Bartlett, 2007; Prasad, 2018). Part II takes a different perspective. It focuses on government elites' attempts at managing public opinion in general and economic policy debate in particular. From the perspective of government elites, the beast is not the state but the reactions of the leading participants of public and expert opinion, and the understandings and behaviour of practitioners in industry and finance, at home and abroad. During the decades that are the focus of this research, the goal of government elites was to guide the way in which the beast assessed the economic situation and the role of government within it or, in other words, to structure the bounds of possibility for economic policy and enhance its chances of success.

By studying the social processes behind the production, uses, and understandings of public finance statistics, part II studies why certain macroeconomic indicators become more salient and consequential for policy than others. Chapters 3–5 examine the role of numbers in imagining, legitimising, and shaping government policy, and argue that symbolic fiscal practices—the many rules, technologies, practices, and devices that compose them—are crucial sites from where sovereign debt and deficits acquire their political, economic, and sociological meaning. Chapter 3 traces the processes by which and reasons why the 1964-1970 Labour government implemented a significant reform of symbolic fiscal practices. Chapter 4 looks at the processes that led to the unintended emergence of the Public Sector Borrowing Requirement (PSBR) as the main budgetary indicator. Chapter 5 traces how the 1974-1979 Labour government lost control of the terms of economic policy debate, how it tried and failed to shift the boundaries of budgetary politics, and how the PSBR gained an even more important role during the Conservative governments of the 1980s. The politics of official knowledge conditioned the terms and standards of economic policy.

Part III, ‘Shrinking Policy Space: The 1970s Relational Context of Debt’, zooms in to specific fateful relational processes between government and key counterparties in the 1970s. If part II studies how credit relations affect economic policymaking indirectly through their appearance in budgetary reporting, part III studies their direct effects. These two dimensions are not independent of each other and appear in all empirical chapters. Each part focuses on slightly different but inter-related dimensions of sovereign debt and deficits without purporting to present them as discrete or unrelated phenomena. Chapter 6 studies the strategic interactions between policymakers intending to legitimise an active fiscal policy and uncooperative financial markets in the 1970s. It argues that the institutional and cognitive underpinnings of the relational setting of sovereign debt shaped government elites' (and financial investors') understandings of economic policy options, and proposes the notion of an economic policy trilemma to explain and theorise the way in which financial confidence became a binding constraint to government policy.

Chapter 7 offers a novel interpretation of mid-1970s economic policy as cumulative polyvalent performances. It situates the 1976 IMF crisis within a larger relational process and presents the story of how polyvalent performances, relational pondering, and opposite matching games influenced the negotiations between the government and relevant counterparties during 1975 and 1976. For example, the chapter shows that the PM tried to avoid going too far in government efforts to get as little conditionality from the IMF as possible, even if such a thing seemed possible. He aimed at striking the right balance between the need to ‘sell’ the IMF deal to the Labour Party and the government's electoral and social partners, and the urgency of it being genuinely regarded as adequate by the government's ‘other constituency’, the financial markets. Overall, part III traces how (i) strategic interactions between relevant actors and (ii) specific policy and cognitive devices constrained government elites' perceived menu of available policy options.

CHAPTER 2. FOR A RELATIONAL SOCIOLOGY OF SOVEREIGN DEBT

1. Introduction

While contemporary economic sociology has contributed significantly to our understanding of money and credit, public finances and sovereign debt have not been subject to systematic scrutiny and theorisation by economic sociologists.[1] This chapter outlines the contours of a relational approach to sovereign debt and provides a catalogue of the key causal mechanisms we will encounter in the empirical chapters.

Public finances are a crucial site for the co-constitution of, and relations between, the political and economic spheres. Insofar as they define how and for what society finances the state, public finances are a locus to see how the political and economic spheres intertwine. They comprise policies regarding the level (quantity) and composition of public expenditure, and the corresponding financing pattern or the quantity and composition of revenues, most importantly tax revenue and borrowing. Theoretically, money creation is a third tool for financing public spending. The state can resort to its unique prerogative to create money by asking the central bank to provide the necessary amounts. Throughout the period of interest to this research, however, the British government did not make intense recourse to money creation thus defined for financing purposes. The use of the Ways and Means overdraft account that the government has with the Bank of England (BoE) did not have financing but cashflow purposes. Interest-free ways and means advances were subject to strict statutory restrictions (Cmnd 827, 1959, paras 77, 97, 121; Khalid, 1970).

But how should we think about debt? In both lay and expert discussions, borrowing, debt, and indebtedness bear a heavy moral charge (Graeber, 2011). In most circumstances debt is sign of reprehensible policymaker behaviour. Because most of these narratives conceive debt as fungible, they focus on the quantity of debt, treating all kinds of debt in the same way and disregarding its quality or, for example, what it buys (cf. Greeley, 2021). Very often a debtor's accumulation of debts to others is seen as the result of irresponsible behaviour, inefficient house-keeping, or outright profligacy. Debt is also commonly associated with negative outcomes. As we saw above, economists tend to equate government borrowing with a situation in which the state is living beyond its means, drives up inflation, and impairs economic growth. They tend to focus on over-indebtedness and the debtor's failure to avoid such situations instead of the underlying credit relation, its purposes, and context. Moral connotations and assumptions are ubiquitous in these suspicions. At the extreme, the state should always aim to balance its budget. Of course, any person living in contemporary democracies may realise that there is much pretence in such discourses. Much too often those most critical of government borrowing

[1] As noted above, there are some notable exceptions that prove this rule.

have been responsible for the greatest peacetime deficits of their countries. The UK and the US are two cases in point.

The focus on the number or quantity of debt is an eminently non-relational way of thinking about it. Taken to the extreme, the argument is that no matter what the sources, reasons, specific instruments, conditions, and purposes of borrowing, debt is a sign of debtor failure and a cause of economic calamity, present or future, intended or unintended. Indeed, it is nowadays genuinely difficult to know what government borrowing paid for, particularly in rich countries. Governments have the right to issue as much debt as they deem necessary for whatever purposes. In contrast, in the past parliaments approved every bond issuance and specified its purposes. Official parliamentary earmarking aimed to limit the government's room for manoeuvre and ensure that public money was not misspent. Beyond parliamentary control, the old procedure was relevant for the marketability of debt: investors knew that the debt they purchased would finance, for example, railway or telecommunication infrastructures. This was (and still is) even more important in non-rich countries that specified the purposes of debt to get better credit terms. Similarly, borrowers may post collateral to allow investors a better glance at their resources and development prospects and, thereby, get better terms (Flandreau et al., 2021). But legal earmarking had negative economic and institutional consequences. It resulted in an increasing complexity for both the management and supervision of public finances. It rigidised national budgets and made modern economic management more difficult and less efficacious. For these reasons, among others, it was discontinued and, with it, so was symbolic earmarking as represented by official knowledge infrastructures. Nowadays, some countries have negotiated quantitative ceilings on government borrowing. But the information about the purposes of that borrowing is, to say the least, opaque.

This thesis proposes a relational way of thinking about government debt. It poses its analytical focus on explaining the processes through which public money is allocated and reallocated as spending, saving, investment, debt, and other purposes. It traces government elites' (and non-government actors') debates on the desirability of distinguishing categories of financial flows according to their sources, users, and/or purposes. In so doing, I study the political debates over the size of the state and the convenience (and best form) of allocating resources to different purposes. While other scholars have conducted similar work at the individual level—see below—I employ the conceptual toolkit of relational sociology to study relational practices at the government level.

The rest of the chapter is structured as follows. The next section briefly discusses what public debts and deficits are and provides heuristic insights for the rest of the thesis. Section 3 discusses the foundational concepts of a relational approach to sovereign debt. Section 4 defines three causal processes of interest to the thesis and presents a catalogue of the causal mechanisms at the core of the explanatory toolbox that underlies the five empirical chapters.

2. Of Public Debts and Deficits

What is the national budget? What is the purpose of public finances? What is a fiscal

deficit? These and other questions have long bedevilled both laymen and experts. Without aiming to provide definite answers, this section addresses some definitional issues that are relevant for thinking about and studying public finances.

Sovereign government budgeting is not ontologically analogous with household or company budgeting (Keynes, 1933). This has long been mainstream knowledge within the economics profession, although popular discourses and some economists recurrently try to challenge it.[2] Government and households are different entities with different purposes. To start, sovereign governments can create money. More importantly for our purposes, because of its sheer size, government policies on taxation, spending, and borrowing have significant economic and social impacts. Economic policy may affect the overall size of the economy and the rate of economic growth and, accordingly, it is commonly designed to affect economic outcomes. Macroeconomically, for example, the budget deficit can increase the level of economic activity, lead to balance of payments deficits, and accelerate inflation. The government might employ public finances to stabilise employment, ameliorate the consequences of a non-economic crisis, fight inequality, and/or introduce structural transformations in the economy. Government finances also play a crucial role in financial stability. While public debate tends to focus on over-indebtedness, too little public debt might have undesired negative consequences for the financial system (Minsky, 1995). Overall, *per se*, paying government bills is not the national budget's main or most important goal. Sure, governments must back their activities somehow, and they generally have several ways of doing it at their disposal. The point is that traditional financial constraints experienced by companies or households do not apply to the national budget. Public finances should be discussed in relation to the consequences and impacts they have on the rest of the economy. Note that the wording of the last sentence is not trivial: modern governments are part of the economy; a part with greater, even constitutive, responsibilities, not an external agent that can decide whether to intervene or not. The fundamental questions regard the degree and kind of government economic actions, not the metaphysical dichotomy between state and market.

Let's take the example of budget deficits. While the idea of a fiscal deficit is straightforward, issues regarding the specific concept employed, its operationalisation, and measurement make it far from clear-cut. The deficit refers to the gap between government incomes and outlays. However, deficit concepts can differ significantly. Figure 1 shows different concepts for the UK using recently released data. The Treaty deficit follows traditional continental European accounting conventions and measures borrowing on general government's account—central government and local authorities. The Public Sector Borrowing Requirement (PSBR) follows British conventions and covers all public borrowing, including borrowing for the purposes of public corporations—most of which was done by central government as financial intermediary. While the 1975/1976 PSBR totals 8.5% of GDP, the Treaty deficit scores just 4.2%. The PSBR was twice the Treaty deficit! Underlying this difference are contested decisions regarding scope, accounting conventions, and classification.

[2] One influential example is Buchanan and Wagner (1967).

Measuring public finances is a constitutively ambiguous and demanding task. It rests on essentially contested concepts of the state, public spending and revenues, and the role of government (cf. Gallie, 1955). Public finances' concepts and conventions of measurement are eminently political (cf. Lukes, 1974/2005, p. 30). The fiscal deficit aggregates an enormous number of transactions carried out by diverse actors in different moments and places. The process of data collection and systematisation are complex and bureaucratically demanding. Ex-post adjustments and re-estimates are common. Furthermore, fiscal statistics are built upon several contested accounting conventions. That is the case of the traditional deficit-to-GDP ratio, which is built upon conventions as to how to conceptualise, operationalise, and measure the deficit and GDP. As chapter 5 shows, deficit-to-GDP ratios may vary significantly according to whether GDP is calculated at factor cost or market prices.[3] In brief, public finance statistics are built upon several arbitrary decisions. This is not to say that they are illegitimate or fraudulent. The complexity of public finances means that there are several legitimate accounting conventions. For example, accounting conventions can follow a cash or accruals method. While the cash method records transactions when money is transferred, an accruals approach scores them when income is earned or expenditure incurred. In the case of income taxation, a cash-based system records revenue when taxpayers' liability is paid, and an accruals method scores it when taxpayers earn income. The UK followed a cash approach until 1998. Had an accruals method been systematically adopted before, as was debated but discarded, the 1975/1976 Public Sector Net Borrowing (PSNB) would have totalled 6.3% of GDP instead of the PSBR's 8.5%. By this measure, the highest fiscal deficit took place in 1993/1994 under Major's Conservative government (see figure 1).

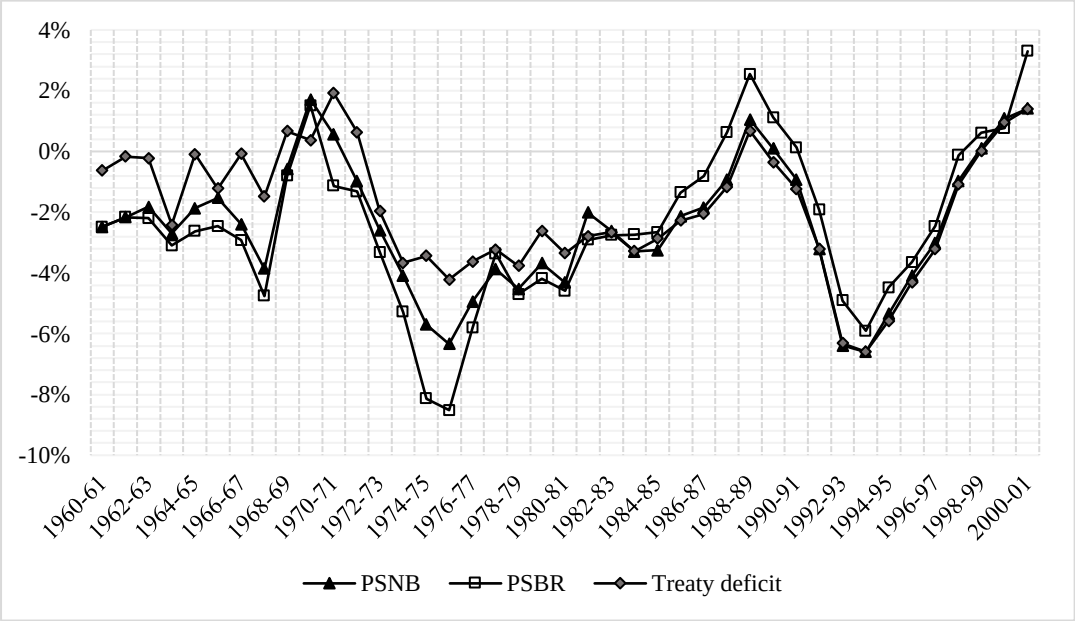

Figure 1. Three deficit indicators
Source: Author's elaboration based on (OBR, 2020)
Note: (–) indicates deficit

[3] Factor cost GDP measures economic activity by the cost of the factors of production. Market prices GDP measures the prices paid by consumers on the market, including subsidies and taxes.

How transactions are classified using given classificatory devices is also fateful. For example, the distinction between transactions leading to and financing a deficit, whether transactions were scored above or below the borrowing requirement line, was not unambiguous. As part II shows, government transactions were commonly presented in a summary budgetary table. While the transactions scored above the borrowing requirement line were equated with government spending, below-the-line transactions were seen as financing spending. In other words, government elites had two decisions to make: first, whether to include a transaction in the budget concept the table attempted to convey. Second, whether a transaction should be classified above or below the line. All transactions above the line increased the deficit. Transactions below the line did not affect its size. In the words of two Treasury officials, below-the-line transactions were regarded as 'financing' the deficit or 'accommodating to its otherwise determined size' (Alexander & Toland, 1980, p. 80). While all current and capital transactions scored above the line in the UK, not all financial transactions scored below. Assets and liabilities were treated asymmetrically. If government lending (asset) was classified as pursuing policy reasons—e.g., economic modernisation—it scored above the line, with the corresponding liability below the line. Underlying this convention was a specific schema of what the state does and why: since government was not a profit-making financial institution, its lending was generally related to specific policy reasons or objectives (Golland et al., 1998). While government liabilities were 'usually of a purely financing nature… the assets [were] usually the consequence of deliberate non-monetary policies'.[4] This asymmetric treatment of financial transactions had as necessary consequence a larger PSBR.[5]

A key thing to conclude from the preceding paragraphs is that official statistics and indicators are complex tools of knowledge. They do not simply reflect or measure an objective external reality (Desrosières, 2015; Lemoine, 2017b; Otis, 1984). The elaboration of knowledge infrastructures, from conceptualisation to measurement and reporting, is filled with political and technical complexities. They are the product of social processes of representational labour (Tooze, 1998), which makes them 'inseparable from [their] context of use' (Desrosières, 2003, p. 561). While numbers, categories, and their arrangement in tables and official documents help our comprehension of complicated things, they do so 'at the price of mediation' (Espeland & Sauder, 2007, p. 431). There is a 'black box of public debt statistics' that needs unpacking (Monnet & Truong-Loï, 2020, p. 503). Their meaning and implications for users should not be taken as given. There is no one right measure to assess public finances, nor one unique way of interpreting them. It depends on the questions asked.

3. Building Blocks of a Relational Sociology of Sovereign Debt

3.1.Foundations

A focus on the quantity of debt alone leads to a partial understanding. It disregards

[4] TNA: T340/70, 'Shepherd to Field, "Presentation of Public Sector Accounts: Draft Report"', (1971).
[5] Another example is note issuance. Notes in circulation scored as interest-free debt, and note issuance added about £200-300mn to the PSBR in 1971. Because the BoE was reclassified from central government into the monetary financial institutions sector of the national accounts in 1998, notes no longer count as government debt.

fundamental questions concerning its composition—different items may lead to the same aggregate number with distinct economic and social effects—and underlying representational labour. How, then, can we establish a different approach?

In recent decades, relational approaches have gained currency within the social sciences (Tilly, 2008, Chapter 1). The goal of relational thinking is to supersede dualistic approaches and perceptions that divide social reality between, e.g., structure and agency, society and individual, object and subject (Bourdieu, 1985). Instead of debating which side of each duality has ontological priority, sociologists should assert the primacy of relations. 'The stuff of social reality—of action no less than structure, and their intersection as history—lies in relations' (Wacquant, 1992, p. 15). Relational theoretical frameworks can be broadly divided into relationalism and formalism (Bandelj, 2012; Erikson, 2013). Both look at relations or connections between actors and theorise them as the backbone of organisational structures and individual behaviour. But they differ regarding, for example, the content or meaning of social ties, the importance of context, their concept of agency, and the way in which they link behaviour at the micro level to macro outcomes (Erikson, 2013, p. 225). Without intending to give the impression of an absolute dichotomy, the relational approach mobilised by thesis is closer to relationalism than formalism insofar as it aims to pay simultaneous attention to relationality and meaning (Bandelj, 2020, p. 267).

I build on the relational frameworks proposed by economic and political sociologists, most notably Charles Tilly and Viviana Zelizer (Bandelj, 2021; Block, 2012). While Zelizer first developed her notion of relational work to study the intersections between intimate and economic relations, with the implication that the economic and intimate spheres are not separated but connected, scholars in this tradition agree on its usefulness beyond intimacy. Relational work is the process by which people differentiate meaningful social relations, define the nature of their interactions, and their mutual expectations (Zelizer, 2012, p. 145). It refers to 'how actors manage the connections across social relations, economic exchange, and media of exchange' (Bandelj, 2020, p. 267). While often routinised, relational work is at the root of economic interactions. For an economic transaction to proceed successfully, even the most utilitarian buyers and sellers need to 'share a common definition of the situation, agree on the terms of the contract, and accept certain ground rules' (Block, 2012, p. 137). To organise economic exchanges, actors mobilise the cultural resources available to establish, maintain, negotiate, transform, and finish interpersonal relations. In so doing, people erect boundaries that differentiate relations and organise understandings and practices (Zelizer, 2012).

Most scholarship on this tradition focuses on interpersonal relations (e.g., Wherry, 2016, 2017). While Zelizer herself argues that the scope of relational work includes the study of organisations and institutions, there has been little development on that direction (Zelizer, 2012, p. 165). Of course, there are some exceptions. Bandelj conceives foreign direct investment (FDI) as two-sided relational exchanges between host countries and investors. She highlights the social constitution of FDI and argues that economic actors 'rely more on social, political, and cultural cues that often help them identify what their business interests should be, rather than on formal indicators of economic efficiency' (Bandelj, 2009, p. 143). Network

structures, power distribution, and cultural understandings play an important role. Host countries efforts to build a legitimate demand for FDI matter. This highlights the social foundations of macroeconomic trends and questions traditional explanations of FDI patterns that stress investors' instrumental assessments of economic risks and returns.

Building on this work, I advance the core sociological insight of the analytical primacy of relations, process, and contextuality. Debt is relational. In its most basic definition, it involves a two-sided intertemporal transaction between a debtor and a creditor. Borrowing is thus a social relation, not a propensity. But there is more to it than that: the debtor borrows *from* some creditor, *through* a specific debt instrument, *for* some particular purpose, *in* certain circumstances. It follows that understanding the causes, meanings, and effects of government borrowing requires paying attention to who is at each side of the transaction and analysing the determinants of their actions. Credit is not simply the product of profit-maximising appraisals. Government borrowing is socially constituted by political conflicts, economic discourses, technologies of knowledge, and economic circumstances, among others. These social forces do not only constrain but also constitute economic action (Bandelj, 2009, 2020).

A relational approach to sovereign debt entails defining the fundamental units of analysis in relational, not substantialist manner. Dynamic and unfolding relational processes are the primary unit of analysis rather than assumed stable essences (Bandelj, 2020, p. 252; Emirbayer, 1997, p. 287; Mudge, 2018, p. 15; Tilly, 1999b, p. 411). To take Weber's formulation, economic social action is social action in which the actor's intended meaning is related and oriented to the behaviour of other actors (Bandelj, 2020, p. 254; Weber, 1921/2019, p. 79). Causality inheres in social relations, not pre-social essences, or intentions. Because social reality is dynamic and processual, events, outcomes, processes, and action more generally do not result from self-propelled actors. Actors themselves are 'continuously changing products of interaction', and processes often result from indirect, cumulative, unintended, and mediated effects (Tilly, 2002, p. 73). Identities and intentions are, to a significant extent, the product of ongoing social relations. States, for example, are not fixed, natural entities that can be understood in isolation but historically constituted entities in-motion which are 'produced, reproduced, and breakdown through the agency of historically situated actors' (Go & Lawson, 2017, p. 23). Debtor states are partly constituted through credit relations and thereby modified by them.[6]

From a relational perspective, communication and the use of language are 'at the heart of social life' (Tilly, 2008, p. 27). Communication, in its several forms and channels, plays a critical role in constituting actors, their strategies, and interactions. If context and interaction are critical factors, we need to consider and study communication and its infrastructures: why do political debates come to be structured in certain ways and not others? Why does public

[6] This is not to say that we can dispose of things and only study relations. To study relations, we focus on things-in-relation, on things that are related to each other. The point is that things, e.g., persons or organisations, are to a significant extent the product of previous social relations and processes. While for analytical purposes we treat things-in-relation as things, we ought to bear in mind that, conceptually, they do not pre-exist relations and, accordingly, are affected and constituted by them. Things-in-relation are historical products, not natural essences.

deliberation, in some cases, place more attention on some aspects but, in others, prioritise the exact opposite elements?

I mobilise an expansive conception of sovereign debt. More than a collection of isolated interactions, sovereign debt is an ongoing relational process. While analytically narrow conceptions of debt focus on the outcomes of formal negotiations, for example in the form of debt contracts, an integral or expansive conception of sovereign debt considers credit relations as part of the public finances and, therefore, as taking place through different connecting channels and processes, of which contracts are one important component. Public finances are an open-ended process with no definitive outcome or time limit. In the words of Carruthers (2005, p. 368), credit processes combine 'the creditor's goals, the debtor's goals, character and financial standing, formal-contractual and informal-social relationships between debtor and creditor, the third-party ties of both, and the overall legal framework'. From this vantage-point, government borrowing is best understood by situating it within the broader policy decisions and relational contexts that condition policymakers' decisions and efforts to legitimate their actions. To discover the meanings and effects of borrowing, we need to situate it in the relational contexts within which policy decisions are made and pay attention to policymakers' need to legitimate their decisions.

Debt and deficits are not isolated phenomena, and credit relations do not occur in a vacuum. To grasp the meanings they bear and the outcomes they help bring forth, we need to situate credit relations in their historical, political, and economic context. Sovereign credit takes place in relatively specific but intertwined relational contexts. Tomaskovic-Devey and Avent-Holt (2019) take the notion of relational context as a synonym of the organisational interactional setting. My conceptualisation is broader. For example, it identifies intra-organisational relations as one relational context, and inter-organisational relations as another. I argue that actors are relatively aware that they live and act in continually renegotiated orders or, in other words, in relational ecologies.[7] The most abstract, general, and encompassing relational ecology consists of (1) relations between individuals—e.g., civil servants, politicians, and financial investors—between state and non-state organisations, and between countries, and (2) official knowledge infrastructures that allow internal policymaking and public economic discussion to develop. Actors are conscious that the context of action is eminently relational. Even if in practice they may be unable to identify the boundaries of the relational ecologies in question, the actors are aware that forces beyond the entities in direct interaction constrain, influence, and may be affected by the interaction. From this, it follows that credit relations are rarely strictly bilateral or dyadic. Third-party actors shape a contested net of accountability beyond immediate dyadic interactions. Credit relations usually are influenced by, and have broader consequences on, other actors, ties with these third-party actors, and future credit interactions. Previous relations affect the future menu of actions perceived as valid or legitimate by those directly involved and non-involved. In Tribe's words, 'agents assess and estimate their prospects, and are engaged in processes that place them in constellations of forces that shape the opportunities open to them' (Tribe, 2019, p. 65).

[7] I define relational ecologies as sets of interacting relational contexts.

Methodologically, this entails focusing less on describing policy than on policymakers' meaningful decision-making context (cf. Weber, 1921/2019, p. 84). Actors not only attach meaning to their actions and relations, but also elaborate associated symbols, practices, and media of exchange. This should lead us to pay attention to the economic context, to government relations with relevant political-economic actors, and to the cognitive environment of decision-making. Similarly, it entails scrutinising how policymakers try to legitimise their decisions by reference to that context and/or by reforming the meaningful (cognitive) environment of policy.

But who, what, and how shapes the relational contexts and their evolution? The relational ecology of any particular credit interaction may be shaped, among other things, by the national macroeconomic situation; the public knowledge infrastructure that makes economic assessment possible; the correlation of political-economic forces; the climate of opinion regarding legitimate purposes for borrowing; the climate of opinion regarding the capacity of government to pursue some goals; the climate of expert opinion regarding the conduct of economic policy; state schemas of the appropriate role of government; the identity, characteristics, and status of borrowers and creditors; and the international economic and political context. While establishing the precise contours, shape, and influences of any encompassing relational ecology is probably a never-ending task, let alone reconstructing its development over time, the next section suggests that we can break it down into smaller, more manageable constituent relational contexts.

3.2.Operationalising the Approach

For the purposes of this research, I define relational as comprising a notion along Tillian and Zelizerian lines but focusing on (1) inter-organisational relations, (2) intra-organisational relations, and (3) semantic relations, a meaning centred notion of relations between the concepts and categories at the core of official knowledge infrastructures (see table 1).

Inter-organisational relations refer to relations between organisations within the state and between state and non-state organisations. I focus on four main types of inter-organisational relations. **Financial flows** are the actual flows of financial resources between central government and other entities, public or private (Mayrl & Quinn, 2016, p. 6). **Organisational hierarchies** are durable organisational links and the administrative hierarchies they constitute in terms of the distribution of oversight powers, control, and responsibility between diverse organisational units. **Recurrent inter-organisational interaction** are recurring interactions between different organisations. **Symbolic ties** are the symbolic representation of financial flows and organisational hierarchies, and demarcate symbolic boundaries both within the state, e.g., differentiating central government, local authorities, and public corporations, and between the state and the rest of the economy.

Intra-organisational relations refer to relations between individuals and organisational positions, and to networks of expertise within or across organisational units. In this case, the main unit of analysis relates to **recurrent intra-organisational interactions** consisting of

more or less scripted interaction between organisation members. Recurrent intra-organisational interaction is the site of varying conflicts between different types of expertise and interests. Depending on the case at hand, these conflicts will mediate the degree of recourse to organisational scripts or improvisation.

Semantic relations are relations between the concepts and categories of official knowledge infrastructures. They are relations between the elements distributed within a well-bounded grammatical-visual framework or relational context. Examples of this are grammatical-visual relations between the concepts and numbers contained by graphic devices, mostly tables, and larger official documentation, e.g., budgetary reporting, that collects various graphic devices and accompanies them with limited textual contextualisation. Semantic relations shape meaning-making strategies and structures. The main units of analysis are semantic and arithmetic ties. **Semantic ties** refer to the specific grammatical relations between one category and others in a given relational context which, because of their arrangement, modify the meaning of a given category. **Arithmetic ties** refer to the visually arranged arithmetic relationship between the different items of a graphic device. For example, whenever a table leads to a total, it means that specific arithmetic ties between some items and that total are being highlighted, thereby modifying the meaning of each specific inter-related category.

Analysing semantic relations has important implications. First, the meaning of a category partly depends on its grammatical-visual relations with other elements in the relational context. Following structural linguistics and semiotics, social scientists stress that the meaning of cultural objects like information and their constituents—concepts, words, utterances, etc.—are not essential but depend on their relations with the other elements of a determined cultural meaning system (Somers, 1995, p. 135). Second, interpreting meaning entails analysing patterns of relations between the different cultural elements of a given symbolic system (Mohr, 1998, p. 365). Third, it is necessary to bear in mind the Peircean insight that the meaning of a sign is also eminently contextual in the sense of emerging from continuing processes of interpretation (Emirbayer, 1997, p. 301). This adds a second layer of relationality on top of 'pure' grammatic-visual relations. The meanings of cultural objects are 'activated only in relationship to other meanings and in history' (Somers, 1995, p. 132). Cultural codes are not closed systems (Mohr, 1998, pp. 252–253, 2000). To identify causally relevant relations, we must situate cultural codes within their broader institutional and cultural contexts. Given this connection between meanings and practices, relations between meanings 'should be determined by their embeddedness within' practices, 'and vice versa' (Mohr, 1998, p. 365). For example, as previous research on double-entry bookkeeping shows, there are both technical and rhetorical dimensions to accounting. Accounting methods are also interpretive frames with rhetorical purposes (Carruthers & Espeland, 1991, p. 35). In the cases analysed in this thesis, the people that designed symbolic fiscal practices did it taking into consideration how different arrangements, i.e., semantic relations, were normally interpreted, and how to make use of, or creatively challenge conventional thinking.

Table 1. Units of analysis of a relational sociology of sovereign debt

Type of relation	Variety	Definition
Inter-organisational	Financial flows	The flows of financial resources between central government and other entities, public or private.
	Organisational hierarchies	Durable organisational links and the administrative hierarchies they constitute regarding the distribution of oversight powers, control, and responsibility.
	Recurrent inter-organisational interactions	Recurring interactions between different organisations.
	Symbolic ties	The representation of financial flows and organisational ties. They demarcate symbolic boundaries within and outside the state.
Intra-organisational	Recurrent intra-organisational interactions	Relations between individuals and organisational positions, and networks of expertise within or across organisational units.
Semantic	Semantic ties	Visual-grammatical relations between one category and others in a relational context. They may modify the meaning of inter-related categories.
	Arithmetic ties	Visual-arithmetic relations between items of a graphic device. They modify the meaning of inter-related categories.

4. Three Relational Processes and a Catalogue of Causal Mechanisms

This thesis studies how relational fiscal practices shape government elites' (and non-government actors') perceptions of economic policy options, contour their communication of policy options to relevant stakeholders, and structure political debates over the size of the state and the allocation of resources to different purposes. Whereas most scholars of government debt focus on the problems of enforcement and indebtedness, I argue that to understand the political, economic, and sociological significance of sovereign debt, we must study how government elites and non-government actors distinguish borrowing in accordance with its sources, users, and purposes. To do so, I look at three relational processes in which inter-organisational, intra-organisational, and semantic relations interact: **symbolic fiscal practices**, **classification struggles**, and **interwoven relations**.

Perceptions of legitimacy and validity have consequential influences in the process of defining what are the available policy options. While we know that legitimacy is a relational phenomenon, we know less about how the legitimacy of public policy gets done. Actors within and outside government may challenge the finance minister's assessment of economic conditions and policy proposals. Commonly, these are much more than conflicts about the technicalities of policy. Contests on the legitimacy of the goals and instruments of economic

policy are, to a significant extent, conflicts between different fiscal schemas that represent the state in a certain way and are built upon assumptions about its proper nature and role.[8] Different fiscal schemas may constrain or enable distinct policies. To do so, they depend to a significant extent on specific tools of knowledge.

Policymakers are aware that their oral interventions and the official documentation they provide as background may shape the terms of public debate and the relative salience of different aspects of policy. Moreover, the fact that general and expert opinion are not static raises the question, from policymakers' perspective, of how to communicate their policies to relevant stakeholders and, thereby, broaden their room for manoeuvre. The processes by which policymakers define the range of available policy options consist, to a significant extent, of efforts to anticipate the likely reactions of other actors. This means that finance ministers pay careful attention at both the economic situation and the state of general and expert opinion *before* making policy announcements. Generally speaking, they attempt to generate legitimacy by appealing to either of two factors (or both): general and/or expert opinion and economic circumstances. For example, policymakers may refer to and highlight how and why the economic circumstances demand non-conventional policies even if expert opinion is not all in favour of them. To make them more palatable, they may modify the policy devices they use to communicate their policies.

The next subsections define symbolic fiscal practices, classification struggles, and interwoven relations, and offer a catalogue of the causal mechanisms that allow us to explain how these relational fiscal practices shape government elites' (and non-government actors') understandings of the menu of policy options open at any given time and place.

4.1.Symbolic Fiscal Practices

In recent decades, there has been increasing interdisciplinary research on the role of statistics in establishing the concept of a national economy (Mitchell, 1998; Tooze, 1998, 2001). Scholars have also shown how specific policy devices such as GDP structure public debate around the economy (Coyle, 2014), and how knowledge infrastructures shape the trajectory of scientific fields and influence policy agendas (Bowker & Star, 1999; Hirschman, 2021). Drawing on this work, this thesis studies the production of official knowledge infrastructures and their influence in day-to-day economic policymaking and economic policy debate, most spectacularly, symbolic fiscal practices. **Symbolic fiscal practices** refer to all official documentation, information, and conventions underlying economic policy reporting, particularly but not only in relation to the national budget. In shaping the infrastructure of social perception, symbolic fiscal practices are a device for seeing the state.

Sociologists and political scientists frequently study the relationship between economic

[8] DiMaggio (1997, p. 269) defines cognitive schemas as 'knowledge structures that represent objects or events and provide default assumptions about their characteristics, relationships, and entailments under conditions of incomplete information'. On state schemas, see Mayrl and Quinn (2016).

policy and the climate of general and expert opinion, but the role of symbolic fiscal practices in structuring that relationship has been less scrutinised (Barnes & Hicks, 2018; Fourcade, 2017; Hall, 1993; Krippner, 2011; Quinn, 2019; Sinclair, 2000). This is surprising because national budgets are a crucial aspect of modern states and play a vital role in contemporary representative democracies. Once democratic politics becomes a field of 'statistics watchers' (Alonso & Starr, 1982, p. 30), political argument develops into a contest between interpretations of official statistics. This information is crucial for how diverse stakeholders assess the economy, evaluate policy, and shape their own behaviour. As budgetary policy is relevant to how different actors evaluate the government, and the budget opens government policies to public scrutiny, general and expert opinion become important constraints of government policy.

This gap is problematic because symbolic fiscal practices are not neutral reflections of an external reality but highly consequential devices for the constitution and articulation of state, economy, and society (Desrosières, 2015; Desrosiéres, 1990; Otis, 1984). Numbers mediate economic comprehension (E. P. Berman & Hirschman, 2018, p. 256; Espeland & Stevens, 2008, p. 431). Symbolic fiscal practices, the decision as to what and how to report, structure public debate and, potentially, internal processes of policymaking. Because national budgeting is a complex and open-ended process, there is no uniquely correct method of representing it. Governments can choose a specific set of policy devices in the form of accounting conventions, economic indicators, and fiscal rules. If transparency and accountability force governments to allow public scrutiny, they hold some leeway to decide how to represent their policies and the surrounding economic reality. As I discussed above, however, the concepts, operationalisation, and measurement of public finances are essentially contested and eminently political (cf. Lukes, 1974/2005, p. 30). In providing specific modes of reasoning and benchmarks for assessing policy, budgetary conventions can forge particular fiscal schemas. They make some aspects more salient than others, thereby potentially influencing perceptions and expectations over the state. This begs the question of how the numbers and broader documentation are fabricated through processes of contested representational labour (Tooze, 1998).

The literature on the relationship between ideas and economic policy shows that there are no neutral ways of presenting and construing economic policy. This research helpfully focuses on how powerful non-state actors and processes influence the policy process and outcomes (Blyth, 2013; Dellepiane-Avellaneda, 2015; Fourcade, 2017; Lemoine, 2017a; Mudge, 2018, Chapter 6; Sinclair, 2000; Tribe, 2015). But the sources of information that make evaluating economic policy possible have not been considered in detail. While science and technology studies have made significant progress looking at how knowledge devices structure markets and economic behaviour (Callon, 1998b; Carruthers & Espeland, 1991; Espeland & Stevens, 2008; MacKenzie, 2006), they have paid little attention to these processes in relation to economic policy (Hirschman & Berman, 2014, p. 782). The critical aspect of where state and non-state actors obtain economic information, and the in-built biases of that material, remain under-scrutinised. Little attention has been paid to the informational and cognitive infrastructures of economic policy making and debate, the representational labour that constitutes them, and the way in which symbolic fiscal practices mediate the relationship

between economic policy and the climate of general and expert opinion. This is particularly relevant if we consider that human action is intrinsically related to description. In Hacking's words, 'all intentional acts are acts under a description' and whenever 'new modes of description come into being, new possibilities for action come into being in consequence' (Hacking, 2002, p. 108). Through its public informational infrastructure, the state shapes the normative and symbolic orders and influences how we describe the economy and the state itself (Bourdieu, 1999, 2014, p. 10; Morgan & Orloff, 2017, p. 10). States are a very influential cultural actor (Fourcade, 2009, p. 20), and agents of state institutions 'make continuous use of their considerable resources in efforts to order meanings' (Sewell, 1999, p. 56). At the same time, these categories are the product of social processes and conflicts over what to measure, for what purposes, how to measure it, and how to present the information for internal and publication purposes.

This thesis addresses this gap by theorising symbolic fiscal practices as key devices for economic policy framing. A frame is a singular, non-neutral way of thinking about an issue that simplifies it by making specific aspects more salient for decision-making and debate (Chong & Druckman, 2007; Druckman et al., 2010, pp. 136–137; Fligstein et al., 2017, p. 883). More than a static thing, framing is a process. Interpretive frames organise meaning and may also influence behaviour as they co-evolve with their context (Diehl & McFarland, 2010, p. 1716; Goffman, 1986; McCammon et al., 2007; McVeigh, 2004; Snow et al., 1986). They are a critical cultural component of interaction and sense-making, entailing, among other things, 'joint deployment, improvisation, construction, and modification of stories about what is going on' (Tilly, 1999a, p. 411). If there is no neutral way of representing economic policy, it follows that symbolic fiscal practices may be highly consequential for policy outcomes and conceptions about the role of the state. As recent work combining culturalist and institutionalist approaches to the state shows, we can ground the symbolic power of government 'in concrete organisational practices without reifying the state-society distinction' (Mayrl & Quinn, 2016, p. 19). The boundaries between the state and the economy are not natural but result, to a significant extent from varied state 'practices, devices, and forms of calculation' (Coombs & Thiemann, Forthcoming, p. 6). If there exists something like the relative autonomy of symbolic representation (cf. Bourdieu, 2010, p. 486), and if symbolic representation cannot be understood as a neutral reflection of reality, we need to understand the two-way relationship between institutional practices and bureaucratic conflicts, on the one hand, and representational labour on the other.

To study how symbolic fiscal practices mediate between economic policy and the climate of opinion, I distinguish between what makes them causally relevant and what determines their specific shape and effects. First, as the state has no intrinsic or unitary boundary, symbolic fiscal practices are systems of classification that depict the area for which government sees itself as directly responsible. They draw the boundaries of the state and separate it from society and economy. Second, because any fiscal schema is built on contested categories and classifications, symbolic fiscal practices are a policy device for seeing government and choosing policy (cf. Hirschman & Berman, 2014, p. 797). It follows that we can study the precise organisational processes by which central government boundaries (as different from

the state's as a whole) are produced and reproduced in symbolic fiscal practices. In a different dimension, third, national budgets express government policies and make public scrutiny possible. However, budgetary reporting cannot be objective. It mediates comprehension by providing simplified ways of appraising policy, e.g., single numbers like the fiscal deficit or rules targeting the deficit/GDP ratio. In so doing, fourth, symbolic fiscal practices influence economic and political agents' evaluation of policy and consequent behaviour. Overall, by providing specific modes of reasoning and benchmarks, they structure public debate and frame economic policy in ways that highlight, obscure, or even omit government activities or aspects of them. By classifying, categorising, and quantifying things within and outside the state, symbolic fiscal practices are consequential tools of knowledge. They provide a particular terminology for describing the state and the economy, inscribe them as fields of knowledge and intervention, and influence conceptions of the state and expectations of the role of government.

Symbolic fiscal practices are relational and should be studied accordingly. This requires analysing their production and interpretations vis-à-vis both (1) their backstage organisational context, marked by within-state bureaucratic politics, and (2) front-stage conflicts over economic policy framing. Cultural formations such as signs, symbols, statistics, indicators, tables, and budgetary reports, are better thought of as having a communicative or rhetorical goals (E. P. Berman & Hirschman, 2018, p. 266; Carruthers & Espeland, 1991) or strategic orientations (Mudge, 2018, p. 12). These graphic and numerical devices are a mode of communicative act (Goody, 1977, p. 71).

The trajectory and effects of symbolic fiscal practices over time result from two additional processes, classification struggles and interwoven relations. At the same time that symbolic fiscal practices structure and affect them, classification struggles and interwoven relations determine the specific shape and effects of symbolic fiscal practices.

4.2.Classification Struggles

Classification struggles define and redefine knowledge infrastructures. Official classification creates categories to delineate boundaries between different activities and things, marks them with names and practices, arranges them visually-grammatically, and ascertains membership principles according to the type of connections between them (cf. Zelizer, 2012). For the purposes of this thesis, symbolic fiscal practices and the classificatory schemes that underly them draw contested images of the social, economic, and political landscape, including the state itself. To that extent, official classification is ‘the means and stakes of power… an integral facet of the modern state’ (Mayrl & Quinn, 2017, p. 61).

Classification struggles are a key determinant of symbolic fiscal practices' specific shape and effects. In Bourdieu's conceptualisation, classification struggles are conflicts ‘aimed at transforming the categories of perception and appreciation of the social world and, through this, the social world itself’ (Bourdieu, 2010, p. 486). To classify and calculate we need categories (Callon, 1998a, p. 16). Categories are more or less bounded divisions of things

marked with a name or label. They are groups of things such as social action, financial flows, people, organisations, or traits, that come to be distinguished from other things, and have defined relations within and between categorical boundaries. While we may think of our categories of perception as if they were part of a pre-existing social reality, cognitive sociologists argue that categories are 'islands of meaning' we create out of the two constituting but opposite acts of classification, lumping and splitting (Zerubavel, 1996). Moreover, we tend to treat marked and unmarked phenomena asymmetrically. This cognitive asymmetry of social perception means that we exaggerate the consistence, coherence, importance, and salience of the marked (Brekhus, 1998). Similarly, sociologists of quantification question the supposed neutrality of the measurement practices underlying quantifiable categories. They substitute a focus on the performativity of accounting for the traditional realist metrological reduction of social reality and stress that accounting builds on social convention and conflicts (Fourcade, 2017; Mennicken & Espeland, 2019). Numbers, labels, and their arrangement are social sites, not objective metrics of a frozen external reality. It is thus difficult to objectively establish cognitive adequacy standards for economic statistics and policy devices (cf. Stinchcombe, 2001, pp. 21–24). They are based on social conventions (Diaz-Bone & Didier, 2016).

Official classification has significant causal effects. Category formation, classification, and quantification are critical building blocks of the process of 'political reduction of social complexity' that underlies the production of classificatory schemes (Starr, 1992, p. 278). First, classification gives a simplified view of a much more chaotic social world. It inevitably entails giving the impression of a world composed by some perfectly bounded entities (and not others) when there are theoretically infinite alternative categories. Second, as with other forms of representation, classification has cognitive effects. Once institutionalised, it may help constituting and structuring social conflicts, for example in terms of what we conceive as legitimate conflicts, the stakes of conflict, and way of thinking about them. The existence of a bounded category may lead us to magnify the perceived similarities of the objects located in that category, thereby imposing on them more homogeneity than warranted. By the same token, we are drawn to inadvertently inflate inter categorical differences (Zerubavel, 1996, pp. 422–424). Third, official classificatory schemes, the semantic relational context, are not only the product of their organisational and institutional production processes but also a fundamental building block of different stories about what is going on in the economy. Narratives about the economic situation, the appropriateness of specific policy measures, and the overall orientation of economic policy, are commonly based on the official classificatory scheme. Framing contests may end up changing the meaning and connotations of certain categories, as well as transforming them, erasing them, or activating them. The products of bureaucratic representational labour structure and are structured by collective sense-making struggles.

To study classification struggles in relation to symbolic fiscal practices, I draw on research combining culturalist and institutionalist approaches to the state. While cultural theories rightly argue that the state has no intrinsic and unitary boundary separating it from society or the economy, they tend to leave the precise processes by which state boundaries are produced and reproduced unaddressed (Mitchell, 1991, 1998, 1999). However, if we theorise the state as a culturally *and* materially constituted entity, it follows that we can study the organisational

processes through which its multiple, frequently blurred and shifting boundaries evolve. State boundaries are more than the product of shared understandings. I draw on Mayrl and Quinn's framework for studying such processes of state boundary work—the processes by which state boundaries of are delineated. Because of my interest on symbolic fiscal practices and national budgets, I do so with a key difference: they focus on the classification of things as state or non-state and theorise processes of external state boundary formation as analytically discreet from processes that lead to the production of the internal edges of the state (Mayrl & Quinn, 2016, p. 20, 2017, p. 73). I argue, instead, that in the case of budgetary policy classification struggles delineating the external and internal boundaries of the state interact. This requires us to avoid equating concepts like central government, general government, the state, and the public sector. Those concepts are not necessarily part of symbolic fiscal practices and, if they are, do not necessary correspond to each other.

We can break down the politics of official classification into different, non-chronological and interacting, contested steps (Starr, 1992, p. 278). First, the inscription of a domain for knowledge and intervention is crucial to render any trait of social reality governable (Miller & Rose, 1990, p. 5). Conflicts over domain definition may refer to whether specific flows or activities should be budgeted or not. By budgetising flows and activities, government is symbolically making itself directly responsible for them. Second, if we are interested in relations between things, it is necessary to have a sense of how those things come to be. How, why, and when do boundaries that demarcate different groupings emerge? Third, naming is a crucial step for building categorical distinctions. Names and labels play down intra-categorical qualitative differences and magnify inter-categorical differences (Zerubavel, 1996, p. 427). Moreover, fourth, ordering and the visual-grammatical relations it establishes influences the meanings and connotations of different items. By labelling/naming different categories of income or expenditure, and by trying to legitimise them by virtue of their name and relation with other elements within the classificatory scheme, official classification and representational labour engage in symbolic earmarking or relational accounting practices that render money less fungible and bear cognitive consequences. Accounting is a consequential cognitive device that may influence sense-making and policy design (Carruthers & Espeland, 1991; Quinn, 2017).

But classificatory schemes and the categories within them are not static. They are always subject to interpretations and contests over their connotation. While most research on classification and quantification theorises categories and economic indicators, for example, as a government tool ‘to manage unruly publics’ (Demortain, 2019, p. 975) and as ‘political artefacts’ that reify power relations (Mügge, 2020; Starr, 1992, p. 294), chapters 3-5 show that the meaning and moral connotations underlying macroeconomic indicators are not monolithic.

To explain the (interim) outcomes of classification struggles, we need to pay attention to three ancillary processes that constrain the malleability of symbolic fiscal practices and allow us to study the dimensions, dynamics, and actors that engage in classification struggles over time. First, financial practices are the actual flows of resources between central government and other entities, public or private (Mayrl & Quinn, 2016, p. 6). They are either the pre-

existing ‘reality’ in need of representation—itself the outcome of past classification struggles—or a hitherto inexistent ‘reality’ in need of classification. Second, administrative hierarchies and interests regard questions of oversight, control, and responsibility between diverse organisational units (e.g., the treasury, a ministry of industry, the central bank, a public corporation). The potential conflicts between diverse bureaucratic units, their attempts to attain oversight powers or liberate themselves from external control, affect how national budgets are elaborated and publicly presented. Third, knowledge practices concern the procedures, techniques, and devices that generate and disseminate the national income accounting system. They render the social world legible and apt for intervention and debate (Miller & Rose, 1990).[9] Financial practices, administrative hierarchies, and knowledge practices are the object of classification struggles and, accordingly, of state boundary work (cf. Mayrl & Quinn, 2016).

4.3.Interwoven Relations

With the concept of interwoven relations I mean to convey the key insight that an actor's range of possible actions is structured and influenced by relational ecologies and dynamics. In its most general sense, interwoven relations refer to any process that consists of, and is therefore unintelligible without paying attention to, evolving direct and/or indirect relations. For example, before taking a policy decision, government elites must consider, among others, their own (and their party's) political ideology and electoral commitments, intra-state conflicts, and government relations with other relevant actors. Economic policymaking is itself a relational process in the sense of being influenced by a vast and varying set of evolving and interwoven social relations. Interwoven relations thus refer to the situation in which actors are involved within a matrix of interlaced evolving relations—in this case structured around economic policy and public finances—with other actors, the social, political, and economic context, and the tools of knowledge at their disposal. This evolving relational ecology of public finance has causal effects for government elites' sense-making and legitimation efforts. It structures judgements of what are the stakes of a situation and influences policymakers' perceptions of their own interests, as well as their tactic and strategic disposition toward other elements in the ecology. When most effective, interwoven relations will modify policymakers' preferences, beliefs, and/or preferred measures to deal with a policy issue.

The notion alerts that it may be undesirable to isolate one thing from the web of interwoven relations in which it is enmeshed. Of course, isolating one thing for research purposes may not only be useful but also, to some extent, inevitable. But researchers should always keep in mind that, for example, studying the relationship between economic policymakers—the Chancellor, governor of the BoE, and the PM—and the IMF in isolation from the relations between policymakers and civil servants, economic policymakers and other government ministers, policymakers and their party, or between the IMF staff and the board of directors, and the IMF and the member countries, among others, involves strong assumptions about the social world

[9] Knowledge practices and symbolic fiscal practices may relate and even overlap. The different practices, conventions, and devices comprising the national income accounting system represent the most relevant official knowledge infrastructure in modern times.

and how it works. Without adequate qualifications, it entails assuming a unidimensional world in which the only obstacle between the ideas and interests of economic policymakers and their desired outcome is the IMF. The social world is much messier than that. Again, this is not to say that there is no value in isolating specific traits of the social to allow detailed analysis. The point is about, first, the need to remain aware of the assumptions involved and, ideally, qualify them after employing them. And second, that at least in certain cases, accounting for interwoven relations may not only be more accurate but also desirable in terms of the explanations produced.

4.4.A Catalogue of Causal Mechanisms

This subsection briefly defines the causal mechanisms we will find at the core of each empirical chapter. The catalogue incorporates mechanisms elaborated by me and by other scholars. Following Tilly (2005, p. 72), I understand social mechanisms as 'recurrent causal sequences of general scope'. While not universal, the scope of these mechanisms is broader than just the British case or sovereign debt. They are more than formalisations of specific sequences of events. The catalogue is not exhaustive, nor could it be.

This thesis asks about the processes that determine government elites' understanding of economic policy options and how they communicate them to relevant stakeholders. For any given policy decision, there are some factors that we might expect to be causally relevant, such as, for example, politicians' ideology and the interests and ideas most likely associated with the government's broader social and political coalition. A classic debate is that between explanations that stress the causal primacy of material interests versus ideas or vice versa. From a relational perspective, however, the problem with those explanations is their totalising character—not their focus on ideas and/or interests. They are often insufficient explanations whose insufficient character tends to be ignored and concealed by the totalising logic and presentation of the argument. To overcome this common limitation, I pay systematic attention to the meaningful context of policymaking. This means problematising the processes by which actors perceive their interests and come to develop certain ideas and behaviours. Instead of assuming a situation in which actors have a pre-determined set of ideas and/or interests and act accordingly, we need to pay attention to how those perceived interests and ideas evolve in relation to the actor's contexts, interactions, and environments. Actors do not discuss economic policy in a vacuum but in a specific place and time, and with certain available tools of knowledge. It follows that we must also problematise the processes by which political debates come to be structured in specific ways or, in other words, why in some cases they place more attention to some aspects but in others prioritise the exact opposite elements.

Table 2 presents the full catalogue of causal mechanisms and a brief description of each. These social mechanisms explain how symbolic fiscal practices, classification struggles, and interwoven relations shape (1) government elites' (and non-government actor's) understandings of the menu of policy options open to the government at any given time and place, (2) contour policymakers' communication of these options to relevant stakeholders, and (3) structure political debates over the size of the state and the allocation of resources to different purposes.

I distinguish between mechanisms of economic sense-making, mechanisms of political sense-making, mechanisms that govern allocation conflicts, mediation mechanisms, and negotiation mechanisms.

Mechanisms of economic sense-making, or framing mechanisms, enable or constrain framing strategies. They help certain policy options to be seen as available, i.e., feasible and legitimate. I consider six such mechanisms. **Disaggregation/Aggregation** are processes that disaggregate (aggregate) the smaller constituent items of a broader category contained in graphic devices like budgetary reporting. They may lead to decontextualisation and recontextualisation. I develop this mechanism based on Goody (1977, Chapters 4–6). The more aggregative the sorting logic or principle for the constituent items, the more decontextualised a category becomes. Disaggregation/Aggregation does not create new categories and boundaries. For example, when officials and policymakers decide to show not only government borrowing but also its constituents in terms of the different financing sources, they are engaging in disaggregation. They are distinguishing between the different sources of borrowing and may then refer to the financing pattern to legitimate their decision to increase or decrease the fiscal deficit (see chapters 3 and 5). Also drawing on Goody (1977, Chapters 4–6), I define **Ordering/Reordering** as mechanisms that establish the visual-grammatical relations between elements in a report or graphic device and, thereby, influence the meaning conveyed. Ordering/Reordering are processes by which a determined relational pattern between the categories of a graphic device is established and modified. This alters the meaning relations between the different elements in the semantic field or relational context. Like disaggregation, they produce decontextualisation and recontextualisation. Moreover, ordering conveys notions of hierarchy. For example, the first tables or aspects analysed in budgetary reports tend to be perceived as more relevant than those left to an annex. By the same token, if providing totals, the last row of an accounting table may be perceived as the most important, thus structuring interpretation and debate over other constituent elements. It tends to be considered the conclusion or main lesson to be taken (see chapters 3-6).

Inscription/Erasure are mechanisms of boundary demarcation. Inscription/Erasure were first proposed as social boundary mechanisms by Tilly (2004) and then redefined as mechanisms of state boundary work by Mayrl and Quinn (2016). Inscription, or category formation, refers to the process by which a new boundary is inscribed and, thereby, a new category formed with the aim of highlighting differences across the boundary. Erasure concerns the process by which a boundary is erased or blurred and, thereby, a category dissolved or dimmed with the aim of attenuating differences across the boundary (see chapters 3-5). **Activation/Policing** politicise existing boundaries by increasing their salience. I follow Mayrl and Quinn's (2016) definition, who in turn base theirs in the work of Tilly (2004) and Lamont (2000). Different situations may lead government elites or non-government actors to activate a boundary. It may be that policy proposals involve a boundary shift, or that the agent in question considers that present policy is better thought of with reference to one boundary rather than another (activation). Similarly, non-government actors may be interested in preventing government elites from changing the terms of debate (by activating a different boundary from the traditional one). In that case, they would police the boundary that, to date,

has played the most important role as organiser of social relations and shared representations (see chapters 3 and 5).

Intellectual brokerage is a process by which two or more unconnected, or less well connected, ideas or practices are linked. First developed by Tilly (1999b, p. 348), I use it to refer to backstage conventions and processes underlying knowledge practices. For example, civil servants engaged in intellectual brokerage when they linked the national income accounts and budgetary reporting. The national accounts became a constraining force for policymakers' formally unconstrained right to determine the contents and layout of budgetary reporting (see chapters 3 and 4). **Perceptual error** is a process in which actors mistake their local field of action for societal structures. Developed by Tomaskovic-Devey and Avent-Holt (2019, p. 65) to account for the organisational foundations of institutional variation in their study of relational inequalities, I use it to refer to a mechanism that prevents a framing strategy from being implemented. Perceptual error refers to the process by which an actor or group of actors impute their basic notions, principles, and tools for assessing the economy and economic policy onto others and, hence, conclude that introducing costly strategies to guide public economic argument is unnecessary. It involves actors failing to recognise that others may approach a determined problem from a different perspective, with different evaluative criteria, and even contradictory implications (see chapters 4-5).

Mechanisms of political sense-making are mechanisms that govern policymakers' perceptions of politically feasible policy options. Interwoven relations set the social and political context of policy. In that circumstance, there are three mechanisms that govern elites' perceptions of available legitimate policy options. First, **relational pondering**, a mechanism I elaborate to account for an actor's frame of mind when engaging direct negotiations with a counterparty in the context of interwoven relations. In formal terms, let us suppose we have four individuals or parties A, B, C, and D. A and B engage in direct negotiations together for a given outcome. C and D are not involved. However, when analysing negotiation goals and strategies, A not only considers what requirements B may have, but also takes into consideration the impact their behaviour and the negotiation's outcome will have on C's and D's behaviour. Although not directly involved, C's and D's potential behaviour may have an impact in A's desired objectives, hence impacting their negotiation with B. Therefore, A's frame of mind when negotiating with B must include an assessment of C's and D's potential reactions. We can label A's frame of mind as relational pondering of the negotiation (see figure 2). This bears some similarity to level-K reasoning as suggested by Keynes' metaphor of financial investment as a beauty contest. In a game in which prizes go to those who pick the most popular choice, each competitor must pick not those faces they deem prettiest but those they think likeliest to catch the fancy of other competitors, all of whom are looking at the problem from the same vantage point. To define their actions, actors guess, speculate, or anticipate to the best of their abilities what other actors will think and do. In Keynes words, actors devote their intelligence ‘to anticipating what average opinion expects the average opinion to be’ (Keynes, 1936/2013, p. 156). The case of interwoven relations adds another layer of complexity, as not all parties are playing the same game and are, furthermore, enmeshed in direct and indirect relations. The main point is that seemingly different and

independent games overlap to a significant extent and, accordingly, share dynamics of interdependence (see chapter 7).

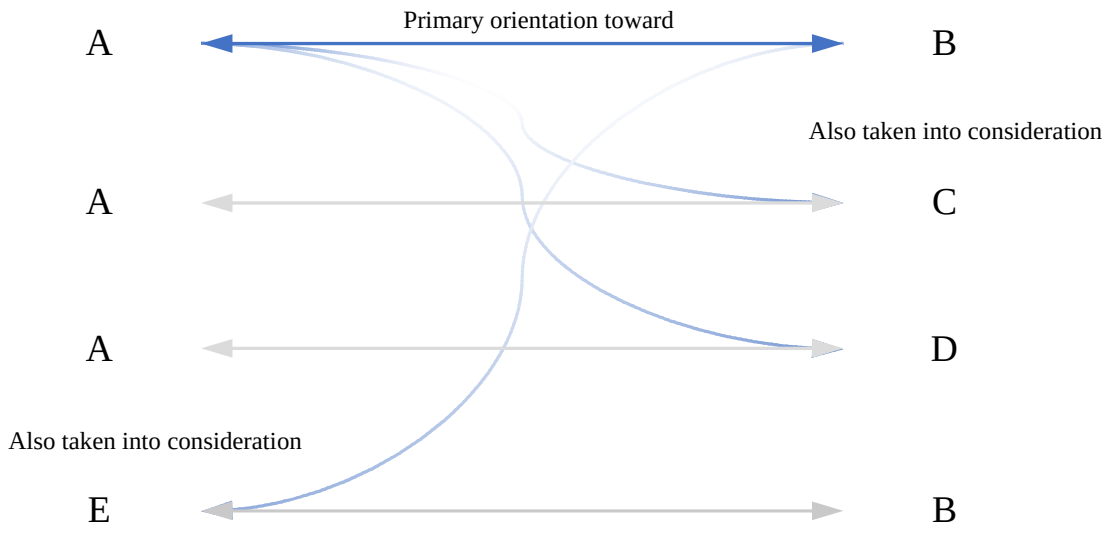

Figure 2. Relational pondering
Source: Author's elaboration

Symbolic identification is a concept first elaborated in psychoanalysis and then developed into a social mechanism by Steinmetz. It describes an agent's identification 'with an external location from which' they think 'they are being observed' (Steinmetz, 2005, p. 154, 2007, pp. 57–58). Symbolic identification is thus a process by which actors behave according to what they perceive the significant and powerful watcher would recommend, expect, or approve. It may become a key element structuring what policymakers think as possible and legitimate courses of action. This is the mechanism by which policymakers anticipate the likely courses of action of relevant powerful actors (see chapters 6 and 7). **Translation** is a type of brokerage in which an intermediate party with access to a relevant actor translates this actor's concerns to incumbents. I develop it to refer to civil servants' influence in establishing the bounds of possibility out of their soundings with relevant non-government actors. It can come in different variants, e.g., every day, or strategic. Officials translate for policymakers the concerns of relevant counterparties, e.g., economic experts and financial investors, and, thereby, enact bounds of possibility. The distinction between every day and strategic translation is only analytical, as all act of translation necessarily involves some refraction. When translation is used as an ad hoc or post hoc attempt to rationalise in apparently legitimate terms a political position, I deem it strategic translation. The fact that it may be strategic does not mean that it is wrong or incorrect (see chapters 4-6).

Mechanisms that govern allocation conflicts explain changes in the allocation of resources. I distinguish two such mechanisms, one at the level of bureaucratic politics internal to the state, and another at the national level. First, at the level of intra-state relations, the **guardians-vs-spenders** dynamic first conceptualised by Wildavsky (1964) refers to claims-making processes that are the backbone of bureaucratic conflicts over monetary, organisational, or symbolic

resource distribution. For example, Treasury officials claimed that considering that the Treasury was in charge of the government's financial management and creditworthiness, it was only natural for it to be given oversight powers over all financial matters related to creditworthiness. In this context, guardians-vs-spenders refers to the existence of routine, recurrent claims-making contests between the governmental organisational unit in charge of overseeing the budgetary process, the guardians, and other units competing with each other and with the budgetary unit to increase their monetary and other resources, the spenders (see chapters 3-5). **Spontaneous-vs-administered** refers to processes by which actors develop discursive claims-making strategies to justify a certain distribution of financial resources, which usually benefits them. I develop it to explain efforts to enact the potential effects of institutionalised categorical distinctions. There are two critical elements to this mechanism. First, claims may only be successful if perceived as legitimate by the other actors concerned. Second, claims depend on the knowledge infrastructures that make possible or even encourage certain claims more than others (cf. Hirschman, 2021). At the national level, spontaneous-vs-administered commonly plays a role in accusations of financial crowding out (see chapter 6). In this case, government and non-government actors discussed, based on existing knowledge infrastructures, whether the state was suffocating the private sector of the economy.

Mediation mechanisms allow policymakers to mediate between the contradictory positions of relevant actors. **Polyvalent performances** allow policymakers to mediate between contradictory positions of relevant counterparties in the context of interwoven relations. I take it from Tilly's work. He defines polyvalent performances as ‘the presentation of gestures simultaneously to two or more audiences in ways that code differently with the audiences’ (Tilly, 1999b, p. 345). In the context of this thesis, polyvalent performances involve the design of political strategies that, in their implementation, attempt to get different audiences (parties in the web of interwoven relations) to interpret those policy performances slightly different. Whenever a major act or policy package needs to be interpreted slightly differently by different audiences, the rhetorical goal of the act is to appeal to different audiences, which have contradicting desires and interests, at the same time (see chapter 7).

Strategic ambiguity is a type of improvisation and refers to policymakers' attempts to avoid aligning themselves with any side of a contest over the correct way of thinking about specific economic phenomena and the corresponding policy programmes to deal with them. I take the concept from Van Gunten (2017, p. 66), who defines it as the ‘deliberate lack of clarity on a particular policy issue’. He argues that international financial institutions have strong incentives to avoid contested issues through strategic ambiguity whenever powerful member states have divergent policy preferences and the organisation can only make weak claims to professional consensus to legitimate its preferences (see, as well, Best, 2005). However, there are temporal trade-offs. Strategic ambiguity can be a successful organisational strategy to minimise conflict in the short run but it may also undermine the organisation's effectiveness later (Van Gunten, 2017, p. 80). In the context of this thesis, strategic ambiguity is a variety of improvisation that refers to policymakers' reaction to perceived polarisation in the economic field (see chapters 5-6). Instead of aligning themselves with any of the contesting sides, policymakers adopted ambiguous, or even contradictory, stances to avoid infuriating any of the

main sides in contestation. While this may allow policymakers to navigate through episodes of heightened polarisation, it may also undermine their ability to legitimately push for a less ambiguous policy programme later.

Negotiation mechanisms explain negotiation strategies and outcomes. **Coalition formation** is the process by which an actor attempts to strengthen her position vis-à-vis a negotiating counterparty. I take the concept from Gamson (1961). Based on game theory, he elaborated a theory of coalition formation in which each participant expects a proportional payoff to the share of resources they contributed to form the coalition. Gamson did not delve into the issue of empirical verification of game theory (Swedberg, 2001, p. 307). Drawing on his concepts and insights, I develop my own version of it as a causal mechanism. In times of economic crisis or political unpopularity, government elites may attempt to build coalitions with politically significant non-government groups to legitimate their policy vis-à-vis, e.g., the IMF. During the process, the positions defended by the different actors will likely change (see chapters 3 and 7). **Opposite matching games** is the process in which two negotiating parties engaged in strategic interaction use opposite matching games to convince their counterparty (not) to do something. While sociologists have used matching games as a social mechanism (e.g., Mayrl & Quinn, 2016), they have not, to the best of my knowledge, used opposite matching games as a kind of reasoning by contrast. Opposite matching games take place when one party (A) presents a narrative or qualitative anticipation of what would happen if counterparty B decided to follow the option A regards as inadequate. To qualify as an opposite matching game, A needs to reduce all possible consequences and future scenarios to two. The implication, by a cognitive process of opposite matching games, is that the alternative scenario is preferable, however unpleasant it would seem if presented in isolation (see chapter 7).

Table 2. Catalogue of causal mechanisms

Type	Variety	Definition
Framing or economic sense-making mechanisms	Aggregation/Disaggregation	Processes that disaggregate/aggregate the smaller constituent items of a broader category.
	Ordering/Reordering	Processes that establish/modify the visual-grammatical relations between categories and, thereby, influence the meaning conveyed.
	Inscription/Erasure	Processes of category formation/dissolution that augment/attenuate differences across boundaries.
	Activation/Policing	Processes that politicise one existing boundary by increasing its salience.
	Intellectual brokerage	Processes that connect two or more unconnected, or less well connected, ideas/practices.
	Perceptual error	A process by which actors mistake their local field of action for societal structures.
Political sense-making mechanisms	Relational pondering	An actor's frame of mind when engaging direct negotiations in the context of interwoven relations. They take into consideration parallel/future relations with counterparties not directly involved in the negotiation.
	Symbolic identification	A process by which an agent behaves according to what they think a significant and powerful watcher would recommend, expect, or approve.
	Translation	Type of brokerage in which an intermediate party translates stakeholders' concerns.
Mechanisms that govern allocation conflicts	Guardians-vs-spenders	Intra-state bureaucratic conflicts over the distribution of monetary, organisational, or symbolic resources.
	Spontaneous-vs-administered	A process by which actors at the national level question existing distribution patterns of resources between the state and the private sector.
Mediation mechanisms	Polyvalent performances	A mechanism that allows policymakers to mediate between contradictory positions of relevant counterparties.
	Strategic ambiguity	A process by which policymakers react to perceived polarisation. Instead of aligning themselves with any contesting side, they adopt ambiguous stances to avoid infuriating any of the main sides in contestation.
Negotiation mechanisms	Coalition formation	Processes by which actors attempt to strengthen their position vis-à-vis a negotiating counterparty.
	Opposite matching games	A type of strategic interaction to convince a negotiating counterparty (not) to do something.

PART II

FEEDING THE BEAST: THE POLITICS OF SYMBOLIC FISCAL PRACTICES

CHAPTER 3. THE OVERHAUL OF SYMBOLIC FISCAL PRACTICES

1. Introduction

The election of a Labour government in October 1964 brought about a change in the role of budgetary policy. In contrast to 1951-1964 Conservative governments' attempts at demand-led growth, Labour aimed at a more structural economic policy in which both high demand and high selective investment would interact to overcome relative economic decline and enhance productivity (Price, 1978). The party fought the 1964 election criticising the Conservative's lukewarm conversion to economic policy principles like demand management and planning. Major policy changes were necessary to 'break the defeatist stop-go cycle and prevent another bout of stagnant production, rising unemployment and declining national strength' (Labour Party, 1964). Labour's economic strategy consisted of addressing the deficiencies of British capitalism through a planned restructuring of the economy to make it more productive and modern. The developmental strategy was based on the conviction that there was 'no evidence that we can rely on market forces alone to produce the necessary structural changes at the pace required' (Cmnd 2889, 1966, para. 4). The government created the Department of Economic Affairs, the Ministry of Technology (Mintech), and the Industrial Reorganisation Corporation, in addition to reforming and extending the National Economic Development Council created in 1962 by the Conservatives.[1] The developmental effort took renewed strength in 1966 when Mintech evolved into a full-fledged ministry of production and industry, and in 1968 when the Industrial Expansion Act extended the state's ability to 'finance and direct industrial development' to sectors beyond 'defence and aerospace' (Edgerton, 1996, p. 70). Labour's economic policy exceeded traditional (Keynesian) demand management and aimed at breaking with stop-go cycles—on which, more below—and the short-termism that caused them.

The budget needed to be turned into a device for the coordination of short-term demand management, income redistribution, and medium-term development (HC, 1964, cols 1024–1031). However, while public borrowing to fight wars was legitimated across the political spectrum, borrowing to promote economic growth, development, and productive capacity was not. Previous Chancellors had not budgeted for explicit deficits. Even foundational documents of post-war economic policy had an ambivalent approach. The famous 1944 white paper on employment policy, traditionally considered a flagship of the so-called Keynesian revolution and later consensus, explicitly stated that none of its main proposals involved 'deliberate planning for a deficit in the National Budget in years of sub-normal trade activity' (Cmnd 6527, 1944, para. 77). Deliberate budget deficits were not a legitimate policy tool (cf. Tomlinson, 1985, pp. 100–103).

[1] On the Conservatives' 1960-1964 modernisation rhetoric and agenda, see Tomlinson (1997).

This chapter looks at the processes by which and reasons why the 1964-1970 Labour governments implemented a substantial reform of symbolic fiscal practices. Labour's programme aimed at bestowing budgetary policy with new ends and means. The chapter's main argument is that policymakers pushed for changes in public finance statistics to legitimate public borrowing for the purposes of national economic development. This involved changing the form and substance of budgetary documentation. The Financial Statement (FS) was a key political document at the core of economic policy which contents and layout the government defined without formal external constraints. In these years, the FS went from being a statement of revenue and expenditure elaborated for the sole purpose of Parliamentary control, to a much more programmatic Financial Statement and Budget Report (FSBR). While the contents, categories, classification conventions, and layout of the first were solely geared toward facilitating government accountability in its role as manager of the public finances, the second provided a general view of the past and future situation of the national economy and presented the goals and specific measures of budgetary policy in relation to both the current economic situation and the one that the government aimed to achieve in the future. They embodied different economic policy theories. The first presented transactions in a more decontextualised way using classification conventions fitting administrative division and government powers. The second aimed at presenting transactions according to their economic effects, which entailed using economic categories and classification principles as well as arranging the contents in a more programmatic way.

The chapter contributes to different literatures. First, it theorises symbolic fiscal practices as processes of relational accounting at the macro level. Hitherto relational accounting has been researched mainly (if not only) at the individual level (e.g., Wherry, 2016, 2017). This chapter shows how symbolic fiscal practices attempted not only to frame the overall economic policy in a certain way but also to demarcate the boundaries of government responsibility and distinguish transactions according to their purposes and financing sources. The key message was that government transactions are not fungible. Regarding the literature on the 1960s Labour governments, the contribution is twofold. On the one hand, while economic historians and sociologists have dedicated much discussion to the creation of the Department of Economic Affairs and the 1967 devaluation as critical economic policy events (Cairncross & Eichengreen, 2003, Chapter 5; Newton, 2010; Schenk, 2010, Chapter 5; Stones, 1990, 1992), less attention has been given to the longer lasting and highly consequential reform of public finance statistics. On the other hand, while research tends to identify a steady trend of increasing public investment in the post-war (e.g., Chick, 2017, 2020), I argue that the overhaul of symbolic fiscal practices was the backdrop to the highest public sector investment of the post-war decades. Moreover, it led to the (unintended) creation of the Public Sector Borrowing Requirement (PSBR) as headline fiscal indicator.

Sections 2 and 3 contextualise the rest of the chapter. They describe the legacy of mid-1950s changes in government financial practices and the debates and efforts to attune official knowledge practices to the requisites of a modern budgetary policy. Sections 4-7 trace the negotiations between civil servants and policymakers underlying the 1964-1970 reforms of budgetary reporting. The reforms were shaped by the interaction between (1) the legacy of pre-

existing financial arrangements, (2) the legacy of pre-existing knowledge infrastructures, (3) the need to reform symbolic fiscal practices for operational reasons, (4) the need to reform symbolic practices for the purpose of managing public and expert opinion, and (5) classification struggles between diverse political and bureaucratic interests. While mainly focused on backstage processes, the chapter's analytical lens moves back and forth between back- and front-stage dynamics and pressures.

2. Financial Practices' Legacy

This section delves briefly into the historic origins of the British tradition of including public corporations in budgetary reporting. Until 1956, most nationalised industries undertook the borrowing necessary for their capital investments directly in the market with off-budget government guarantees. These borrowings were not classified as government transactions and, accordingly, were not included in budgetary reporting. But growing concerns about inflation in the 1950s spurred the government to steer monetary policy toward anti-inflationary purposes, an end for which public corporation financing arrangements were deemed counterproductive. Nationalised industries borrowed short-term from the clearing banks and long-term from non-bank financial institutions. Whenever the bond market did not take up their long-term stocks in full, the government supported (bought) their issues aiming to avoid any forced delay in their capital projects. This, however, was similar to nationalised industries borrowing directly from the banks, as the Exchequer had to borrow from the bank sector (sell Treasury bills) to support them.

In the mid-1950s, policymakers deemed government support of public corporation borrowings incompatible with anti-inflationary policy. First, it earned the government conflicts with and criticism from the clearing banks, who were forced to lend to the nationalised industries at the same time that they were asked to restrict their lending to private sector borrowers (Allen, 2014, pp. 79–86; Brittain, 1959, p. 131; Capie, 2010, p. 82). The bankers, the City more generally, and the Bank of England (BoE) objected that the burden of the credit squeeze was falling on private enterprises only. A fair burden-sharing required the public sector not to be ‘immune from the credit squeeze’ (Cairncross, 1996b, p. 125). However, the Treasury did not accept that public corporation borrowing should be affected by measures to restrict bank lending because their activities were of an essential character, which apparently was not the case of local authorities, whose borrowing the Treasury acceded to restrict. Second, borrowing from the banks represented ‘inflationary finance’, as opposed to drawing on ‘real savings’, and went against government policy of monetary control (HC, 1956a, cols 866–867). Treasury bills counted as liquid assets in the balance sheets of the banks and, therefore, enhanced their lending capacity.[2] Third, the issuance of public corporation government-guaranteed stock often had negative consequences for debt markets and sovereign debt management policy. Public corporations tended to disregard the market situation when planning stock issuance. Policymakers complained that this made it harder to sell long-term

[2] The banks had to observe a liquidity ratio of 30% (i.e., the ratio between their liquid assets and their advances had to be 30% at minimum).

debt (i.e., more expensive to borrow), and hindered debt management policy (HC, 1956a, col. 866, 1956b, cols 527–528).

The Conservative government proposed an alternative financial arrangement for public corporations. Instead of raising their capital directly in the market with an off-budget Treasury guarantee, government would raise it and on-lend it to them 'below the line'. Clause 34 of the 1956 Finance Bill centralised decisions as to the timing of public sector stock issuance in the BoE, avoiding the old scheme's negative consequences for debt management, and enhancing government's capacity to pursue its policy of monetary control. The arrangement gave the authorities significantly greater operational control over the monetary situation and facilitated debt management. Policymakers hoped that, from then on, all public sector bodies would draw on real savings or, in other words, borrow from the bond market instead of the banking system. While the Chancellor stressed that this was a technical change that did not affect Treasury's control over public corporations' investment policy,[3] he also hinted that 'still, if one actually presses the fee oneself into the piper's hand, one has a better chance of influencing the tune' (HC, 1956a, col. 866).

Clause 34 was to be temporary, lasting for the two years deemed necessary to control inflationary pressures. In the end, with the support of the Radcliffe report on the working of the monetary system, the arrangements were made permanent (Cmnd 827, 1959, para. 595; Cmnd 1337, 1961, para. 27). The main operational reason for doing so, which triggered the idea in the first place and would remain at the root of later debates on the topic, related to government debt market management. Giving central government full control allowed it to avoid unsettling the bond markets. At the time, Chancellor Macmillan argued that 'the real reason' for reform was the operational need for public corporations to cease borrowing medium- and long-term capital directly (HC, 1956b, cols 525–527, 1959, cols 37–38). Later, when market management ceased to be a concern, civil servants and policymakers highlighted instead that the arrangements were advantageous to public corporations, as government could borrow at marginally cheaper cost than nationalised industries (Pliatzky, 1982, p. 239).

The party politics dynamic of this episode is telling. The different stances over desirable financial practices proxied more general political and ideological positions. Liberals objected. Allowing public corporations to circumvent the necessary market discipline harmed their commercial efficiency. A group of rebel Conservative MPs thought the best arrangement was to let public corporations raise capital on their own *without* a government guarantee. Introducing the discipline of genuine market financing was the best way of making them economically efficient. The Tory rebels thought the new arrangement would bring public corporations increasingly under state control, contradicting Conservative economic principles that commercial considerations, better served by 'free' markets, should prevail over bureaucratic administration. This was echoed by *The Economist* (1956), which argued that public corporations should submit their policy decisions to the public accountability of the

[3] Public corporations' investment programs had to be approved by the concerned government departments and the Treasury.

market. On the contrary, Labour rejected the idea of forcing public corporations to go to the market. They should remain within the boundaries of government economic control.

There was little debate at the time over how these transactions would enter budgetary reporting. More than how budgetary reporting represented them, what mattered economically, from the Chancellor's perspective, was to make sure that national savings matched total investment. But while he characterised the reform as a merely technical change in the mechanics of borrowing, the arrangement was 'the largest single factor' making the government a habitual peacetime net borrower for the first time (Cmnd 827, 1959, para. 591). While at the beginning there was agreement that the impact of this arrangement had to be considered whenever there was a budget deficit, in time awareness faded away and government financial intermediation activities came to be regarded as any other form of government spending.

The matter was also complicated by fiscal politics. Just as public corporation financing was brought in, most local authorities' borrowing was de-budgetised. This earned the government criticism from what superficially seemed unexpected fronts. For example, the famous Keynesian economist Richard Kahn raged that, while the 'overall' deficit had no significance, 'it does provide—most providentially though irrationally—an argument for restraint' in (Conservative) governments' tendency to lower taxation (Radcliffe Committee, 1960, p. 145). Notwithstanding his belief that the only fiscal balance of some economic significance was the current surplus, he preferred budgetising as many financial transactions as possible to prevent Chancellors from taking the opportunity of an 'overall surplus', which would result if government financial intermediation was de-budgetised, to reduce taxation. Kahn regretted the de-budgetisation of local authority borrowing because it eased the pressure to keep taxation at the appropriate level. This disparity of treatment lasted for a decade until local authorities were increasingly re-budgetised in the latter half of the 1960s.

3. Knowledge Practices for a Modern Budgetary Policy

This section describes the 1950s-1960s debates and efforts to update knowledge practices to fit the requirements of a modern budgetary policy. The late-1950s and 1960s were marked by increasing alarm regarding economic performance. Although the UK had never achieved better economic results, the fact that its growth rate was slower than other industrial countries triggered a sense of failure and promoted the rise of 'declinism'.[4] As declinist narratives pointed to several institutional and cultural deficiencies at the root of economic underperformance, public economic argument came to be dominated by the need to *reverse* economic decline. At the root of the emergence of debates about decline was the rise of 'new forms of economic calculation and statistics' that allowed comparing country performance in terms of national product, industrial production, productivity, and world trade share

[4] Narratives of national decline, both from the left and the right, were very influential in post-war British politics. Their remains and influences can be traced to some versions of the pro-Brexit campaign. They have also figured prominently in academic debates. See Coates (1994) for a curated review of the manyfold strands of declinism, and Edgerton (2018, pp. 389–394) for a more recent take.

(Tomlinson, 2017, p. 45). Opposition parties increasingly accused governments of leading the country into ever-deeper decline (Budge, 1993, pp. 14–15). Labour's 1964 election manifesto, for example, pledged to reverse the decline inflicted by 'thirteen wasted years' of Conservative rule (Labour Party, 1964).

There was growing uneasiness with the machinery for short-term demand management. Post-war economic policy aimed at achieving greater economic stability and higher levels of employment relative to pre-war decades by filling the gap between aggregate demand and productive capacity (Cairncross, 1996a). The main challenge, as perceived by policymakers, was to reconcile economic growth, stable inflation, and a balanced current account of the balance of payments. To some contemporary observers, British post-war economic policy was the most Keynesian in the world in that budgetary policy was framed in relation to economic stabilisation with no rule targeting the debt or deficit (Dow, 1964, p. 178). In theory, both public expenditure and taxation would be geared to smoothing the economic cycle out. In practice, as the problem of mass unemployment came to be perceived as 'gone' (Cmnd 1203, 1960, para. 9), stabilisation or demand management policy largely consisted of restraining, not boosting, demand through tax policy. Budgetary fine tuning was broadly synonymous to short-term (annual) adjusting of consumer demand through tax measures. For its part, public expenditure was not a key counter-cyclical policy tool. When used for that purpose, it was mostly cut or phased out. Whenever governments tried to boost demand, a balance of payments crisis or the threat of it forced them to reverse course and restrain demand to alleviate the current account deficit. As a result, budgetary fine tuning came to be perceived as one of the causes of so-called 'go-stop-go' cycles of the British economy, a term used to criticise the oscillation of economic policy between an expansionary macroeconomic stance when unemployment increased to politically unacceptable levels, and a deflationary stance when the balance of payments was in deficit. It resulted from the clash between employment and exchange rate goals.[5]

There was a growing sense of crisis. Discontent with decline and stop-go spurred a reassessment of the main goals and means of economic policy. The topic became salient in electoral strategies (Davies & Sloman, 2020). The mounting crisis perception was intrinsically related to the emergence of faster economic growth as a new policy goal 'in its own right'[6] both domestically and internationally—in 1961, the OECD established GDP as an official target for policy (Cairncross, 1996a, p. 5; Coyle, 2016, p. 6). It also triggered the legitimation of a more structural or supply side approach to economic policy, in which planning emerged as an adequate technique to achieve growth and reverse decline (Meadows, 1978; Price, 1978; Tomlinson, 2004, p. 72).

To that end, knowledge practices had to improve. During the 1950s and 1960s, official

[5] Most accounts argue that post-war government elites were positively committed to sustaining and promoting the international role of sterling, thereby subordinating domestic policy goals to international imperatives (e.g., Cain & Hopkins, 2016; Green, 2020; Strange, 1971). Recent research shows, however, that the commitment was, at most, ambiguous (Schenk, 2010). The international role of sterling was often seen as a burden.
[6] PSBH: 446/10/1/4, 'Hopkin, "Postwar Macroeconomic Policy"', 2003 1998.

economic statistics were perceived as an obstacle for economic management. Ever since Chancellor Macmillan argued in his 1956 budget speech that outdated economic statistics were a key obstacle to effective policy, enhancing the cognitive and informational infrastructure of economic policy was deemed a necessary condition for better economic performance. He likened the situation to planning a train trip with last year's timetable. Both the form and timing of economic statistics needed to improve (HC, 1956a, cols 867, 869). The speech launched an 'era of statistical reform' that lasted until the late 1960s (O'Hara, 2007, p. 1; Armstrong, 1973). Statistics and other tools of knowledge would no longer be left to experts in the backstage of policymaking; they became a topic of political debate both regarding how to enhance decision-making and how to provide a meaningful context for policy decisions. In the words of Harold Wilson, 1964-1970 Prime Minister (PM) and an economist himself, 'reliance on statistics' was a key feature of 'modern decision making' (Wilson, 1968). Statistics had to satisfy both internal policymaking purposes and uses outside government.

The government carried out major efforts in relation to monetary policy, public expenditure planning, and budgetary reporting. First, the 1959 Radcliffe report marks a significant event in the evolution of monetary policy. The committee's remit was to assess the effectiveness of monetary restrictions and the monetary impacts of public finances. Policymakers worried that persistent inflationary pressures were not temporary but an inevitable concomitant of full employment and the accompanying post-war climate of opinion. Radcliffe called for extending the range of financial information collected and published. A regular flow of economic and financial statistics was fundamental to enhance decision-making and give public opinion the opportunity 'to understand and assess the action taken' (Cmnd 827, 1959, para. 12). While the report failed to establish a policy consensus, its most important consequence was the improvement in financial statistics, which furthered debates over the role and techniques of monetary policy (Cairncross, 1994, p. 59). Knowing how the public sector 'as a single entity' raised capital and monitoring financial flows between the public and private sectors was crucial (Cmnd 827, 1959, paras 849–850; HMT, 1959). The goal was to build a quantification regime for assessing the effects of public sector financial operations on general liquidity. Government promoted the extension of the national income accounting system known as *National Income and Expenditure* or blue book. Financial accounts recording sectoral financial assets and liabilities became an integral part of the national accounts. While until Radcliffe the main emphasis had been on economic, as opposed to financial, statistics, the 1960s saw a 'substantial increase in the range and frequency of financial statistics', and the blue book went from having 53 tables in 1955 to 80 in 1967 (CSO, 1964, p. 172, 1968a, p. iii).

To publish financial accounts, the Central Statistical Office (CSO), BoE, and Treasury had to make difficult classification decisions. Dividing the economy into sectors, a key feature of national accounting, was far from clear-cut. There were various ways of drawing the boundaries of each sector. In principle, each sector ought to aggregate similar entities in terms of the determinants of their economic behaviour. While the international standard was to divide the economy into four sectors—personal, productive enterprises, government, and overseas—officials followed Radcliffe recommendations and inscribed a broad public sector in the financial accounts. Comprising central government, local authorities, *and* public corporations,

this category distinguished between the publicly and privately controlled sectors of the economy (CSO, 1968a, p. 320). To justify this explicit divergence from international conventions, officials mentioned two principles: the determinants of economic behaviour and the sources of finance. Classifying public corporations in the public sector instead of the productive enterprises sector matched their mandate to follow social and political considerations besides commercial principles.[7] Furthermore, grouping public corporations with productive enterprises would be useless given that, since the mid-1950s their financial affairs were interlocked with those of the central government (Beales & Berman, 1966, p. 251). As a result, a boundary between the public sector and the rest of the economy was inscribed in one of the most important knowledge infrastructures of the state.

Second, in 1959, the Conservative government set up an internal committee on public expenditure planning, the Plowden Committee (Heclo & Wildavsky, 1981, p. 208). Published in 1961, the Plowden Report activated the boundary of the public sector by suggesting a new definition of spending as the expenditure of the whole public sector, and the creation of a system for medium-term expenditure planning in relation to prospective national resources (Clarke, 1964; Cmnd 1432, 1961, paras 6, 15). The idea was well received by Chancellor Lloyd, who was particularly concerned with the rising trend of public expenditure as a share of GDP. However, these recommendations were implemented gradually and in nonlinear fashion. The definition of public expenditure changed repeatedly, and the scope of budgetary politics shifted accordingly.

Third, as the machinery of budgetary policy came to be questioned as well, in 1963 the Conservative government published a white paper on the form of government accounts. Reform was necessary for operational and presentational purposes, to improve the 'work and overall control inside the government machine' and help to 'inform public opinion' (Cmnd 2014, 1963, para. 3). In 1961 and 1962, Chancellor Lloyd argued for the need to modernise the form and presentation of the accounts. Producing a 'less confusing presentation' (HC, 1961, col. 804) would be a milestone in a broader process of 'increasing and improving the financial and statistical information made available to parliament and the public' (HC, 1962, col. 973). The old accounts were built upon 19th-century legalistic or Gladstonian rather than economic principles. Besides covering the Exchequer only, a smaller entity than central government, they did not classify transactions according to economic principles nor distinguish between capital and current transactions. Instead, a line separated transactions according to the government's borrowing powers. Transactions that could be met by general government borrowing powers were classified 'above the line', and transactions for which the government needed specific parliamentary approval appeared 'below the line'. The line had significance for parliamentary procedures, more concretely for making government activities accountable to Parliament scrutiny, but not for assessing the economic impact of budgetary policy.

In the modern democratic context, budgetary reporting had several overlapping purposes

[7] This somewhat contradicted the Morrisonian model of public corporations under which public corporations were to be run by expert boards with large degrees of autonomy from the government (Tomlinson, 2004, p. 152).

and publics. From policy design to macroeconomic management and further, from Parliament to the voting population and beyond, budgetary reporting played a crucial role. This contrasted with 19th-century practices that only associated national budgets with transparency, probity, and institutional checks and balances. However, the 1963 white paper was criticised by economic commentators and, a year later, Chancellor Maudling explained that no presentation could 'satisfy all the purposes for which figures are needed' and recognised that he would not promote any concrete reform (HC, 1964, col. 250). This earned him criticism from the Labour opposition, which pointed out that after 12 years in office and several announcements, the Conservatives had failed to deliver this much-needed reform.

Traditional symbolic fiscal practices were deemed contradictory and constraining. There was agreement that demand management was the budget's main goal, but the budgetary process was structured by antiquated legislation and principles that obscured its economic significance. Two alternatives for reform were debated during the first half of the 1960s: reforming the FS and legal accounts, on which this chapter focuses, and complementing the budget speech and FS with an economic statement or macroeconomic indicator that placed budgetary policy in a meaningful economic context—analysed in chapter 4.

4. The Drive for a Civilian Developmental State

4.1.Conflicting Interests: The Road to the First Labour Budget

Between the election of a Labour government in October 1964 and the first full budget of April 1965, there were intense efforts and negotiations over what changes, if any, should be introduced to budgetary reporting. Two critical dimensions at play were the accounting conventions, e.g., whether budgetary reporting should follow Gladstonian or economic principles, and the scope of the budget, e.g., whether it should cover central government only or more. Once financial accounts were produced along the lines discussed above, the Treasury's long-term position was that budgetary reporting should follow national accounting conventions and cover the whole public sector. National income accounting and government accounting were to be connected, and the former should be the dominant influence on budgetary reporting (Jones, 2000). At the core of this process of intellectual brokerage between national income accounting and budgetary reporting, which would inscribe a public sector boundary, was the Treasury's desire to control nationalised industries' finances (Tomlinson, 2004, pp. 157–158). In public, the Treasury stressed that producing symbolic fiscal practices on national accounting conventions would help to structure budgetary reporting and politics according to economic categories and to connect government activities with those of the rest of the economy. The next logical step, then, was budgetising local authorities entirely to show total public sector transactions (Cmnd 2014, 1963, paras 6, 22).

Early on, however, the Chancellor and the BoE governor raised the issue of whether the scope of the FS could be revised to avoid the excessive prominence of the overall deficit and, thereby, minimise the borrowing requirement's impact on domestic and international opinion. The Chancellor deemed the form of the FS misleading and damaging for confidence. It

presented ‘the budget in an undeservedly unfavourable light, particularly internationally’.[8] If external commentators' attention was to be directed away from the overall deficit, the scope and design of the FS needed revision. The BoE governor raised a similar point driven by other central bankers' comments. The FS showed budgetary policy ‘in an unnecessarily unfavourable light’ as it magnified the size of the borrowing requirement and gave it excessive and unwarranted prominence.[9] The government deficit appeared larger due to nationalisation and the financing arrangements for public corporations. In the governor's words, ‘we bring into the budget capital raising which otherwise might have been done by private companies in the market and would not have appeared in the Budget at all’.[10] He distinguished nationalised industries from local and central government. Following other countries, he proposed to de-budgetise public corporations, i.e., to stop classifying government lending to them as government expenditure. This involved detaching symbolic from financial practices. Updating the FS layout did not require the government to stop its financial intermediation activities which, in the case of public corporations, had monetary policy goals. The challenge was to achieve ‘the dual aims of guarding against anything which could *unwarrantably* alarm foreign opinion and of helping our own citizens to see the significance of a lot of figures’.[11]

Not unexpectedly, Labour's aim at promoting a developmental state schema by distinguishing between government budgetary and financial intermediation transactions partially clashed with the Treasury's desire to budgetise the whole public sector. Officials' reaction to the proposal was negative. They had discarded de-budgetising government lending to public corporations as an artificial distinction when discussing the 1963 white paper. After revisiting the issue, officials agreed that the distinction was unsound.[12] All Exchequer lending should be treated alike and included in the budget, just as was planned to happen with the budgetisation of all local authority financing. However, different pressures kept officials from rejecting the proposal outrightly. First, the Chancellor and governor shared their considerations with the PM and got his endorsement. This broadened normal bureaucratic procedures and altered the type of considerations to be considered, something which officials resented. Normally the proposal would have reached the PM *after* an agreement and formal implementation proposal between officials and ministers was elaborated. In this case, officials could not enjoy this capacity of influencing the decision-making agenda and establishing a specific range of available options. Second, the difficult economic circumstances increased the salience of the in-built negative effects of budgetary conventions vis-à-vis economic commentators. Third, Treasury plans for transferring all local authority borrowing to the Exchequer, emulating nationalised corporations' financing arrangements, would beget ‘an apparent steady worsening of the budgetary position’.[13]

[8] TNA: T320/414, ‘Armstrong to Clarke, “Presentation of Budget Accounts”’, 26 January 1965; TNA: T320/414, ‘Armstrong to Bancroft, “Form of the FS”’, 5 March 1965.
[9] TNA: T320/414, ‘Armstrong to Clarke, “Presentation of Budget Accounts”’.
[10] TNA: T320/414.
[11] TNA: T320/415, ‘Cromer to Armstrong’, 17 March 1965, my italics.
[12] TNA: T320/414, ‘McKean to Petch, “Form of FS”’, 9 February 1965.
[13] TNA: T320/414, ‘Armstrong to Clarke, “Presentation of Budget Accounts”’; TNA: T320/414, ‘McKean to Petch, “Form of FS”’; TNA: T320/414, ‘Clarke to Neild’, 11 February 1965.

These compound pressures led officials to rethink how to present the budget 'as favourably as possible'[14] to make 'increases in outgoings less forbidding'.[15] In these 'straits', officials crafted a compromise solution that distinguished borrowing according to its purposes without introducing artificial categories and boundaries into the accounts.[16] They devised a way of meeting some of the Chancellor's and governor's concerns at the same time that reinforcing the appropriateness of the public sector boundary. To shift public attention from it without resorting to de-budgetisation, this translated into eliminating the overall deficit concept. The proposal was to create a notional 'special lending account' that presented on-lending activities and their purpose.[17] Loans to industry would be shown separately without de-budgetising them. Officials mobilised the argument that critics at home or abroad should not be granted the opportunity to accuse the government of concealment or lack of transparency: 'We should not be suppressing information... simply presenting it in a new form'.[18] As external commentators would likely deem de-budgetisation as cheating, eliminating the overall deficit would have similar effects to de-budgetising without the negative consequences.

4.2.Conflicts Within the Treasury

The discussion on how to accommodate political goals without harming Treasury interests provoked internal tensions. The compromise solution served the Treasury well regarding scope but not conventions. The proposal left traditional accounting conventions untouched. Under the leadership of Bryan Hopkin and Robert Neild, some senior officials criticised that while the changes 'would make the accounts look better, to certain eyes',[19] any short-term presentational gains should not cloud out the necessary longer-term perspective. As government could not, politically speaking, reform the FS layout every year, the changes would tend to last, thus reducing 'the chances of getting a more drastic reform'.[20] The traditional classification system was unhelpful in a context in which a peacetime (nominal) increase in the national debt had become normal and budgetary policy had the much broader objective, as compared with balancing the budget, of economic stabilisation (Clarke, 1964; Cmnd 2014, 1963). However skilful, any rearrangement that left accounting conventions untouched would not make significant progress in communicating the economic significance of government transactions.

Traditional accounting conventions fitted Parliamentary authorisation and control, not economic analysis. No redesign of a balancing table of the traditional Exchequer accounts could have 'any true economic significance'.[21] Hopkin and Neild also questioned the coalitional soundness of the compromise solution, arguing that it would look 'like window-dressing and it can't—and won't be—defended by those with economic training on grounds of

[14] TNA: T320/414, 'Armstrong to Clarke, "Presentation of Budget Accounts"'.
[15] TNA: T320/414, 'Bancroft to Walker', 26 January 1965.
[16] TNA: T320/414, 'Armstrong to Clarke, "Presentation of Budget Accounts"'.
[17] TNA: T320/414, 'Bancroft to Walker'.
[18] TNA: T320/414, 'McKean to Petch, "Form of FS"'.
[19] TNA: T320/414, 'Hopkin to Neild, "Form of FS"', 15 February 1965.
[20] TNA: T320/414.
[21] TNA: T320/414.

rationality'.[22] A far more radical reform was needed: all budgetary reporting on the basis of the legal Exchequer accounts should be abolished and replaced by 'a national income form of presentation, possibly with an analytical table added which would organise the material in such a way as to highlight the economic impact of' budgetary transactions.[23] Instead of 'tinkering with the problem', the government should promote 'the only really worthwhile reform', a change in accounting conventions to national income ('Economic') classification principles.[24]

Other senior Treasury officials disagreed. They countered by noting that no change in accounting conventions would solve budgetary policy's transparency and accountability issues. Moreover, it was not possible to abolish the traditional accounts. Many MPs, financial journalists, and other external observers awaited the reports on traditional accounts, and public expectations regarding the form and content of periodic budgetary reporting were a binding constraint. Scrapping traditional accounts would force the Chancellor to 'give a lot of explanations... of a tiresome kind'.[25] As the compromise solution avoided both de-budgetisation and 'the danger of giving exaggerated significance' to the deficit, it was worth supporting.[26]

In the end, there were four possible avenues. Doing nothing could allow more time to work out a satisfactory solution, considering the difficulty of the issue and the unlikelihood of an easy consensus. But non-action did not satisfy anyone. From politicians' perspective, the government would remain hostage to the FS' large deficit. From officials' perspective, it would earn them criticism for failing to make any progress since the 1963 white paper. A second option, aimed at satisfying the political need to switch public emphasis on the deficit without hampering bureaucratic interests, was the compromise solution of revising the FS layout without touching its scope and conventions. 'If crude comparisons are going to be made in international meetings, the segregation of loans to industries, public or private, has real significance'.[27] To devise an appropriate final summary table, the whole structure and contents of the FS would be altered. The new summary table would drop out the old overall deficit and emphasise that 'a large part of Exchequer lending is for profit-earning purposes'.[28] As we saw, while this met short-term political goals, it endangered the medium-term chances of updating accounting conventions.

The third option was to acknowledge that designing economically meaningful tables for the traditional Exchequer accounts was impossible. The summary table could be 'scrapped altogether' and replaced by an economic (national income) classification table organising the material to 'highlight the impact of Government transactions on the rest of the economy'.[29] This option had the advantage that national accounting was the knowledge infrastructure of

[22] TNA: T320/414, 'Neild to Petch', 16 February 1965.
[23] TNA: T320/414, 'Hopkin to Neild, "Form of FS"'.
[24] TNA: T320/414; TNA: T320/414, 'Neild to Petch'.
[25] TNA: T320/414, 'Vinter to Clarke, "Form of FS"', 28 February 1965.
[26] TNA: T320/414, 'Petch to McKean, "Form of FS"', 17 February 1965.
[27] TNA: T320/414, 'Vinter to Clarke, "Form of FS"'.
[28] TNA: T320/414, 'McKean to Vinter, "Form of FS"', 25 February 1965.
[29] TNA: T320/414; TNA: T320/414, 'Vinter to Clarke, "Form of FS"'.

budgetary policy design. However, as some deemed scrapping Exchequer accounts tables non-strategic from the public relations point of view, the only available option was to include all tables *but* the summary on traditional conventions and a summary table on national accounting conventions. From a 'more sophisticated' point of view, however, even if elaborated in economic terms, the new summary table could not really provide a tool for assessing budget measures designed from national income forecasts. The table would likely produce even more confusion than the traditional presentation, which at least did not 'pretend to be in economic terms'.[30] The fourth option was presented later as a variant of the second. It consisted of adding at the end of the FS, with its new summary table, a national accounts table of central government transactions. This avenue provided the ground for eventual agreement. It seemed to accede, at least to some extent, to the different bureaucratic and political interests at play. It would rearrange the presentation of Exchequer accounts without debudgetising public corporations or scrapping the summary table. At the same time, it would introduce an additional summary table of central government transactions on national accounting conventions. Officials considered it a prelude to the 'really important' and more ambitious goal of bringing in the rest of the public sector.[31]

The substantial recasting of the FS aimed at three goals: directing attention away from the old overall deficit, dividing government lending (Consolidated Fund loans) into two categories, and adding a new table of central government transactions on national accounting conventions. First, the new FS would have the advantage of being slimmer. It omitted information on the national debt, which was irrelevant to a 'modern conception' of national budgets.[32] Second, the structure of the document was different. As it followed a new ordering principle, the new FS started with what was perceived to be of most interest to MPs and the public, tax proposals and their effects. Third, several tables would change. Previous year estimates, outturn, and next financial year estimates in both a pre- and post-budget basis were now shown in the same Exchequer accounts table. Moreover, several classification changes enabled what was considered a more rational division between Consolidated Fund (government) expenditure, representing final expenditure, and Consolidated Fund Loans. The latter would be separated into two tables, one presenting loans to industry, public and private, and another presenting other loans (see figure 3). The summary table was revised to make clearer the relationship between Exchequer borrowing and lending and highlight the extent to which (almost 60%) Exchequer lending was for the purpose of financing industrial investment. Moreover, it was 'deliberately set up in a form which does not lead to overall totals'.[33] Instead, it emphasised that more than 40% of Exchequer lending had been met by a surplus on its own activities. Fourth, all this would be complemented by a new, additional summary table providing an economic classification of central government transactions. Crucially, following Richard

[30] TNA: T320/414, 'McKean to Vinter, "Form of FS"', 25 February 1965.
[31] TNA: T320/414, 'Clarke to Armstrong', 26 February 1965.
[32] TNA: T320/415, 'McKean to Vinter', 16 March 1965.
[33] TNA: T320/414, 'McKean to Vinter, "Form of FS"', 3 March 1965; TNA: T320/414, 'McKean to Petch, "Form of FS"'; TNA: T320/414, 'Lloyd to McKean, "Presentation of Budget Accounts"', 2 February 1965; TNA: T320/414, 'Armstrong to Bancroft, "Form of the FS"'.

Clarke's suggestion, this table did not distinguish between capital and current transactions.[34] This was an innovation in respect to previous internal discussions. The rationale was that, as the new FS abolished the traditional 'line', creating a new line and corresponding current surplus could mislead 'uninformed opinion'.[35]

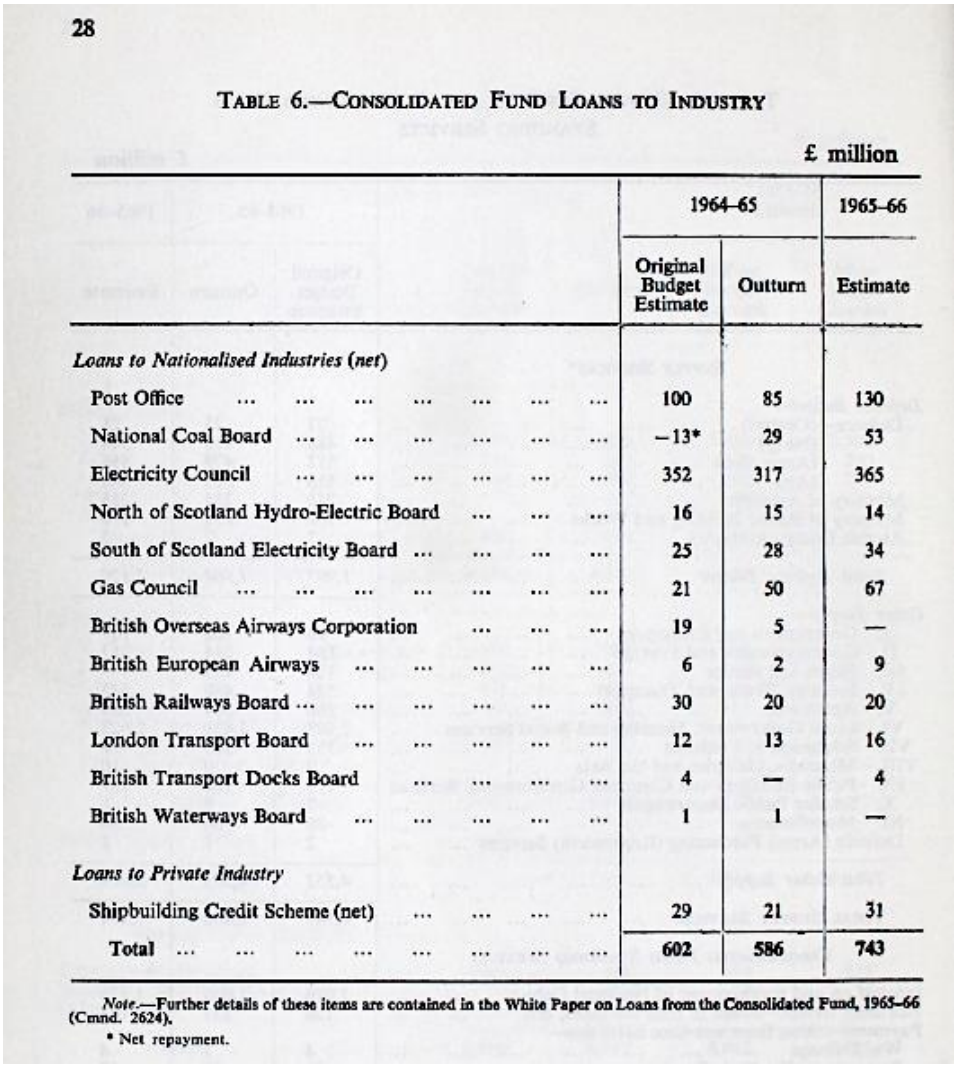

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TABLE 6.—CONSOLIDATED FUND LOANS TO INDUSTRY

£ million

	1964–65		1965–66
	Original Budget Estimate	Outturn	Estimate
Loans to Nationalised Industries (net)			
Post Office	100	85	130
National Coal Board	−13*	29	53
Electricity Council	352	317	365
North of Scotland Hydro-Electric Board	16	15	14
South of Scotland Electricity Board	25	28	34
Gas Council	21	50	67
British Overseas Airways Corporation	19	5	—
British European Airways	6	2	9
British Railways Board	30	20	20
London Transport Board	12	13	16
British Transport Docks Board	4	—	4
British Waterways Board	1	1	—
Loans to Private Industry			
Shipbuilding Credit Scheme (net)	29	21	31
Total	602	586	743

Note.—Further details of these items are contained in the White Paper on Loans from the Consolidated Fund, 1965–66 (Cmnd. 2624).

* Net repayment.

Figure 3. Government loans to industry, 1965/1966 FS
Source: (HMT, 1965, p. 28).

The public impact and reception of the new presentation was the reform's most important goal. The changes were fully explained in the FS, the budget speech, and budget briefings for the financial press and lobby representatives.[36] The goal was to avoid the new layout being described as window-dressing, which could have the unfortunate consequence of worsening, no strengthening, confidence in the government's economic strategy.[37] The Chancellor considered the proposal 'a great improvement' even though it fell 'short' regarding the

[34] TNA: T320/414, 'Armstrong to Bancroft, "Form of the FS"'.
[35] TNA: T320/414, 'McKean to Vinter, "Form of FS"', 3 March 1965.
[36] TNA: T320/415, 'HMT, Budget Briefing 13. "Financial Statement"', 6 April 1965.
[37] TNA: T320/414, 'Armstrong to Bancroft, "Form of the FS"'.

improvement of budgetary policy's transparency.[38] He expected further work about it. Similarly, the governor considered it an improvement but highlighted that more could be done in the future.[39]

4.3.Last Minute Discussions

Just a fortnight before the budget, the BoE governor noticed a contradiction in the strategy behind the new FS. While the summary table on Parliamentary conventions did not show a budget balance, the new national accounts summary table did, although the estimated 1965-1966 'net borrowing' was lower (£578mn) than the £724mn on Exchequer accounts. While the new layout aimed at directing attention away from the old overall borrowing requirement, the new table on national income conventions did show a borrowing requirement which, as it was built on economic conventions, was arguably more meaningful than any other figure in the document. Accordingly, he asked whether the presentation of the new layout should refer to it explicitly.[40] Officials agreed that, for monetary analysis, the 'net borrowing' of the national accounts table was more meaningful than any Exchequer figure. But this was not the case for budgetary policy, where it had no 'special meaning'.[41] There was 'no point in giving it special emphasis'.[42] However, senior officials decided to mention the new net borrowing figure in the foreword anyway, as a way of pleasing the governor.

This triggered internal discussions on how to address the relationship between the budget and the economy and how to mention the net borrowing without leading to misleading interpretations. Clarke wanted the foreword and budget speech to say that the new FS aimed to show how government transactions *influenced* the general level of demand in the economy. But such framing would have made the new national accounts borrowing requirement the key fiscal indicator. On one hand, the new FS did not do such thing. No table within it did what Clarke suggested.[43] On the other, officials had agreed to make it 'quite clear' that the purpose of the new FS 'was *not* to bring out some key figure of special significance for Budget purposes'.[44] A proposed alternative wording would substitute the word *contribute* for *influence*. But the reference to 'demand' was objected by Hopkin and others, who proposed to say that the changes 'show government transactions classified by economic category, i.e. by the way in which they affect the private sector of the economy and the productive system generally'.[45] This settled the issue. No fiscal indicator was being highlighted, and the 'net borrowing' was presented as a number whose significance related to monetary analysis only.[46]

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[38] TNA: T320/414.
[39] TNA: T320/415, 'Cromer to Armstrong'.
[40] TNA: T320/415.
[41] TNA: T320/415, 'Burdett to Marshall', 22 March 1965, my italics; TNA: T320/415, 'Marshall to Burdett', 22 March 1965.
[42] TNA: T320/415, 'Marshall to McKean, "FS: The Governor's Letter"', 24 March 1965.
[43] TNA: T320/415, 'Vinter to Clarke', 25 March 1965.
[44] TNA: T320/414, 'Petch to Clarke, "Form of FS"', 11 February 1965.
[45] TNA: T320/415, 'McKean to Vinter', 25 March 1965; TNA: T320/415, 'Hopkin to McKean', 26 March 1965.
[46] TNA: T320/415, 'McKean to Vinter', 25 March 1965; TNA: T320/415, 'Armstrong to Cromer', 29 March 1965; TNA: T320/415, 'McKean to Vinter', 29 March 1965.

Another last-minute discussion emerged at the end of March (a week before the budget speech). After realising that the new national accounts table would become significantly salient, which would likely render the 'net borrowing' the focus of attention, the Permanent Secretary to the Treasury, William Armstrong, asked to see how the table would look with a line distinguishing current and capital transactions. While it would highlight how much of public investment was financed by government saving, implementing such a modification was impracticable: a threatened printers' dispute meant that the FS had to be sent to the printers earlier than normally, making it impossible to make all the necessary changes on time. Moreover, the table had been already approved by the Chancellor and PM without a line. The second-best option of referring to the current surplus in the budget briefing was discarded too because it risked confusing the press and would likely provoke questions as to why, if such a figure was relevant, it was not published. In this situation, Armstrong stated that a current surplus line should be introduced the following year.[47]

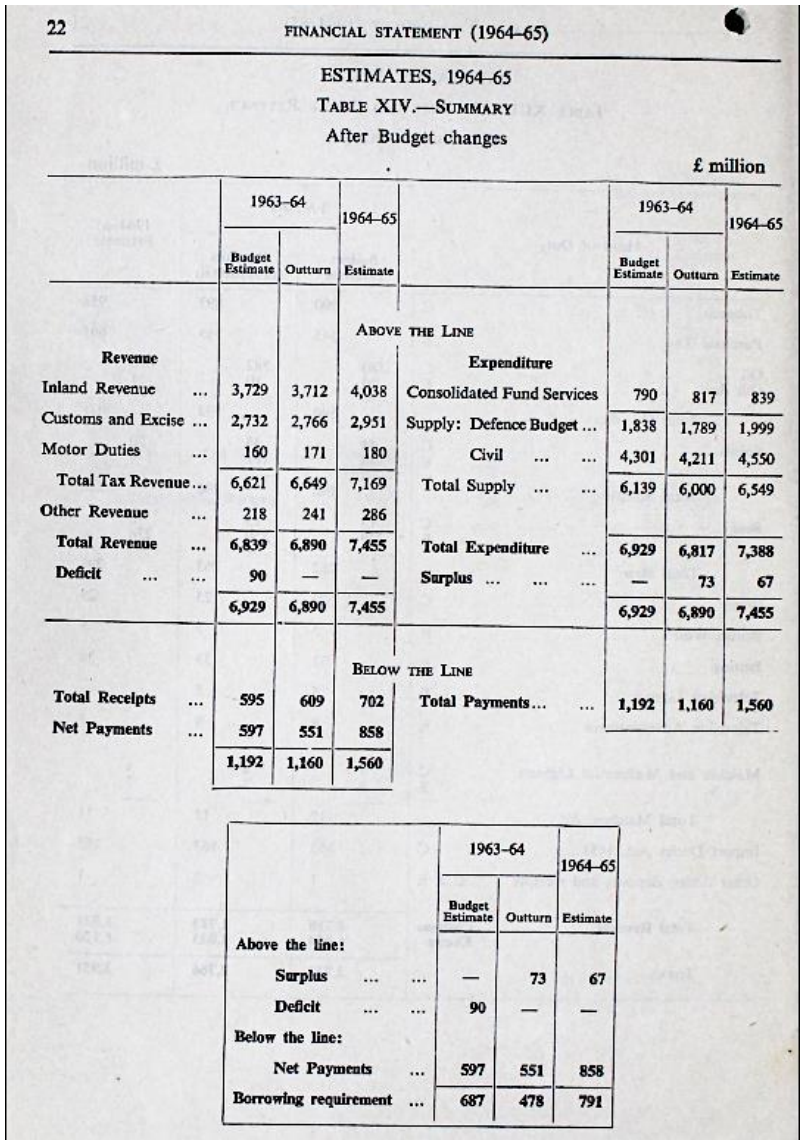
5. Managing Hostile Reactions

This section moves the analytical lens to the frontstage of economic policy. It analyses the Chancellor's attempt at reframing budgetary policy and traces government efforts at managing hostile reactions to the budget. As it inherited balance of payments problems, the Labour government confronted orthodox, unfavourable view of fiscal deficits from the very beginning. A coalition of financial markets, European and US authorities, and the IMF pressured for restoring external confidence by cutting public expenditure instead of increasing taxation (Stones, 1990). Even though officials suggested a mix of tax increases, hire-purchase restrictions, and cuts in defence and public investment, the Chancellor was not ready to sacrifice the government's economic strategy to satisfy international lenders. The government agreed on the need to check demand, but the crux of the matter was how. Demand restraint was necessary but should not affect public or government-induced investment.[48]

In April 1965, the Chancellor introduced a budget that would, at the same time, ease demand and result in a large borrowing requirement. Getting ahead of accusations of profligacy and inflationary tendencies, he changed the presentation and contents of the 1965/1966 FS (see previous section). The government mobilised a relational notion of public money. Politically speaking, the changes aimed at reconfiguring symbolic fiscal practices to institutionalise a (civilian) developmental state schema. While traditionally the deficit had been presented independently, the new presentation included financial transactions as part of the whole accounts of receipts and outlays. It showed the deficit's composition, mainly lending activities to public and private industries, and purpose, promoting economic growth (see figures 4 and 5). This highlighted 'the loans to industry, both nationalised and private, which are a considerable part of Exchequer lending' and made 'clearer than before' the relationship between the budget and 'the economy as a whole' (HC, 1965, col. 274). As the deficit's main

[47] TNA: T320/415, 'McKean to Walker', 31 March 1965; TNA: T320/415, 'Walker to McKean, "FS"', 1 April 1965.
[48] TNA: T267/22, 'Treasury Historical Memorandum 22. "The Control of Demand 1964-1970"', January 1975, 16.

purpose was not to remedy government's underfunding but to promote productive activities, the appropriate way of assessing public finances was to consider them as a component of the wider economic strategy for national productive development.



22 FINANCIAL STATEMENT (1964–65)

ESTIMATES, 1964–65

TABLE XIV.—SUMMARY

After Budget changes

£ million

	1963–64 Budget Estimate	1963–64 Outturn	1964–65 Estimate		1963–64 Budget Estimate	1963–64 Outturn	1964–65 Estimate
				ABOVE THE LINE			
Revenue				**Expenditure**			
Inland Revenue ...	3,729	3,712	4,038	Consolidated Fund Services	790	817	839
Customs and Excise ...	2,732	2,766	2,951	Supply: Defence Budget ...	1,838	1,789	1,999
Motor Duties ...	160	171	180	Civil	4,301	4,211	4,550
Total Tax Revenue ...	6,621	6,649	7,169	Total Supply	6,139	6,000	6,549
Other Revenue ...	218	241	286				
Total Revenue ...	6,839	6,890	7,455	**Total Expenditure ...**	6,929	6,817	7,388
Deficit	90	—	—	**Surplus ... ...**	—	73	67
	6,929	6,890	7,455		6,929	6,890	7,455
				BELOW THE LINE			
Total Receipts ...	595	609	702	**Total Payments ... ...**	1,192	1,160	1,560
Net Payments ...	597	551	858				
	1,192	1,160	1,560				

	1963–64 Budget Estimate	1963–64 Outturn	1964–65 Estimate
Above the line:			
Surplus	—	73	67
Deficit	90	—	—
Below the line:			
Net Payments ...	597	551	858
Borrowing requirement ...	687	478	791

Figure 4. Summary table, 1964/1965 FS

Source: (HMT, 1965, p. 22)

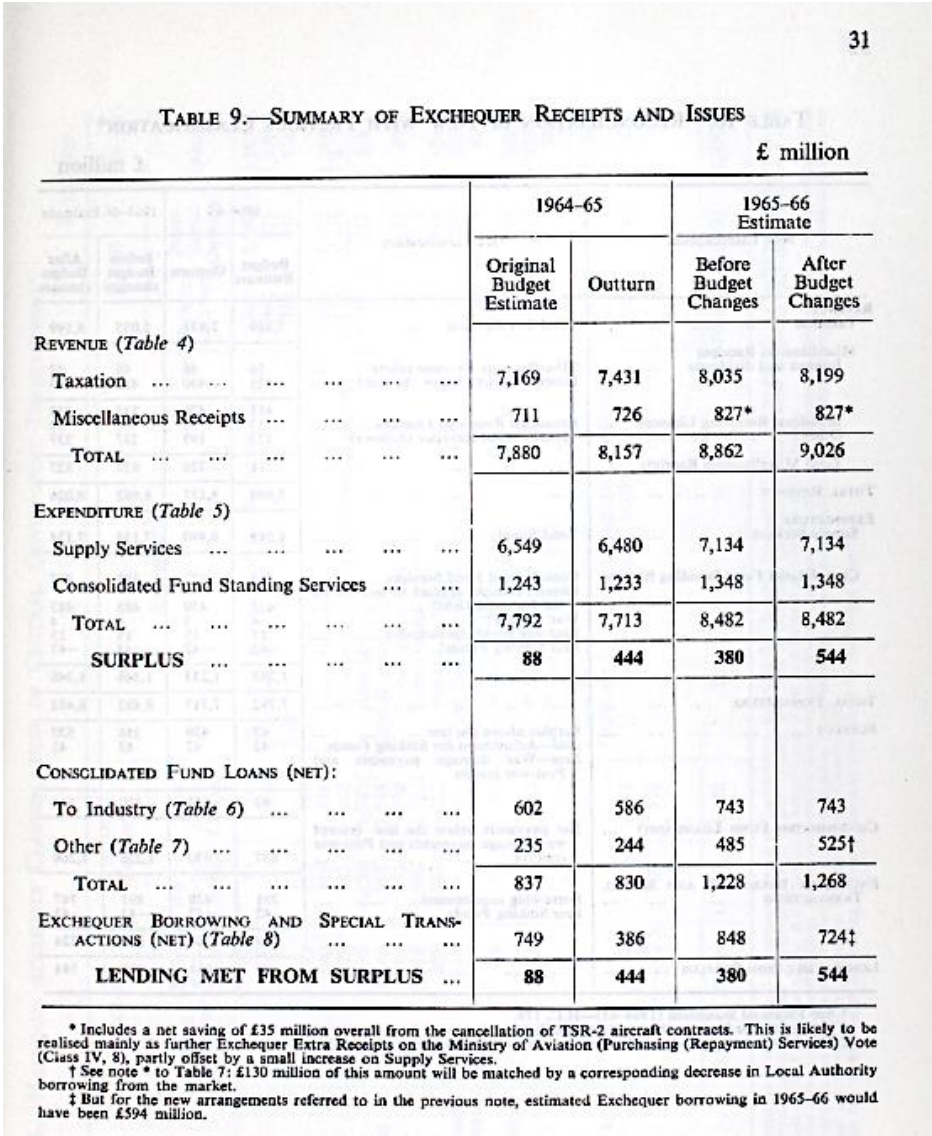


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TABLE 9.—SUMMARY OF EXCHEQUER RECEIPTS AND ISSUES

£ million

	1964–65		1965–66 Estimate	
	Original Budget Estimate	Outturn	Before Budget Changes	After Budget Changes
REVENUE (*Table 4*)				
Taxation	7,169	7,431	8,035	8,199
Miscellaneous Receipts	711	726	827*	827*
TOTAL	7,880	8,157	8,862	9,026
EXPENDITURE (*Table 5*)				
Supply Services	6,549	6,480	7,134	7,134
Consolidated Fund Standing Services	1,243	1,233	1,348	1,348
TOTAL	7,792	7,713	8,482	8,482
SURPLUS	**88**	**444**	**380**	**544**
CONSOLIDATED FUND LOANS (NET):				
To Industry (*Table 6*)	602	586	743	743
Other (*Table 7*)	235	244	485	525†
TOTAL	837	830	1,228	1,268
EXCHEQUER BORROWING AND SPECIAL TRANSACTIONS (NET) (*Table 8*)	749	386	848	724‡
LENDING MET FROM SURPLUS ...	**88**	**444**	**380**	**544**

* Includes a net saving of £35 million overall from the cancellation of TSR-2 aircraft contracts. This is likely to be realised mainly as further Exchequer Extra Receipts on the Ministry of Aviation (Purchasing (Repayment) Services) Vote (Class IV, 8), partly offset by a small increase on Supply Services.

† See note * to Table 7: £130 million of this amount will be matched by a corresponding decrease in Local Authority borrowing from the market.

‡ But for the new arrangements referred to in the previous note, estimated Exchequer borrowing in 1965–66 would have been £594 million.

Figure 5. Summary table, 1965/1966 FS

Source: (HMT, 1965, p. 31)

Labour policymakers considered changing the FS layout a necessary step to promote and sustain a different economic policy. The aim was to shift symbolic fiscal practices' gravitational centre from the health of public finances to the implementation of a new national development strategy. This entailed promoting on-lending activities and changing symbolic practices. The Chancellor expected to change the terms of public economic argument, get rid of misleading interpretations of the budget, and counteract the consequent emphasis on government borrowing ‘regardless of its purpose or composition’ (HC, 1965, col. 274). By designing the summary table in such a way that it did not lead to a total number for the fiscal deficit, the government tried to unmark government borrowing (cf. Brekhus, 1998). In making more explicit the relationship between borrowing and lending activities, the new layout demonstrated that most Exchequer lending financed industrial investment. Instead of short-term stimulus, the purpose of these activities was to regenerate national industry. It was not simply about state versus markets but about deploying national resources for national purposes.

The 1965 budget worried international authorities. They saw fiscal deficits and demand restriction as antithetical, with deficits as the symbol, by definition, of aggregate demand stimulus (Cairncross, 1996a, p. 121). The IMF criticised the absence of a fiscal rule targeting the annual deficit, and the specialised press noted that financial circles deemed demand restriction insufficient.[49] Accordingly, an intense effort at managing hostile reactions took place in the following months. Treasury officials dealt directly with different key actors like the IMF, European central bankers, and finance ministers. Just weeks after the budget, the Treasury shared their forecasts with IMF officials and sent a note, entitled *The Relationship of the National Income Forecasts to the Budgetary Accounts*, explaining how to interpret budget figures (Cairncross, 1996a, p. 123). Demand management considerations had been allowed for in the forecasting exercises underlying the policy mix and, therefore, borrowing was not a good indication of the budget's inflationary or deflationary character. An IMF staff report explained how to interpret the budget and confirmed its consistency with curbing demand but denounced a government bias in favour of public expenditure. The IMF Executive Board endorsed the assessment and stressed the need to avoid 'inflationary financing'.[50] In response, the UK representative reassured that fiscal policy would not impair the goal of keeping 'a tight grip on the money supply', and stressed that the deficit was 'about matched' by loans to industry for fixed capital formation.[51] Treasury officials also made papers available for the governors and finance ministers of the European Economic Community and the OECD Working Party 3.[52] Among other aspects, they explained how a £724mn borrowing requirement on exchequer accounts translated into £578mn national accounts net borrowing and used the capital/current transactions distinction to defend the budget. Following an exchange with the governor of the Bank of Italy, they also clarified the sources of borrowing and the consequent likely effect of the deficit on bank deposits and advances. The main purpose of all this was to explain the compatibility of demand restriction, a higher fiscal deficit, and appropriate investment.[53]

The British budget was very much on the international agenda. The IMF Monetary Committee, European finance ministers, and central bankers would discuss it. International authorities thought the measures were insufficient to deal with the balance of payments. The budget puzzled them because, according to their calculations, the higher public spending, 'which the government seemed unable to reduce', counteracted the effect of significant increases in taxation.[54] In view of the criticism, the foreign office briefed overseas British representatives. It provided Treasury 'ammunition' to deal with 'the misconceived criticism of the Budget' and, specifically, with the economic significance of government borrowing.[55] A

[49] IMFA, 'SM/65/37, Staff Report', 28 April 1965, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125046672; TNA: T171/1356, 'Foreign Office to HM Representatives. Guidance 159.', 9 April 1965.
[50] IMFA, 'EBM/65/26', 12 May 1965, https://archivescatalog.imf.org/Details/ArchiveExecutive/125046625; IMFA, 'EBM/65/25', 12 May 1965, https://archivescatalog.imf.org/Details/ArchiveExecutive/125046626.
[51] IMFA, 'EBM/65/25', 7.
[52] The Working Party 3 was an influential forum in which finance ministry and central bank officials of the ten largest OECD countries discussed monetary and balance of payments issues.
[53] TNA: T320/416, 'Cairncross, "The UK Budget and Financial Policy. The Relation Between the Budget Accounts and the Economic Prospect"', 29 April 1965; TNA: T320/416, 'Cairncross to Painter', 29 April 1965.
[54] TNA: T171/1356, 'Barrington to Symons', 23 April 1965.
[55] TNA: T171/1356, 'Foreign Office to HM Representatives. Guidance 159.'; TNA: T171/1356, 'Symons to Owen', 26 April 1965; TNA: T171/1356, 'HMT, "The Effect of the Budget"', 29 April 1965.

larger borrowing requirement should not be interpreted as inflationary fiscal policy. First, only £223mn out of the expected £724mn would be raised through marketable debt. As this did not represent unusual pressure on financial markets, the government would not rely on the banking sector excessively, and the deficit would not lead to an undue expansion of bank advances. Second, tax increases to curb consumption would cause a high government surplus. Whenever the scale of government expenditure was criticised, representatives should point out that the government surplus covered 43% of Exchequer loans.

Third, the bulk of the increase in the capital account deficit had a twofold explanation. On the one hand, the increase in net lending to public and private industry reflected increased productive investment. In the case of some public corporations, this did represent a real increase in demand, which however was consistent with the forecasted 'slower growth in total fixed investment'.[56] On the other hand, many of these private and public bodies would have borrowed directly from the market anyway. Borrowing from the government was the preferred alternative since the mid-1950s for monetary policy considerations. A case in point was the increase in lending to local authorities. The only difference with previous years was that it now scored as a budget transaction because of the start of the transfer of local authority borrowing to the Exchequer.

At the core of international criticism was a confusion between Exchequer lending and government expenditure. The crux of the matter was that lending activities at market rates 'should not' be likened to government expenditure on, e.g., social services.[57] In parallel, the PM suggested that the Treasury Financial Secretary gave a speech in Zurich on the relationship between UK economic policy and the budget. European opinion, leading bankers, senior officials, and economic editors favoured a much more severe deflation. The PM wanted to advance the argument that 'a working debtor is better (for our creditors) than an unemployed one'.[58] The measures to retrench demand, in the form of new taxes to make room for exports, showed 'the sacrifice' of the British people to 'put our economy right and repay our debts to overseas creditors' (HC, 1965, col. 295). Moreover, the government was also dealing with the balance of payments by, for example, promoting domestic investment, implementing effective regional and incomes policies, and making British industry more competitive.

6. Bureaucratic Interests and Callaghan's Debudgetising Attempt

6.1.Intellectual Brokerage

Conflicts about potential changes to symbolic fiscal practices continued after the budget. The 1965 revision of the FS was publicly presented as 'part of a continuing process of

[56] TNA: T320/416, 'Cairncross, "The UK Budget and Financial Policy. The Relation Between the Budget Accounts and the Economic Prospect"'.
[57] TNA: T171/1356, 'HMT, "The Effect of the Budget"'.
[58] TNA: T171/1356, 'Butler to Bancroft, "Financial Secretary's Speech in Zurich"', 28 April 1965.

improving' public finance documentation.[59] The idea was to devise a satisfactory FS layout before proceeding to a revision of the statutory government accounts. In view of the hostile international reception, officials set out to avoid repeating the experience of discussing consequential budgetary reporting decisions until the last minute. They needed to agree on what was 'the most important aspect' to emphasise.[60] The working party on the form of the FS was promptly reactivated. With permanent participation of Treasury and CSO officials, it worked 6 months before submitting its final report. Among other topics, it discussed the Treasury's long-held desire of enlarging the scope of budgetary reporting to the whole public sector, and the strategy for the eventual reform of the statutory accounts. Both tasks were intrinsically related. Legislation on the accounts implied the idea of sweeping up 'the whole question' of budgetary reporting 'and settle it for a generation'.[61]

The experience of the 1965/1966 FS brought significant lessons. It was crucial to bear in mind 'the need for a better understanding of the economic significance' of government policy and 'the uses' domestic and international commentators 'made of the figures'.[62] The national accounts table needed some rethinking on what to highlight. It had unintendedly become the budget's context and, as such, it had to embody an effective strategy for managing domestic *and* international opinion.[63] Even though officials considered the current/capital distinction unhelpful to determine the budget's impact on aggregate demand and 'feared' that 'there would be a tendency in some quarters to regard a current surplus in the National Accounts table either as a "true" measure of the nation's solvency or as in some sense the explanation of the Budget judgment', the 1965 experience made it 'clear that the size of the current surplus in national accounting terms is a figure to which informed' international and domestic observers attached importance.[64] They recommended introducing the distinction and showing a current surplus to be transferred to the capital account 'in order to obtain the net borrowing figure'.[65]

Officials also recommended disaggregating some items in the 1966/1967 national accounts table on central government transactions. On the expenditure side, the new version listed current grants, capital grants, and net lending, and disaggregated each of them according to its receivers or borrowers. This had first met some resistance from officials, as it did not follow national accounting conventions.[66] On the financing side, it introduced other additional interesting changes. Thinking of the monetary-minded public, officials disaggregated outturn deficit figures and distinguished by financing sources (see figure 6). This clarified that marketable debt, the portion of the deficit considered potentially inflationary, was 'much smaller' than 'the net borrowing element otherwise implied'.[67] The listed items were: increase

[59] TNA: T320/415, 'HMT, Budget Briefing 12. "Reform of Exchequer Accounts"', 6 April 1965; TNA: T320/415, 'HMT, Budget Briefing 13. "Financial Statement"'.
[60] TNA: T320/416, 'Vinter to McKean', 11 May 1965; TNA: T320/416, 'McKean to Vinter', 12 May 1965.
[61] TNA: T320/416, 'Vinter to McKean', 12 May 1965.
[62] TNA: T320/416, 'HMT, "Minutes of a Meeting, 25 May 1965", X.A.(65)1st Meeting'.
[63] TNA: T320/416, 'Vinter to McKean', 11 May 1965.
[64] TNA: T320/470, 'HMT, "Report of the Working Party on the Reform of Exchequer Accounts", X.A.(65)11(Final)', 26 November 1965.
[65] TNA: T320/416, 'HMT, "Minutes of a Meeting, 25 May 1965", X.A.(65)1st Meeting'.
[66] TNA: T320/416, 'HMT, "Minutes of a Meeting, 24 June 1965", X.A.(65)3rd Meeting'.
[67] TNA: T320/416, 'HMT, "Minutes of a Meeting, 25 May 1965", X.A.(65)1st Meeting'.

in net indebtedness to BoE Banking Department; increase in notes and coin in circulation; increase in non-marketable debt (national savings, tax reserve certificates); net receipts from market transactions; direct borrowing (net) from overseas governments and institutions; and net change in gold and foreign currency reserves. While this could trigger requests for a forecast along similar lines for the coming year, officials agreed that the gains of publishing disaggregated outturn financing figures were worth the potential need to deny such requests.

Politically minded officials attempted to erase and re-define the external boundary of the state as well. Instead of borrowing requirement, the 1966/1967 FS described the budget balance as net balance (see figure 6). This was partly the result of the decision to show the different financing sources. As changes in reserves was a key factor leading up to the balance, it was not logical to treat the final figure as 'borrowing requirement': borrowing decisions did not determine reserve movements. The rationale behind the formation of this new category and the consequent erasure of the traditional one was related to the different connotations they conferred to the budget balance. Borrowing requirement gave the impression 'that the private sector is getting nothing in return', ignoring that government borrowing 'effects transfer payments or transfers non-monetary benefits from one section of the community to another'.[68] Net balance was implemented in all official statistical publications and budgetary documentation. Officials hoped that this decision, taken in late 1965, would help to further eradicate the household analogy framing of fiscal policy by outmanoeuvring conservative fiscal schemas. As the Chancellor had argued, it was not about central government versus the rest of the economy, nor about public versus private sector. The issue related to the need to secure the right level of investment in the appropriate sectors of the national economy. To that end, the government replaced the borrowing requirement category for being prone to misinterpretation and constantly weaponised by fiscal conservatives.

The 1966/1967 FS also contained, for the first time, a national accounts table on public sector transactions. The ordering was telling. It was placed *after* the central government table to preclude the public from thinking that government was directly responsible for the whole public sector. There were two ways of budgetising the public sector. First, introducing another table on local authority and public corporation transactions below the central government table. Second, introducing an additional table on public sector transactions as a whole. Not surprisingly, officials preferred the second option. They presented it as a way of anticipating public opinion's demand for it and mobilised, again, perceived public expectations as constraint. While introducing this table would probably widen the scope of budgetary politics to encompass the financial policies of local authorities and public corporations, officials did not 'foresee any serious disadvantages in this'.[69]

[68] TNA: T331/386, 'Andren to Butler', 12 January 1968.
[69] TNA: T320/470, 'HMT, "Report of the Working Party on the Reform of Exchequer Accounts", X.A.(65)11(Final)'; TNA: T320/416, 'Vinter to McKean', 12 May 1965.

TABLE 9.—NATIONAL ACCOUNTS CLASSIFICATION OF CENTRAL GOVERNMENT TRANSACTIONS

£ million

	1965–66		1966–67 Estimate	
	Budget Estimate(1)	Provisional outturn	Before Budget changes	After Budget changes
CURRENT RECEIPTS				
Gross trading income	30	27	21	21
Gross rental income	99	103	104	104
Interest on loans to—				
Local authorities	136	149	176	176
Public corporations	338	323	376	376
Other interest, dividends, etc.	142	125	126	126
Taxes on income	4,242	4,324	4,820	4,883
National insurance contributions	1,588	1,580	1,664	1,664
National health contributions	170	166	169	169
Taxes on expenditure	3,762	3,808	3,849	3,857
Selective Employment Tax	—	—	—	315(2)
TOTAL	10,507	10,605	11,305	11,691
CAPITAL RECEIPTS				
Current surplus(3)	1,007	1,071	1,015	1,401
Taxes on capital	282	295	317	317
Loan repayments from overseas governments	31	25	33	33
Receipts from certain pension "funds" (net)	52	59	62	62
Adjustments for accruals of—				
Taxes on expenditure	−10	−17	−20	−20
Subsidies	—	8	−5	−5
Net borrowing by Northern Ireland central government	4	11	15	15
Miscellaneous financial receipts and changes in cash balances	−16	−74	−18	−18
Net balance—				
Increase in net indebtedness to Bank of England Banking Department		183		
Increase in notes and coin in circulation		193		
Increase in non-marketable debt—				
National savings		−115		
Tax reserve certificates		−59		
Net receipts from market transactions		27		
Direct borrowing (net) from overseas governments and institutions		403		
Net change in gold and foreign currency reserves (increase−)		−128(5)		
Total(6)	574	504	668	282
TOTAL	1,924	1,882	2,067	2,067

	1965–66		1966–67 Estimate	
	Budget Estimate (1)	Provisional outturn	Before Budget changes	After Budget changes
CURRENT EXPENDITURE				
Current expenditure on goods and services	3,858	3,911	4,265	4,265
Debt interest	1,078	992	1,110	1,110
Subsidies	514	505	505	505
Current grants to—				
Local authorities	1,263	1,313	1,460	1,460
Persons and private non-profit making bodies	2,608	2,641	2,776	2,776
Abroad	179	172	174	174
Total current expenditure	9,500	9,534	10,290	10,290
Current surplus(3)	1,007	1,071	1,015	1,401
TOTAL	10,507	10,605	11,305	11,691
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	328	309	368	368
Increase in value of stocks	14	21	25	25
Capital grants to—				
Local authorities	88	72	94	94
Public corporations	2	2(4)	7	7
Private sector	159	142	151	151
Net lending to—				
Local authorities	386	549	432	432
Public corporations	791	653(4)	884	884
Private sector at home	50	43	19	19
Net lending abroad for private industry, etc.	−4	−2	−2	−2
Loans to overseas governments	100	81	77	77
Drawings from United Kingdom subscriptions to international lending bodies	10	12	12	12
TOTAL	1,924	1,882	2,067	2,067

(1) Some of the figures differ slightly from those given in table 11 of the Financial Statement (1965–66), H.C. 154—6 April 1965, because of subsequent changes in the national accounts classification of some items in the Estimates of Supply expenditure.
(2) This is a net yield after allowing for reimbursements and payments of premium. The implications for central government and public sector expenditure of the corresponding gross figures have not been incorporated in this table and table 11.
(3) Before allowing for depreciation and stock appreciation.
(4) These figures do not reflect the reduction of £110 million in the liabilities of the British Overseas Airways Corporation following the capital reconstruction under the Air Corporations Act 1966.
(5) In addition £316 million was transferred to the reserves from the liquid portion of the Treasury dollar portfolio.
(6) Net balance excluding borrowing for on-lending to local authorities and public corporations is a *surplus* of 603 698 648 1,034

Figure 6. Central government transactions, 1966/1967 FS

Source: (HMT, 1966, pp. 16–17)

6.2.Political Interests Strike Back

Until late 1965, discussion was mainly dominated by politically aware bureaucratic insights and the Treasury's desire to inscribe the subordination of public sector to Treasury financial oversight in symbolic fiscal practices. The proposed reforms would not make the figures 'very much more meaningful', but at least the tables on parliamentary conventions had the presentational advantage of highlighting a surplus rather than a deficit.[70] At this point, however, with the 1966 budget already in sight, the Chancellor Callaghan received disturbing information on the budget prospects. The borrowing requirement, would-be net balance, would continue increasing to record figures, with all the effects on confidence. In this context, and before the working party submitted its report, Callaghan complained that even after the 1965 improvements the FS 'remained unnecessarily damaging' and asked senior officials to go beyond presentational rearrangements and discuss opportunities for 'debudgetisation'.[71] This was exactly the opposite to the Treasury's long-held desire, soon to become formal proposal, of adding a table on total public sector transactions.

The Permanent Secretary to the Treasury proposed two potential courses of action to meet the Chancellor's desires. First, changing presentational practices. No full summary table would be reported on parliamentary accounts, and separate tables would report in detail the figures for 'other' loans and loans to industry, private and public. Theoretically, this would partly meet the Chancellor's request by refitting the symbolic markers of government responsibility to the original reasons behind financial practices: public corporations, and gradually local authorities, were encouraged to undertake their medium and long-term borrowing through the central government for monetary policy reasons, without it representing any change in their (distant) relationship with the government. For that reason, their borrowing should not score as government borrowing. This could be achieved at least partly by eliminating the summary table. However, while senior officials thought that eliminating the summary table on parliamentary accounts might be presentationally helpful in the long run, it was unlikely to be so in the short term. Informed commentators would surely demand to compare the new and old presentations. Moreover, the proposal did not consider a change in national accounts tables.

Second, changing financial practices. Switching nationalised industry borrowing 'back to the open market' would 'obviously' reduce government borrowing 'to the extent of the transfer to market sources of finance'.[72] This entailed reversing the 1956 policy. Back then, government debt market management needs outweighed the 'presentational difficulties' but, a decade later, it 'was probably worth reconsidering' it.[73] However, from Treasury officials' perspective, this proposal jeopardised all 'our efforts (leaving, even now, serious loopholes) to direct' the attention of public corporations to 'thorough-going investment appraisal and economic

[70] TNA: T320/416, 'Robin to McKean, "Reform of Exchequer Accounts"', 17 September 1965.
[71] TNA: T320/470, 'Walker, "Note for the Record. Exchequer and Public Sector Accounts"', 30 November 1965; TNA: T171/1380, 'Armstrong to Bancroft', 11 November 1965.
[72] TNA: T320/470, 'Walker, "Note for the Record. Exchequer and Public Sector Accounts"'.
[73] TNA: T320/470.

assessment'.[74] Forcing public corporations to meet their financing requirements through the open market would hamper Treasury efforts and impair the sense of financial responsibility that the Treasury had so painfully fostered in public corporations. Officials discarded this course of action too for endangering a key Treasury lever for disciplining public corporations.

A third alternative emerged from the discussion. Financial practices could be otherwise reformed. Public industries would borrow short-term from the Exchequer, but a new National Loans Agency would float a Nationalised Industry stock in the same financial year to reimburse the government, thereby eliminating the transaction for budgetary reporting purposes. In this scheme, public corporations would not be in charge of debt issuance but would service their debt directly to the private sector. The new National Loans Agency would issue debt for nationalised industries as a whole. The main difficulty was the need to consider a coherent treatment for local authorities as well. From officials' perspective, logic dictated that the agency would have to raise funds for both public corporations and local authorities. The arrangement would 'effectively remove' all non-central government transactions from budgetary reporting, 'leaving in present circumstances an Exchequer surplus with the Exchequer thus a net repayer of debt to the private sector'.[75] A sub-group of officials was to examine 'urgently' the feasibility of establishing the agency 'with an eye to achieving this in time for the 1966 Finance Bill'.[76] One crucial design challenge was not impairing monetary policy. In the end, however, time constraints and the difficulty of reaching an agreement on its design, meant that discussion and any potential legislative strategy on the matter was deferred for after the 1966 budget.

In any case, Robert Neild, a Cambridge economist and senior economic adviser, was against what he deemed a 'radical proposal'.[77] He suggested instead lumping together local authority and public corporation borrowing from the central government with any additional borrowing of their own. This meant showing the 'actual amount' borrowed by each public subsector and producing a notional central government surplus.[78] However, Treasury and CSO officials rejected the idea. They adduced errors in the underlying classification principles: Neild's proposal was not consistent with national income accounting conventions, which did not consider intra-sectoral flows. The proposal diverged from the tables published in the blue book. This was an inconvenient feature for a table that 'purports' to be a national accounts table.[79] Furthermore, it was necessary to consider that the idea would probably be particularly attractive to 'those desiring to go in for window-dressing'.[80] As a compromise solution, instead of showing a notional surplus of the central government in the public sector table (or in both tables), Treasury and CSO officials decided to show it in a footnote to the central government national accounts table (see footnote 6 in figure 6). The footnote, however, was discontinued as of the 1968/1969 FS.

[74] TNA: T320/470.
[75] TNA: T320/470.
[76] TNA: T320/470.
[77] TNA: T320/470, 'Neild to McKean', 15 December 1965.
[78] TNA: T320/333, 'Burdett to McKean, "National Accounts Tables in FS"', 7 December 1965; TNA: T320/470, 'McKean to Neild, "National Accounts Table of Public Sector Transactions"', 15 December 1965.
[79] TNA: T320/333, 'Beales to McKean', 10 December 1965.
[80] TNA: T320/333, 'Burdett to McKean, "National Accounts Tables in FS"'.

In the end, the working group's final report stressed that while legally speaking government could vary the FS at will, there were 'powerful arguments for making as few changes' as possible.[81] Officials aimed at convincing the Chancellor that his 'wishes could be met' by distinguishing current/capital transactions in the national accounts tables without de-budgetising transactions or altering the summary table.[82] Formal authority was not to be conflated with room for manoeuvre. Frequent rearrangements difficulted comparison and 'inevitably' triggered suspicions that government 'was tampering with the presentation to suit the circumstances of a particular year'.[83] The changes on the central government economic table and the introduction of a public sector table would, 'we think, be helpful in expounding the Budget' to international organisations such as the IMF and be welcomed by economists generally.[84]

7. The Invention of the PSBR: Inscribing the Public Sector Boundary

7.1.Back to Borrowing Requirement

Classification struggles continued with contradictory results. In February 1967 the Chancellor asked officials to explore, again, avenues for a better presentation of the budget balance vis-à-vis public corporation and local authority financing requirements. The agreed solution was to introduce a new table showing 'more clearly the relative significance' of the central government surplus, self-financing, and market borrowing in meeting local authority and public corporation financing requirements.[85] The proposed table would show (1) the capital expenditures of each public sub-sector, (2) the capital expenditure of the public sector as a whole, and (3) how that expenditure was financed in each separate case and together, i.e., identifying intra-sectoral flows. Showing intra-sectoral flows within the public sector was consistent with the fact that there was no real link between the budget balance and government spending, as different from local authorities and public corporations capital expenditure. The Chancellor also asked to sub-divide total public sector capital expenditure into social and economic 'to show (if it is true) that the major increase is in "economic" expenditure'.[86] In line with the developmental efforts, the table presented the total and disaggregated pattern of capital expenditure, with 54% for economic services, 38% for social services, and 8% for other services (see figure 7).

[81] TNA: T320/470, 'HMT, "Report of the Working Party on the Reform of Exchequer Accounts", X.A.(65)11(Final)'.
[82] TNA: T320/470, 'McKean to Vinter', 26 November 1965.
[83] TNA: T320/470, 'HMT, "Report of the Working Party on the Reform of Exchequer Accounts", X.A.(65)11(Final)'.
[84] TNA: T320/333, 'Draft Armstrong to Bancroft, "FS (1966-67)"', n/d.
[85] TNA: T230/870, 'Workman to Edwards, "New Table for the FS on the Capital Transactions of the Public Sector"', 10 March 1967.
[86] TNA: T230/870, 'Lavelle to Workman', 20 March 1967; TNA: T230/870, 'Workman to Edwards', 23 March 1967.

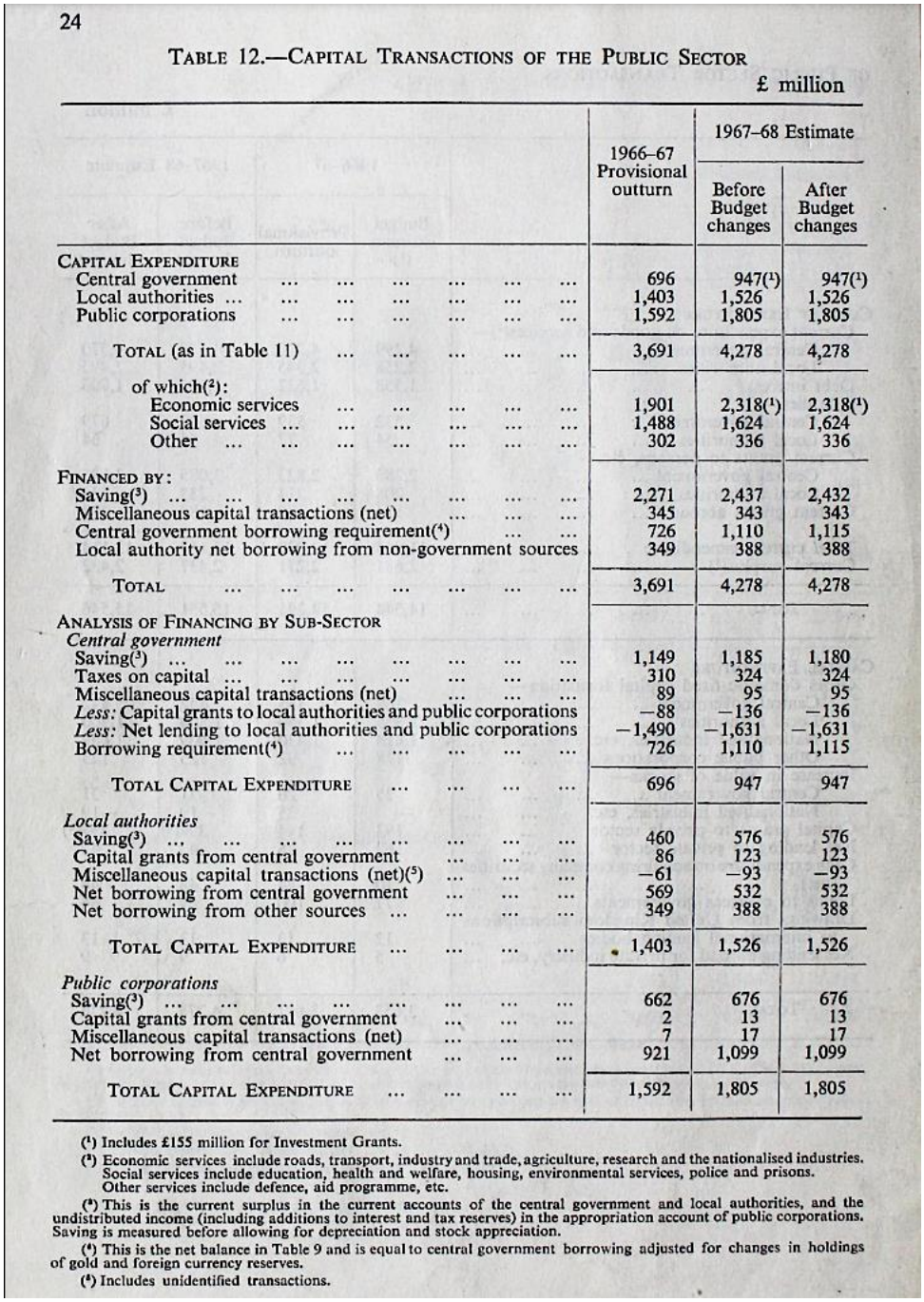

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TABLE 12.—CAPITAL TRANSACTIONS OF THE PUBLIC SECTOR

£ million

	1966–67 Provisional outturn	1967–68 Estimate	
		Before Budget changes	After Budget changes
CAPITAL EXPENDITURE			
Central government	696	947(1)	947(1)
Local authorities	1,403	1,526	1,526
Public corporations	1,592	1,805	1,805
TOTAL (as in Table 11)	3,691	4,278	4,278
of which(2):			
Economic services	1,901	2,318(1)	2,318(1)
Social services	1,488	1,624	1,624
Other	302	336	336
FINANCED BY:			
Saving(3)	2,271	2,437	2,432
Miscellaneous capital transactions (net)	345	343	343
Central government borrowing requirement(4)	726	1,110	1,115
Local authority net borrowing from non-government sources	349	388	388
TOTAL	3,691	4,278	4,278
ANALYSIS OF FINANCING BY SUB-SECTOR			
Central government			
Saving(3)	1,149	1,185	1,180
Taxes on capital	310	324	324
Miscellaneous capital transactions (net)	89	95	95
Less: Capital grants to local authorities and public corporations	−88	−136	−136
Less: Net lending to local authorities and public corporations	−1,490	−1,631	−1,631
Borrowing requirement(4)	726	1,110	1,115
TOTAL CAPITAL EXPENDITURE	696	947	947
Local authorities			
Saving(3)	460	576	576
Capital grants from central government	86	123	123
Miscellaneous capital transactions (net)(5)	−61	−93	−93
Net borrowing from central government	569	532	532
Net borrowing from other sources	349	388	388
TOTAL CAPITAL EXPENDITURE	1,403	1,526	1,526
Public corporations			
Saving(3)	662	676	676
Capital grants from central government	2	13	13
Miscellaneous capital transactions (net)	7	17	17
Net borrowing from central government	921	1,099	1,099
TOTAL CAPITAL EXPENDITURE	1,592	1,805	1,805

(1) Includes £155 million for Investment Grants.

(2) Economic services include roads, transport, industry and trade, agriculture, research and the nationalised industries. Social services include education, health and welfare, housing, environmental services, police and prisons. Other services include defence, aid programme, etc.

(3) This is the current surplus in the current accounts of the central government and local authorities, and the undistributed income (including additions to interest and tax reserves) in the appropriation account of public corporations. Saving is measured before allowing for depreciation and stock appreciation.

(4) This is the net balance in Table 9 and is equal to central government borrowing adjusted for changes in holdings of gold and foreign currency reserves.

(5) Includes unidentified transactions.

Figure 7. Public sector capital transactions, 1967/1968 FS

Source: (HMT, 1967, p. 24)

Discussion on the new table on capital expenditure led to a re-evaluation of the decision to name the budget balance net balance. As mentioned above, the 1966/1967 FS had further attempted to erase the traditional external boundary of the state by substituting 'net balance' for 'borrowing requirement'. However, some senior officials supported a return to borrowing requirement. They thought that net balance had not been useful because it was not clear what it represented and was even 'open to ridicule'.[87] CSO and most Treasury officials explained that 'net balance' was now a national accounting term and that 'adopting a different term in

[87] TNA: T230/870, 'Workman to Edwards', 17 March 1967.

this table to describe the same item' would cause confusion in the public.[88] While most officials, in a 3:1 proportion according to one count, preferred leaving the expression 'net balance', 'borrowing requirement' was 'imposed on us by higher authority'.[89] In effect, in March 1967 both the Permanent Secretary to the Treasury and the Chief Financial Secretary, William Armstrong and John Diamond MP, were unsatisfied with net balance and, on the latter's insistence, the newly introduced table on capital expenditure financing used borrowing requirement with a footnote indicating that it was equivalent to the net balance in national accounts tables (HMT, 1967).[90]

The table showed that more than 50% of public capital expenditure was financed by saving (see figure 7). As it proved that borrowing was not the counterpart of a 'revenue deficit', the government hoped it would help to 'forestall criticism' about inflationary consequences.[91] The central government's (current) surplus exceeded its capital expenditure and financed local authority and public corporation capital spending. Only part of public sector capital expenditure was financed through borrowing. By the same token, all increases in the borrowing requirement were the counterpart of central government lending to local authorities and public corporations, which were not expected to cover all their capital requirements internally. The borrowing requirement was the counterpart to a large increase in public investment in a context of faltering private investment. In the words of the Chancellor, 'in these circumstances, large borrowing by the central Government for onward lending does not mean that an excessive level of total demand will be generated' (HC, 1967, col. 998).

However, the reintroduction of the borrowing requirement concept reactivated the traditional government boundary. This was further intensified by the November 1967 devaluation and IMF loan, which included as conditionality a ceiling on the central government borrowing requirement (CGBR), which did not distinguish between borrowing for government or on-lending purposes.[92] For 1968/1969, a compromise solution meant that a new concept, 'borrowing requirement (net balance)', was used across the entire FS (HMT, 1968).

7.2.Conflicting Goals

The struggle over the correct boundary of government responsibility did not end with the CGBR ceiling imposed by the IMF. The British representative to the OECD Working Party 3 stressed that a higher CGBR reflected an increase in productive investment which other countries financed without central government intermediation.[93] Similarly, there were further

[88] TNA: T331/386, 'Armstrong to Workman', March 1967.
[89] TNA: T331/386, 'Workman to Butler', 6 February 1968; TNA: T230/870, 'Workman to Edwards', 17 March 1967.
[90] TNA: T328/221, 'Rees to Workman, "Net Balance"', 19 November 1968.
[91] TNA: CAB129/133/4, 'Memorandum by the Chancellor, "A National Loans Fund", C(67)144', 5 September 1967.
[92] Brittan (1969, pp. 80–81) argues that 'borrowing requirement' was imposed by the IMF on a reluctant Treasury as part of the post-devaluation negotiations in November 1967. Archival evidence shows that it had been reintroduced in the April 1967 FS at the insistence of the Chief Financial Secretary to the Treasury.
[93] TNA: T328/92, 'Hubback to Rickett, "Working Party 3. Introductory Speaking Notes for Sir Denis Rickett"', 28 November 1967.

attempts at differentiating activities for which the government was directly responsible and those in which it was financial intermediary. In his 1967 budget speech, Callaghan announced that the legal Exchequer accounts would be revised, leading to changes of substance (as opposed to pure presentation). He questioned whether the Exchequer should keep acting as a financial intermediary for much local authority and public corporation borrowing, and stated that 'the present arrangements' had resulted from 'a series of ad hoc responses to particular situations' (HC, 1967, col. 999). The time had come to question their suitability. The proposed solution would reform the accounting principles of budgetary reporting and remove government lending activities from budgetary accounts as a way of distinguishing 'transactions in which the government is acting as financial intermediary from those which effect its own activities and policies'.[94] Presentationally, this would be advantageous in that the central government borrowing requirement would no longer be inflated by its lending or financial intermediation activities.

In creating the National Loans Fund (NLF), the 1968 National Loans Act changed the legal government accounts without creating a new agency. In words of the BoE, the reform separated borrowing 'for the purpose of lending' (i.e., financial intermediation) from the 'Government's own finances' (BoE, 1968b, p. 280). The Consolidated Fund would deal with ordinary revenue and expenditure and the newly created NLF would deal with all central government borrowing and most of its lending (HMT, 1968, p. 4). Only transactions mainly reflecting the government's own policies or activities for which it was 'directly responsible' would score as part of the Consolidated Fund.[95] Note how nuanced the distinction between government as intermediary and government as principal was: a transaction would remain in the Consolidated Fund only if it *mainly* reflected policies for which government was directly responsible. Operationally this meant that while domestic lending at subsidised interest rates remained in the Consolidated Fund Account, all lending at market rates scored in the NLF. It was hoped that this would both redefine the central government boundary to match the Consolidated Fund and free government's capacity to steer economic development through the NLF. In the Chancellor's words, the reform aimed at leaving behind 'undue emphasis' on borrowing, particularly when there was a substantial current surplus.[96] The reform was necessary because the obsession with underfunding that resulted from misinterpretation of the old accounts could 'inhibit' necessary decisions and 'be detrimental to confidence in our economic position and policies'.[97]

But the timing of the National Loans Bill was problematic. It was introduced in November 1967 in parallel to the negotiations with the IMF that ended with a CGBR ceiling, effectively neutralising any of the effects that had motivated the creation of the NLF in the first place. Moreover, early in the legislative process, Treasury officials agreed that the national accounts tables of the FS would be little affected by the new legislation.

[94] TNA: T230/870, 'Rees, "Annex B. Suggested Rearrangement of Tables Consequent Upon the Establishment of a National Loans Fund"', 27 September 1967.
[95] TNA: CAB129/133/4, 'Memorandum by the Chancellor, "A National Loans Fund", C(67)144'.
[96] TNA: CAB128/42/55, 'Conclusions of a Meeting of the Cabinet, CC(67)', 14 September 1967.
[97] TNA: CAB129/133/4, 'Memorandum by the Chancellor, "A National Loans Fund", C(67)144'.

Officials did not agree on what was the correct government boundary. There were conflicting goals at play. On the one hand, the reforms of public finance statistics had been driven by politicians and civil servants' awareness of the need to guide public economic policy debate, enhance public understanding, and promote informed deliberation. On the other hand, in a classic expression of Wildavsky's guardians-vs-spenders dynamic, most Treasury officials were interested in strengthening their oversight powers over the rest of the public sector and, therefore, were not eager to find ways of making the borrowing requirement appear less inflated. The key driver of this position was the need to serve the 'Treasury's interests'.[98] The Treasury 'should not make it easier for Ministers to take insufficient action by artificially reducing the Government's borrowing needs'.[99] Thus, while most officials did not attach much prescriptive importance or intrinsic economic meaning to any borrowing figure, some thought ceilings could be useful. As an anonymous note observed, theoretical differences with the IMF and the fact that 'beggars cannot be choosers' notwithstanding, 'financial limits' or borrowing ceilings as the one introduced by the 1967 IMF loan 'might well be a very useful additional long-stop in controlling public expenditure, particularly in the capital sphere'.[100] Credit and financial limits could buttress Treasury control of nationalised industries and local authorities, and cash ceilings could do the same vis-à-vis central government departments.

Finally, in 1969 the government introduced a new presentation of public expenditure that officially inscribed the public sector as government boundary. This initiated the regular series of annual public expenditure white papers. From now on, all budgets would be multi-year and public expenditure planning would cover the whole public sector (Cmnd 4017, 1969, paras 5, 29). While previously the term public expenditure excluded debt interest and nationalised industry capital expenditure (HMT, 1968, p. 25), it was redefined to include them. In 1969/1970 another layout change in the FS further shifted the emphasis from central government to public sector transactions, as it included 'a new separate section on the total public sector coming *before* the central government section in the Statement'.[101] As the obvious counterpart to the new definition of public expenditure, the new key borrowing figure was the PSBR (or 'borrowing requirement (net balance)') (HMT, 1969, p. 16). Traditional Treasury concerns over the need for appropriate levers to control public sector finances succeeded and, less than two years after the National Loans Act, the distinction between government actions as intermediary and principal was erased. Treasury officials even suggested to the IMF that the PSBR was a better target than the CGBR in their 1969 negotiations. The IMF staff, however, preferred a 'less aggregative approach'.[102]

8. Conclusion

Between 1965 and 1970, public finance statistics were completely overhauled. What had

[98] TNA: T328/92, 'Workman to McKean, "Borrowing Requirement, 1968/69"', 12 December 1967.
[99] TNA: T328/92.
[100] TNA: T331/386, 'N.a., "The Borrowing Requirement"', n.d.
[101] TNA: T233/2970, 'Gray to Bridgeman', 5 February 1975.
[102] IMFA, '"Summary of Some Technical Points Made during an Informal Meeting"', 28 February 1969.

been called the Financial Statement was, since 1969, entitled the Financial Statement and Budget Report (FSBR). While the first dealt firstly and mostly with tax measures, the latter relegated tax measures and their revenue effects to the Annex. The body of the document now presented the foundations of policy—an assessment of the current and prospective economic situation, see chapter 4—and public sector transactions following national accounting conventions. This structure was maintained for the following years ahead.

What does the relational perspective on the 1964-1970 reforms of symbolic fiscal practices add to our understandings? For a start, as political rituals (Lukes, 1975), national budgets have a cognitive dimension. The budgetary process is a mode of exerting or seeking to exert power. Budgets frame economic policy by directing the attention of policymakers, civil servants, Parliament, non-state organisations, experts, and public opinion, to specific (not all) aspects of government policy and economic governance. They embody ways of seeing and conceiving the economy and the state. In situating government policy within the rest of the economy, they offer specific conceptions of the social and economic relations that constitute the national economy and the state and demarcate boundaries within the state and between the state and the economy. They organise collective knowledge of the past, the present, and the future that influences economic policy's horizons of possibility. The changes in public finance documentation and statistics emerged in dialogue with a new style of statecraft that intended to place in government the responsibility for economic growth and medium-term development. Not only were economic statistics greatly expanded to promote economic planning and control (O'Hara, 2007); symbolic fiscal practices changed accordingly, expanding, or intending to expand, the government's economic role. According to Tomlinson, the 1960s 'revolution' in economic statistics was both technocratic- and persuasion-driven (Tomlinson, 2017, pp. 175–176). Similarly, administrative pressures (e.g., the Radcliffe and Plowden Reports) were not sufficient conditions for reforming symbolic fiscal practices. The Labour government used statistics as means for legitimising government efforts to expand and modernise British industry.

The overhaul of the fiscal policy frame resulted from political efforts to transcend traditional demand fine-tuning and legitimise government borrowing for developmental purposes. Policymakers tried to bestow budgetary policy with new ends, economic modernisation, and means, public borrowing. Politicians and symbolic fiscal practices stressed the non-fungibility of public money. Transactions that backed public or government-induced necessary investment in specific sectors of the economy, and the money flows that constituted them, should not be likened to transactions financing, e.g., consumption or unnecessary investment. Similarly, transactions funded by different sources had different implications. In the case of public borrowing, policymakers tried to legitimise borrowing according to its national economic development purpose and financing sources—mainly government savings, non-marketable debt, and marketable debt sold to non-bank investors.

At the same time, however, once the reform process began, bureaucratic interests, epistemic authority, and classification struggles became influential factors. While the government had no formal constraints regarding budgetary reporting, in practice formal authority was not the same

as boundless room for manoeuvre. The negotiation of the appropriate scope and accounting conventions of budgetary reporting was influenced by external pressures—in the form of public opinion, international organisations, and/or economic commentators—policymakers' political interests, and bureaucratic interests and struggles, in particular the Treasury's desire to inscribe its oversight powers over the rest of the public sector. This shows a key difference between the Labour Party and the Conservative Party of the 1980s (see chapter 5). While Labour mostly relied on state, specifically Treasury, CSO, and BoE experts to explore the bounds of possibility for critical innovations, the Conservatives put their own party experts in command.[103] These different strategies had different consequences in terms of the relative power of, e.g., bureaucratic Treasury interests vis-à-vis political interests. Previous research shows that the state bureaucracy offered little resistance to the Thatcher governments' strategy to manipulate the unemployment statistics and limit the amount of official statistics on poverty and inequality with political goals (Römer, 2022; Tomlinson, 2017, p. 151). This chapter shows that bureaucratic and political interests may sometimes clash.

The legacies of classification struggles and the way in which they are interpreted by government elites are consequential. For example, in 1976 Treasury officials explained to Labour politicians that broad budgeting definitions and national accounting conventions were adopted in the late 1960s 'to encompass the area of the economy over which Government has sought to plan and *control expenditure directly*. In other words, the definition flowed *from the needs of policy*'.[104] This allows us to draw a lesson. We should take invocations to the needs of policy with caution. What government sought or not to control directly, and what the needs of policy were, are not neutral things but contested and debatable notions. Different sectors of the state might have different notions and may follow (or may be dragged into) contradictory directions. Just as naming a budgetary category and arranging budgetary items in a specific way, interpretations of the legacies of classification struggles are themselves an act of politics. In this case, a specific, non-neutral, interpretation aimed to discourage politicians from debudgetising the activities of public corporations.

Finally, this chapter's findings provide a qualification to accounts that suggest the existence of a seamless trend of steadily increasing public investment between the early post-war years and 1970 (Chick, 2017, p. 202, 2020, pp. 28–62). As figure 8 shows, the trend was far from smooth, with its significant variations clearly related to the governing party. While the attempt at getting rid of state schemas conceiving the state as a microeconomic agent in need of balancing its budget was only partially successful, it was the backdrop to the highest public sector investment the UK has seen since 1948. Furthermore, not all investment was financed through borrowing. The government changed the overall pattern of public expenditure to limit current spending and boost investment. In 1965-1970, the central government financial surplus, before lending operations, increased significantly, being the largest since 1950/1951. Total lending to other public sector bodies was significantly higher than in previous years, reaching

[103] For a broadly similar but more general reflection, see Edgerton (2018, Chapter 15).
[104] TNA: T378/9, 'Brown to Jones', 17 May 1976, my italics.

between £1.2 and £1.7bn per year.[105] Between 1945/1946 and 1964/1965, lending to other public bodies had only exceeded the £800mn mark twice, in 1955/1956 and 1964/1965.

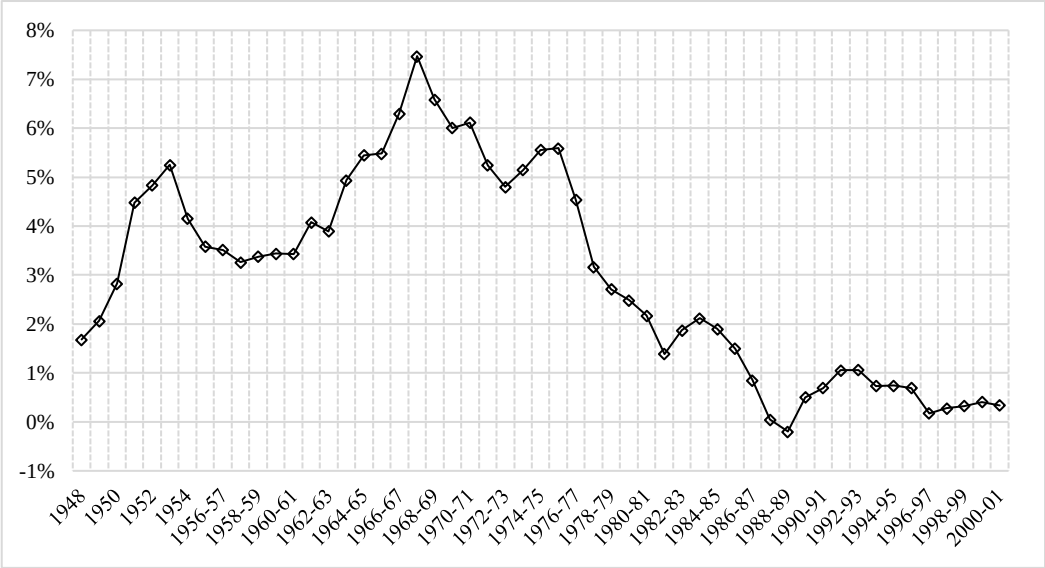

Figure 8. Public sector net investment
Source: Author's elaboration based on OBR (2020)

[105] TNA: T326/960, 'BoE, "The Central Government's Net Balance 1945/46 - 1968/69, HFIG(BR)(69)6"', 18 April 1969.

CHAPTER 4. A MEANINGFUL CONTEXT FOR DEMAND MANAGEMENT

1. Introduction

Chapter 3 analysed the processes leading to the reform of the legal, cognitive, and presentational aspects of budgetary reporting vis-à-vis developmental policies. It distinguished two key factors that defined the specific shape of those processes. The interim outcomes of classification struggles were determined by the government's goal of legitimising a developmental state schema and public borrowing and by bureaucratic conflicts of oversight. Chapter 4 looks at a parallel but related debate that took place during the 1960s and early 1970s over how to place the demand management dimension of budgetary policy in a meaningful economic context. While government attempts at legitimising a developmental strategy through reforms of symbolic fiscal practices were partly successful, they needed to be complemented by policy device(s) to expound demand management. The relational notion of money supported by the government did not aim to neglect non-developmental purposes but to diversify the perspectives from which general, practitioner, and expert opinion assessed policy. As demand management was widely perceived to be the most important aspect of annual budgetary cycles, this entailed providing a meaningful (public) context for government action. This would allow non-government actors a proper understanding of the reasons and goals of policy. In so doing, it would provide certainty to economic agents and build confidence in economic policy.

The Public Sector Borrowing Requirement (PSBR) was not meant to be the headline macroeconomic indicator embodying the thrust of budgetary policy. It was not meant to be a fiscal policy indicator at all. The PSBR was the outcome of two parallel processes. On the one hand, it grew out of concerns with monetary policy and the financial impact of public sector transactions—we traced the idea to the Radcliffe Report. On the other hand, the PSBR emerged out of reforms of the public finance concepts and machinery triggered by the economic strategy of the 1964-1970 Labour governments. However, just a decade later the government committed itself to a fiscal rule targeting the PSBR. The PSBR became the embodiment of state intervention and acquired a deliberate central role for economic policymaking and public debate; it was turned into the pre-eminent test of the Conservative commitment to rolling back the state (Prasad, 2006, p. 106). Public investment was the most hit. Government utilised privatisation to reduce the PSBR and devised the Public Finance Initiative to promote off-balance-sheet guaranteed or derisked private investment (Slater, 2018, pp. 246–249; Tomlinson, 2017, p. 80).

This chapter traces attempts at complementing the budgetary documentation and speech first with an economic statement and then with an adequate fiscal policy indicator. While Chapter 3 studied Labour's efforts at transcending the traditional boundary between

government and the economy by distinguishing budgetary transactions according to their purpose and financing sources, chapter 4 examines parallel efforts regarding demand management policy. In this case, government elites discussed the need to inscribe an appropriate Keynesian boundary to help non-government actors to better understand the short-term macroeconomic effects (i.e., in aggregate demand) of fiscal policy. As the main demand management tool, budgetary policy was concerned with the decision of adding or subtracting purchasing power from the economy. The borrowing requirement, however, was a poor indicator of such effects because it did not allow for the dissimilar economic impacts of different taxes and/or expenditure decisions. To understand why and how 1960s symbolic fiscal practices went from being an instrument to legitimise the developmental role of the state to being a tool to restrict it, this chapter focuses on two significant events. First, after discarding the possibility of publishing national income forecasts in a way that could allow a proper assessment of budgetary policy, the 1964-1970 Labour governments tried to create an appropriate fiscal indicator. Given that the borrowing requirement was a misleading guide for demand management, officials and policymakers struggled with and resisted the tendency of public debate to regard it as a measure of the government's fiscal stance. Second, the 1970-1974 Conservative government conducted yet another review of symbolic fiscal practices regarding internal policymaking and public debate. The decision not to introduce any additional reform would have significant, if unanticipated, consequences.

Chapters 3 and 4 question some deeply ingrained notions in the literature. Sociologists, political economists, and historians tend to theorise the Treasury in ideational or instrumental terms. As a result, we end up with two contradictory narratives. Be it because of the structural power of finance or the strength of the Keynesian consensus in economic policymaking, the Treasury is portrayed as having very definite economic policy preferences. For some, those preferences are associated with a small, non-interventionist, state (e.g., Anderson, 1964; Green, 2020; Ingham, 1984). For others, they are better understood, in the post-war decades, in relation to Keynesianism (e.g., Fourcade-Gourinchas & Babb, 2002; Hall, 1992, 1993; Hay, 2001). In these different narratives, it is external forces that threaten, question, or combat the Treasury view, be it in the form of interventionist developmental policies or in the form of the so-called neoliberal revolution. The trajectory of the Treasury and economic policymaking is either theorised in terms of almost pure continuity or with reference to notions of punctuated equilibrium. I take a different approach by disposing of the assumption of a relatively monolithic unitary Treasury view. Drawing on Middlemas' hint that the Treasury found itself in a relatively weak position in the first two post-war decades (Middlemas, 1991, p. 455), I place it within on-going bureaucratic politics or, in other words, within intra-state conflicts over oversight and hierarchy. The power of the Treasury should not be taken as given (cf. Deakin & Parry, 2000).

Two main causal processes explain the form of symbolic fiscal practices in the mid-1970s—which facilitated the attack against developmental state schemas, Keynesian counter-cyclical policies, and public ownership. On the one hand, once intellectual brokerage linked national accounting and budgetary reporting, Treasury officials policed any innovation attempts concerning symbolic fiscal practices that involved lessening the connection. This

entailed limiting politicians' room for manoeuvre regarding how they presented economic policy to the public. National accounting conventions were the backbone of Treasury efforts to expand its oversight powers over the whole public sector. On the other hand, this should not be interpreted as proof of Treasury fiscal conservatism. Treasury officials did not disregard the rhetorical dimension of budgetary reporting. Instead, perceptual error led them to think that what they deemed internal Treasury consensus over Keynesian principles for demand management was similarly established outside the Treasury. According to officials, a Keynesian indicator would have positive consequences for managing public opinion, but those gains were smaller than the potential risks involved. The Treasury's main concern in all this was with the intra-state bureaucratic politics dimension. Officials overlooked the claims-making consequences of institutionalised categorical distinctions. A PSBR-centred budget would tend to trigger worries about budget deficits and, to that extent, be functional to fiscal conservatism.

The chapter is structured as follows. Section two discusses the pressures that spurred government efforts to reform the presentation of demand management policies, and traces Treasury debates on the possibility of publishing an economic statement. Section three traces debates around the need to convey as much meaningful information as possible in budgetary documentation itself, and explorations about the option of devising a new table or indicator to show the impact of the fiscal deficit in aggregate demand. Section four examines another review of symbolic fiscal practices in 1971-1972 in which officials took for granted that Keynesian ways of thinking about budgetary policy were well entrenched in general and expert opinion.

2. The Need for a Meaningful Context for Demand Management

2.1.Transparency, Accountability, and Political Issues

In the 1960s there were growing pressures to present the budget judgment in a more meaningful context. This subsection contextualises this problem. The budget judgment embodied the Chancellor's assessment of the past, present, and prospective economic situation, and of the necessary budgetary measures to achieve the desired goals, in terms of demand pressure, throughout the year. The budget was the pivotal economic policy tool for stabilising aggregate demand. Because of the institutional design of the budgetary process, which separated expenditure and tax decisions, policymakers determined public spending policy before budget time. Regular, non-crisis, budgets usually consisted of tax measures only. To the eyes of the IMF, this paved the way for uncontrolled increases in public expenditure, because spending decisions became a given element ‘to which the taxation proposals in the budget have to be adjusted’.[1] But policymakers did not disregard the tax implications of public expenditure decisions. Officials explained that the budget judgement did not take place once a year before the budget speech. It was shaped throughout the year and had ‘its own effects, independent

[1] IMFA, ‘SM/65/37, Staff Report’, 28 April 1965, 11, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125046672.

effects, on expenditure' (Cairncross, 1975).

Instead of focusing on any budgetary balance, the authorities employed undisclosed national income forecasts to elaborate fiscal policy. Policymakers formulated policy based on expert economic and political analysis of the outcomes of these forecasting exercises. Forecasts aimed to estimate the changes in demand pressure on economic resources during the financial year ahead. Officials first gathered information and estimated the likely final demands of the private and public sectors to predict quarterly changes in GDP. Then, they compared those predicted changes 'with the expected rate of growth of productive potential'.[2] In other words, policymakers designed budgetary policy by contrasting estimates of total spending or aggregate demand for all purposes, considering private consumption, government consumption, private and public investment, and international trade, on the one hand, and estimates of the economy's productive capacity on the other.[3] Starting from this comparison, the authorities estimated the prospective aggregate demand if they left taxation constant or unaltered. Should the expected pressure of demand be deemed excessive relative to estimated productive potential, they would increase tax rates to restrain it. In this context, government elites did not interpret budget balances as indicators of the reflationary/deflationary character of budgetary policy because different taxes could have 'very' disparate effects on demand, even if they yielded similar revenue.[4] When attempting to restrain demand, policymakers would discuss *which* taxes were the most appropriate to achieve the desired economic outcomes, not how to increase tax revenue. Budgetary policy 'was conceived of as a means of influencing' consumption, investment, exports, and imports (Cairncross, 1975). Policymakers would assess the appropriateness of budgetary measures according to their effects on those key macroeconomic variables, not their impact on government accounts.

But the public had access only to published official economic statistics. The forecasting exercises underlying budgetary policy were undisclosed. Hence, non-government actors perceived the fiscal deficit, in whatever definition, to be the logical locus to assess the thrust of demand policy, as if it embodied the budget judgment.[5] The fundamental difficulty in shaping the budgetary documentation and statistics was people's natural tendency to expect the budget judgment to be 'capable of being directly derived from the tables' presented in the Financial Statement (FS).[6] No table representing past and future government transactions could enable the assessment of the budget judgment, whatever the accounting principles and conventions followed. Tables on government transactions could not allow adjudicating whether budgetary policy was appropriate. This posed the challenge of getting relevant actors—civil servants, policymakers, MPs, outside commentators, etc.—to abandon 'the concept that taxation requirements can be read off' directly from government transaction figures (Clarke, 1964, p.

[2] TNA: T320/470, 'HMT, "Report of the Working Party on the Reform of Exchequer Accounts", X.A.(65)11(Final)', 26 November 1965.
[3] IMFA, 'SM/65/37, Staff Report', 13; TNA: T230/870, 'HMT, "Annex B. Extract of a Note Dated 1st May 1964"'.
[4] IMFA, 'SM/65/37, Staff Report', 11.
[5] TNA: T230/870, 'HMT, "Annex C. Note Circulated under a Covering Minute by Hopkin, Dated 6 May 1964"'.
[6] TNA: T320/414, 'Armstrong to Bancroft, "Form of the FS"', 5 March 1965.

21), as if their only goal was to cover public expenditure.[7] It was simply impracticable to judge the appropriateness of the fiscal stance from central government or public sector transactions alone. 'The truth is' that trying to relate the budget judgment and government transactions was 'really trying to put two wholly unlike things side by side'.[8]

The main issue was related to the ontology of stabilisation policy and the infrastructure of demand management. Officials were trying to leave behind narrow and static conceptions of demand management that reduced it to a single occasion, the annual budget. Economic stabilisation was a continuous process. The government designed fiscal policy based on national income forecasts of changes in demand over a period, 'a kind of moving film'.[9] Government accounts were 'simply a summation' of government transactions in two successive years, '*a pair of still photographs*'.[10] While the budget's demand-regulating function was 'concerned with bringing about some particular development of the economy *during* the year', budgetary tables only provided a static summary of all transactions in terms of 'average conditions over the year'.[11] The decision-making process underlying the budget judgment was based on assessments of past and future trends in the national economy and, therefore, could not be represented by tables summarising annual government transactions. Starting from the economic conditions at the outset of the year, the budget aimed at bringing about a particular course in the economy during the year ahead. Moreover, not all budgets were designed to bring about the same level of economic activity over the next financial year. For example, the 1963 budget did not aim at full employment 'as an *average* condition for the subsequent financial year' but aimed instead to encouraging 'a gradual increase in activity over the year to something near "full" employment at its end'.[12]

Much more than tables on annual budgetary accounts were needed to explain the budget judgment. No presentation of budget accounts could change the fact that, because they showed changes in government transactions between two financial years, budget accounts could not 'throw much light on' economic developments *during* the year.[13] For these reasons, civil servants agreed that past discussions aiming to present central government or public sector transactions 'in some form which would' relate them to the budget judgment were 'rather a will-o'-the-wisp'.[14] To place fiscal policy in a meaningful context, appropriate tables would have to cover not only government transactions but the whole economy, including the private sector. These tables would show policymakers' analysis of 'how the economy' had 'moved over a past period' and how they expected it to move 'over a coming period'.[15] While tables summarising the budget accounts portrayed a static picture of government transactions, the

[7] TNA: T320/415, 'McKean to Marshall, "FS: The Governor's Letter"', 19 March 1965.
[8] TNA: T320/416, 'McKean to Vinter', 12 May 1965.
[9] TNA: T320/416, my italics.
[10] TNA: T320/416, my italics.
[11] TNA: T230/870, 'HMT, "Annex D. Extract of a Note Dated 1 July 1964"', my italics.
[12] TNA: T230/870, 'HMT, "Annex C. Note Circulated under a Covering Minute by Hopkin, Dated 6 May 1964"'.
[13] TNA: T320/416, 'Cairncross, "The UK Budget and Financial Policy. The Relation Between the Budget Accounts and the Economic Prospect"', 29 April 1965.
[14] TNA: T320/416, 'McKean to Vinter'.
[15] TNA: T320/414, 'Armstrong to Bancroft, "Form of the FS"'.

information upon which budgetary policy decisions were made related to the economic process as a whole. The economic significance of any table or indicator was little without considering its economic impact *throughout* the specified period. In other words, 'what is needed in fact is tables of the kind used in the national income forecasts'.[16]

Fiscal policy had transparency and accountability issues. It was difficult for non-government actors to assess the rationale or appropriateness of specific measures. Hitherto, different governments had addressed the issue of the relationship between economic prospects and budgetary policy in diverse ways. Since the late 1940s up until 1962, the government issued an annual Economic Survey published about a week before the budget. Its contents changed significantly over time. Between 1947 and 1951 the Economic Survey published the quantitative economic forecasts underlying budgetary policy. However, since the first budget of the Conservative governments in 1952, publication of forecasts was discontinued. Conservative Chancellor Butler decided that the Survey would not provide forecasts anymore, while assuring his critics that he *had* made use of the forecasting machinery to decide his overall budgetary strategy and particular measures (HC, 1952, col. 2048). Conservative MPs had expressed their dislike for stabilisation policy before and, in particular, objected the national income forecasting exercises that made short-term demand management possible because of their association with economic planning (Cairncross, 1996a, p. 7; Dow, 1964, pp. 67, 122). Thus, 'the forward-looking section of the Survey became less and less precise' and in 1962 the government discontinued it altogether.[17] From then on, short-term economic prospects were only addressed in the budget speech by a 'rather short and vague in its quantitative indications' passage.[18]

But the problem exceeded transparency and accountability. Politically speaking, budgetary documentation made it difficult for government authorities to devise measures that commanded the support of Parliament, economic agents, and public opinion. This constrained the government's room for manoeuvre significantly and imposed a conservative fiscal schema onto the budgetary process. As long as fiscal policy was framed and discussed in relation to the government accounts, it would be difficult to conduct appropriate stabilisation or counter-cyclical economic policies.

2.2.A Complementary Economic Statement

This subsection traces debates about devising an economic statement to accompany the budget. Conservative Chancellors' hesitance in the early 1960s over how to present budgetary policy in a more meaningful way led officials to analyse other options, different from re-arranging the presentation of the FS. One of their main proposals was to produce an economic statement. The question related to whether the government's view of the economic prospects should be published at the time of the budget, and if so what kind of statement should do it.

[16] TNA: T320/414.
[17] TNA: T230/870, 'Hopkin, "Draft. An Economic Statement"', 15 January 1965.
[18] TNA: T230/870.

Ideally, the statement would contextualise budgetary policy in the Treasury's national income forecasting infrastructure, thus making it possible to evaluate the appropriateness of fiscal policy in relation to the prospects of aggregate demand and productive capacity. A draft 'Economic Statement' was produced but not published in 1963.[19]

Labour's manifesto and the views of the incoming Chancellor Callaghan gave renewed impulse to the idea of publishing an economic statement to complement budgetary reporting and contextualise budget measures. The idea was reconsidered in late 1964 and early 1965. The Director of the Treasury Economic Section and Head of the newly created Government Economic Service, Alec Cairncross, thought that the troublesome economic situation and outlook made it unlikely that the government would agree to publish an economic statement in support of the 1965 budget. Nevertheless, he deemed it 'desirable to put the case to the Chancellor, especially as he is on record as favouring the publication of the economic forecast underlying the budget'.[20] The economic statement would 'put before Parliament and the country the basis on which the budget proposals have been drawn up and let them see the dimensions of the problem which the budget measures are intended to resolve'.[21] As including an economic assessment in the budget speech to contextualise budget measures would be too cumbersome, a written statement could do just as well and could become a convenient tool for managing external opinion and defending government policy. Cairncross believed that such a statement at the time of the November 1964 minibudget 'would have been of assistance in convincing opinion that the measures taken would have a considerable effect of the kind required'.[22]

An early 1965 submission, drafted by the Deputy Director of the Economic Section, Bryan Hopkin, raised for Chancellor Callaghan's consideration the 'question of whether' the Treasury should publish an economic statement at the time of the budget 'setting out in fairly precise and comprehensive way the Government's view of the short-term economic prospects'.[23] The Treasury's position was that the government needed to provide more information to improve general and expert understanding of the budgetary problem and the nature of economic policy. Officials argued that 'the public have a right to be told of the considerations which have led the Government to frame its budgetary measures on the particular lines chosen'.[24] Present practices reflected pre-war budgeting principles as if fiscal policy still aimed at balancing the budget. These presentational practices were in direct contradiction with what 'for a number of years now' had been the rationale of budgetary policy, in which decisions were taken 'by reference not primarily to the state of the Government's own accounts but to the state, present and prospective, of the economy as a whole'.[25] The forward-looking information given to the public did not match this change in the budget's centre of gravity. This was not only difficult

[19] TNA: T230/870, 'Allen to Hopkin, "The Possibility of an Economic Statement"', 7 November 1963.
[20] TNA: T230/870, 'Cairncross to Armstrong, "An Economic Statement"', 31 December 1964.
[21] TNA: T230/870.
[22] TNA: T230/870.
[23] TNA: T230/870, 'Hopkin, "Draft. An Economic Statement"'.
[24] TNA: T230/870.
[25] TNA: T230/870.

to justify, but also contradictory with civil servants' belief that 'an informed and understanding public opinion is an aid to the Government in carrying out its policies and securing parliamentary and public consent to them'.[26] Publishing short-term forecasts in some form was key to do justice to 'the modern character of the Budget', i.e., that it was determined by an analysis of the present and prospective national economic situation, and 'the view that the public at large should be fully informed and educated in the economic considerations that underlie' fiscal policy decisions.[27]

But there were inherent potential difficulties and dangers in publishing economic forecasts. An appropriate design of the statement could mitigate only some. First, forecasting exercises were bound to go wrong to some degree and could occasionally go seriously wrong. If published, the government would not be able to 'conceal' forecasting errors and 'may thus be embarrassed'.[28] Considering that the unusual delicacy of the economic situation in 1965/1966 made forecasting 'unusually difficult', the statement would have to be drafted with 'great care' to avoid causing anxiety about sterling, recession, and unemployment.[29] Second, and similarly, presenting both pre- and post- budget forecasts would reveal government estimates of the effect of budgetary policy on real demand, thus risking embarrassment whenever estimates went wrong. Officials thought that these embarrassment risks were acceptable, as they were 'inherent in giving the public proper information'.[30] Third, publishing worrisome balance of payments forecasts would have negative consequences for confidence in sterling. In the context of an ensuing balance of payments crisis, it was necessary to assess whether such a publication would be positive from 'the public relations point of view'.[31] To mitigate this, it was possible to omit a systematic forecast and confine attention 'to the volume movements of exports and imports which are all that is needed for a discussion of [domestic] demand and activity'.[32] Fourth, publishing realistic forecasts on wages and prices might impair the success chances of incomes policies and disclose the government's attitude to inflation. To avoid such a risk, it was possible not to make any statement about the likely trend of prices and provide expenditure and production forecasts in volume terms.

In the end, government elites decided not to publish the economic statement. The Chancellor and officials thought that the circumstances of the inherited balance of payments problems were not propitious 'to launch the experiment'.[33] They did not rule out the possibility of publishing short-term national income forecasts at budget time in the future, as it was generally agreed that this was the best way to structure economic policy debate. But such a 'major development' was impracticable in 1965, as it would require systematic and careful

[26] TNA: T230/870.
[27] TNA: T230/870, 'HMT, "Economic Forecasts"', 1 February 1965.
[28] TNA: T230/870, 'Hopkin, "Draft. An Economic Statement"'.
[29] TNA: T230/870.
[30] TNA: T230/870.
[31] TNA: T230/870. On the increasing post-war professionalisation of Treasury efforts to manage opinion, particularly financial opinion, see Roberts (2015).
[32] TNA: T230/870.
[33] TNA: T230/870, 'Cairncross to Armstrong, "Publication of Economic Forecasts"', 28 January 1965; TNA: T230/870, 'Armstrong to Bancroft, "Publication of Economic Forecasts"', 1 February 1965; TNA: T230/870, 'Painter to Walker, "Publication of Economic Forecasts"', 3 February 1965.

consideration by Ministers and ‘a great deal of preparatory work’.[34] In a similar vein, the Chancellor said that ‘perhaps we can have another look next year’.[35]

In later months and years, financial and economic journalists criticised the government harshly for not publishing the economic forecasts.[36] From *The Economist*'s (1966) perspective, the decision ‘casts a dreary light on the atmosphere of despairing purposelessness in which too many of the nation's economic affairs are being conducted’. Similar criticisms argued that the UK was considerably behind other industrialised countries, where economic policymaking was more transparent. As Cairncross has argued, however, such criticisms conveyed an exaggerated picture of the practices of other European governments and disregarded the unique institutional position of the Treasury. The Treasury itself elaborated official forecasts with the explicit goal of providing the infrastructure of demand management policy, which was also the Treasury's sole responsibility. The Chancellor had the power, exceptional by international standards, to act at once on a forecast. This meant that ‘a government forecast on which no action was taken was virtually a plan’ (Cairncross, 1996a, p. 144). Moreover, there was the danger of published forecasts being misinterpreted or taken at face value when, in fact, by themselves, the figures did not determine policy. It was policy advice based on the forecasts that mattered. Budgetary policy decisions about the short-term needs of the national economy did not result from mechanical calculations based on ‘precise and reliable forecasts’.[37] They were a matter of judgment ‘helped and guided’ by the forecasts available but not rigidly constrained by them.[38]

These pressures were consequential. In response, and showing his interest in the debate, Chancellor Callaghan invited one of his critics, Norman Macrae from *The Economist*, to discuss the matter, and arranged a conference to take place between officials, experts, and journalists on what forecasts should be published and why (Cairncross, 1996a, p. 144). In the end, the conference, the pressure from the specialised press—e.g. ‘Publish, or be Damned’ (The Economist, 1967)—and the support of the Permanent Secretary to the Treasury, succeeded. The government decided to ‘satisfy the hawks’ (The Economist, 1968). The 1968/1969 FS included a section (Part III) on the economic outlook to mid-1969, containing quantitative economic forecasts of expenditure and imports at constant prices, and of GDP at factor cost (HMT, 1968).

While the publication of forecasts represented a significant step towards greater transparency, they did not convey a precise and explicit way of analysing demand management. On the one hand, the tables and the accompanying text did not mention productive potential or the output gap—the difference between actual and potential economic output. On the other hand, the outlook was presented on a post-Budget basis, i.e., after considering the effect of

[34] TNA: T320/414, ‘Armstrong to Bancroft, “Form of the FS”’.
[35] TNA: T230/870, ‘Painter to Walker, “Publication of Economic Forecasts”’.
[36] TNA: T230/870, ‘Cairncross to Armstrong, “Disclosure of Economic Forecasts in Budget Statement”’, 30 March 1967; TNA: T230/870, ‘McKean to Cairncross, “Disclosure of Economic Forecasts in Budget Statements”’, 31 March 1967.
[37] TNA: T230/870, ‘HMT, “Annex D. Extract of a Note Dated 1 July 1964”’.
[38] TNA: T230/870.

budgetary policy. The forecasts did not reveal the estimates of the economic effects of fiscal policy, but only the expected course of aggregate demand considering the effects of budget measures. Among other options, providing pre-budget alongside post-budget estimates could have provided a more straightforward setting for fiscal policy debate. Moreover, it was far less than the economic statement initially discussed. Section III of the FS provided no textual analysis of the forecasts and the budget's role in that context. This was against the notion, shared by officials and policymakers, that it was commentary, the analysis and interpretation of the figures, that made published statistics interesting and useful to the general and expert public.[39]

3. The (Failed) Creation of a Keynesian Indicator

The absence of an economic statement augmented the pressure on the FS to convey as much meaningful information as possible. The 1965 decision not to publish the statement influenced officials' discussions on the presentation of the budgetary accounts. While no system of government accounts alone could convey the economic significance of the budget, officials thought that if forecasts were not published in a way that provided a meaningful context for demand management, the government would have to explore the option of devising a new table or indicator to show the economic impact of the fiscal deficit in aggregate demand.[40] This section traces the attempts at exploring this second solution.

3.1.Looking for a Fiscal Indicator

While the new layout of the FS since 1965 served to some extent the purpose of legitimising government borrowing for the purpose of industrial investment, as a guide for demand management it was misleading. The 1965 budget proved that a relatively high borrowing requirement could be consistent with a slightly deflationary fiscal stance. The joint increase in the borrowing requirement and unemployment proved that 'a very large' deficit was not 'necessarily inconsistent with a pressure of demand on resources which is not excessive'.[41] But external commentators, economic agents, and creditors kept conceiving the deficit as a demand management indicator. Already in the early 1960s, the IMF had complained that there was a contradiction between British policymakers' statements on the expected demand effects of budgetary policy and the borrowing requirement. They insisted on interpreting the deficit as the main indicator of the budget's stimulatory effects. While the IMF's main concern was with monetary developments, these criticisms made further evident the lack of an appropriate indicator conveying the fiscal effects of the budget.[42] In this context, officials agreed 'to pour some cold water on the use of the borrowing requirement as an instrument of economic control'.[43] Besides the fact that it lacked a meaningful economic context, the borrowing requirement was a misleading guide for demand management because it did not account for

[39] TNA: T230/870, 'Boulter to Rees, "Publication of the Budget Papers"', 4 October 1967.
[40] TNA: T230/870, 'Working Group, "Record of Meeting"', 28 September 1967.
[41] TNA: T328/92, 'Workman & McKean, "Borrowing Requirement. Brief for W.P.3"', 28 November 1967.
[42] TNA: T230/870, 'HMT, "Annex C. Note Circulated under a Covering Minute by Hopkin, Dated 6 May 1964"'.
[43] TNA: T328/92, 'Workman & McKean, "Borrowing Requirement. Brief for W.P.3"'.

different timing and size effects of the policy mix components. Equal revenue raised by different tax combinations, and the same level of public expenditure with different structures, could have different effects on demand.

The overhaul of symbolic fiscal practices to turn budgetary policy into a modern tool for medium-term development *and* short-term demand management was incomplete. Because the tendency to measure and assess fiscal policy 'in terms of a surplus or deficit over the financial year as a whole' was widespread and firmly established by tradition, the borrowing requirement would continue structuring public economic policy debate 'as long as no alternative form of surplus/deficit' was provided.[44] Accordingly, government elites worked to create another macroeconomic indicator specifically devised to grasp the budget's demand effects. Until then, the main purpose of budgetary reporting had been enabling parliamentary and public scrutiny of government policy and probity. The question was now related to stimulating the 'wider public to think in a sensible manner about the impact of the public sector on the economy in the short run' as well.[45] The problem, however, was that while elaborating an analytical table highlighting the economic impact of budget transactions was theoretically possible, doing so in a form that commanded support from all relevant government officials and organisations was difficult. More importantly, even if agreement proved possible, officials thought it unlikely that, by itself, such table or indicator could justify the fiscal stance.[46] Any changes in accounting conventions would solve the transparency, accountability, and political issues afflicting budgetary policy only partially.

The Labour government tried to create this appropriate fiscal indicator. When discussing the possibility of expanding the 1967/1968 FS into a 'Financial and Economic Statement', officials looked at ways of 'expounding the connection between the accounts presented in the Statement and the changes to be expected in the economy at large'.[47] One option was to introduce an additional table showing the relationship between the public sector deficit and the economy. This would complement the table on the financing of public sector capital expenditure (see chapter 3) and indicate more clearly the demand impact of public sector transactions. The Treasury's Economic Section drafted a first attempt based on previous Treasury work and the example of the US, where the government had given prominence to a budget balance in national income terms as an indicator of fiscal policy's income generating effects.[48] The table would adjust the national accounts table on public sector transactions by putting tax receipts on an accruals basis, omitting items considered not to affect domestic aggregate demand, and allowing for the shortfall of public expenditure below programmes. Interestingly, the paper stated that the table aimed at setting out public sector transactions 'in a way that gives a clearer indication of their likely impact on the economy than is given by the

[44] TNA: T230/870, 'HMT, "Annex C. Note Circulated under a Covering Minute by Hopkin, Dated 6 May 1964"'.
[45] TNA: T230/870, 'HMT, "Annex A. Extract of a Paper Circulated under a Covering Note by Burdett, Dated 23 April 1964"'.
[46] TNA: T320/414, 'Petch to McKean, "Form of FS"', 17 February 1965.
[47] TNA: T230/870, 'Cairncross to Atkinson', 8 March 1967.
[48] TNA: T230/870, 'Cassell, "The Public Sector Deficit and the Economy"', 29 June 1967; TNA: T230/870, 'Butler to Workman, "The Public Sector Deficit and the Economy"', 4 July 1967.

conventional presentation'.[49] Only a couple of years after their introduction to budgetary reporting, officials regarded national accounts tables as the conventional presentation. The table would provide 'a measure of the net income-generating effect of public sector transactions or, more narrowly, of the changes announced in the budget'.[50] This indicator would bring out the direct economic impact of the budget and provide a complement to the net balance, which would remain the key balance for monetary analysis. Budgetary reporting would present two separate budget balances, one related to monetary policy, the other to fiscal policy.

The proposed table diverged from national accounting conventions in two main dimensions: classificatory principles, and accounting method. The classification principle differentiated between transactions that had direct or indirect effects on the demand for resources. This was also referred to as primary (direct, short-term) and secondary (indirect, medium-term) income effects. Expenditure on goods and services and income taxes, among others, were classified as having primary effects. Transactions primarily associated to changes in asset ownership or in methods of financing expenditure were classified as having indirect or secondary effects. Of course, any such distinction and categories were 'bound to be very blurred at the edges'.[51] For example, although financing transactions did not affect demand directly, their indirect effect through their impact on the liquidity of the economy could be significant. But the distinction was useful because budgetary policy was concerned with short-term demand management. Thus, to elaborate the table, officials had to extract from national accounting records the items that affected demand for current output directly and present them in a way that highlighted their income-generating effects. A significant amount of regrouping and netting out was necessary. For example, as the table would not follow national accounting conventions, a large portion of financial flows within the public sector would be netted out.

Regarding the accounting method, while the national accounts were cash-based accounts, the proposed table would be partly compiled following an accruals method. Accounts scoring the tax liability or grant entitlement when they were incurred, instead of paid, were more adequate to assess the effects on demand. This was particularly so for the company sector, where the lag between tax accruals and payments was normally 18 months. The proposal stated that the most reasonable assumption was that tax liabilities incurred or expected were more influential on investment plans than companies' current tax payments. Crucially, an accruals-based table would have a substantially higher element of 'forecast and conjecture' than the conventional tables and, to that extent, would represent a 'very substantial step toward disclosure' of the national income forecasts.[52] A related issue in need of consideration was whether company taxes should be included as having short-run effects. Changes in company taxation were deemed to have no significant direct effect on demand (they affected company saving) but, at the same time, there was 'a strong presumption' that they did affect 'spending on the longer-run' but no knowledge of 'how long this lag should be'.[53]

[49] TNA: T230/870, 'Cassell, "The Public Sector Deficit and the Economy"'.
[50] TNA: T230/870.
[51] TNA: T230/870.
[52] TNA: T230/870.
[53] TNA: T230/870.

The proposed indicator was 'only a very imperfect' fiscal measure.[54] It still attributed equal economic effects to all transactions included. While these limitations could be addressed over time by including differentials in demand impact, until then the new fiscal balance could only be regarded a very rough indication of the public sector's net direct income generation. Changes in the balance, the difference between one year and the next or between before-after budget measures, could be interpreted as providing only a very rudimentary measure of the expansionary/deflationary effect of fiscal policy. But those limitations notwithstanding, there was no escape from the fact that international organisations such as the IMF, OECD, and BIS, commonly used the budget deficit or changes in it as key indicators of the 'toughness or laxity of fiscal policy'.[55] As long as important international organisations and non-governmental economic/financial agents and commentators did so, devising a fiscal indicator was unavoidable. The 'sole justification' for devising this additional table was that the new balance would provide a better fiscal indicator than the borrowing requirement or net balance. It would represent a different type of table, conveying information of a different (fiscal, not monetary, or developmental) dimension of policy.

Treasury, BoE, Central Statistical Office (CSO), and Inland Revenue officials met to discuss the proposal. Some Treasury officials deemed the classification decisions necessary to elaborate the table 'arguable' or 'debatable'.[56] Elaborating such a table and its accompanying commentary for publication would need significant work, as it required a large element of judgement. Doing so could initiate a slippery slope: there were additional adjustments that could also be appropriate, for example deleting government overseas expenditure. However, some senior Treasury officials, like Fred Atkinson, thought the table was worth elaborating. This 'kind' of material would be 'very useful' for expounding the budget to international organisations and financial investors.[57]

While there was agreement on the necessity of revising symbolic fiscal practices to improve 'public understanding of the relationship' between the fiscal deficit and the economy, there were 'a good many reservations and doubts' about the proposed table.[58] First, there were antecedents of previous failed attempts. Second, introducing another table could lead to an undesirable excess of information in the FS. Third, the table departed from national accounting principles. The consequent coexistence of different conventions in the FS could be more confusing than helpful. According to the CSO, while the proposed table followed national income accounting concepts to a certain extent, it mixed current and capital transactions, netted off items shown gross in the national accounts, and concluded with a balance indicator to which it was 'difficult to attach any meaning' and which was 'struck at quite a different point' from

[54] TNA: T230/870.
[55] TNA: T230/870.
[56] TNA: T230/870, 'Workman to Beales', 21 March 1967; TNA: T230/870, 'Atkinson to Workman, "FS. The Public Sector Deficit and the Economy"', 21 March 1967.
[57] TNA: T230/870, 'Atkinson to Workman, "FS. The Public Sector Deficit and the Economy"'.
[58] TNA: T230/870, 'Workman to Atkinson', 23 March 1967.

the national accounts balance.[59] As to the accounting methods, the CSO representative did not understand the practical difference of showing income taxation on accruals basis. Fourth, going 'down the road of adjustments' would have knock-on effects: if government import of US aeroplanes were to be excluded or, in other words, classified as having no short-term impact on domestic demand, 'it was difficult to know where to stop'.[60] For example, why should the table include the government's large imports of services? While some attendees *did* support excluding all overseas expenditure, there were 'very formidable difficulties' because it was 'impossible to identify the total'.[61] Fifth, more pragmatically, it was likely that producing the table in adequate timing for the budget would be unfeasible whenever there were significant tax changes decided at last minute.

More importantly, attendees thought that the FS should be 'a document of record', not analysis.[62] From this perspective, the fact that the new table included elements of judgment made it of unsuitable character for the FS. This argument was not new. Years earlier, officials had argued that the key decision related to whether the FS tables should be considered 'a framework for providing relevant information' or 'an attempt to follow rigorously the logic of a new form of analysis'.[63] In the second case, there would be conceptual difficulties, for example deciding how to classify particular items when there were theoretical differences, and statistical difficulties, for example regarding the feasibility 'of measuring what theory required'.[64] For these, and other similar reasons, tables on the economic impact of the budget 'should not be designed to lead up to a balance for which any special claims are made'.[65] Hence, considering all these objections and differences of opinion, officials thought agreement to include the proposed table in the 1967 FS was unlikely.

3.2.Devising a Keynesian Indicator

Some months later, a working group integrated by CSO, BoE, Inland Revenue, and Treasury officials was set up to work on a report—*Public Sector and the Economy*—over how to communicate the demand-management aspects of the budget in the FS. It started from previous similar discussions and the example of the 1966 US document entitled *The Federal Budget, National Income Accounts Basis*. The group's general remit was 'to find a way of giving a better measure of the impact of the public sector on the economy, or at least of changes in the impact from one year to another and between the pre and post Budget situation in the same year'.[66] The borrowing requirement was 'a well-established and fairly reliable concept', and 'the essential starting point for all analysis of public sector financing and monetary

[59] TNA: T230/870, 'Beales to Workman', 22 March 1967.
[60] TNA: T230/870, 'Workman to Atkinson'.
[61] TNA: T230/870, 'Cassell to Atkinson', 21 March 1967.
[62] TNA: T230/870, 'Workman to Atkinson'.
[63] TNA: T230/870, 'HMT, "Annex A. Extract of a Paper Circulated under a Covering Note by Burdett, Dated 23 April 1964"'.
[64] TNA: T230/870; TNA: T230/870, 'HMT, "Annex B. Extract of a Note Dated 1st May 1964"'.
[65] TNA: T230/870, 'HMT, "Annex A. Extract of a Paper Circulated under a Covering Note by Burdett, Dated 23 April 1964"'.
[66] TNA: T340/70, 'Working Group, "Draft Report: Public Sector and the Economy"', 18 January 1968, 1.

flows'.[67] The new indicator would supplement it as the key measure for fiscal policy. Insofar as it meant creating separate macroeconomic indicators for each side, it would make somewhat less evident the interlinkages between fiscal and monetary policy.

The creation of the 'balance of resources, transfers, taxation, etc.' (hereafter balance of resources) was not without obstacles. Inscribing a Keynesian boundary for fiscal policy required redefining knowledge practices and introducing what officials considered an arbitrary component to the otherwise deemed objective national accounting conventions. The group found conceptual and practical difficulties in choosing a concept. Creating a concept dealing with the budget's impact on domestic resources *or* the external position in isolation was 'impractical'.[68] First, a concept that only measured the pressure on domestic resources would ignore public expenditure on imported goods, an unsatisfactory indicator of the budget's overall effect in a country where the foreign trade sector was large. Second, there was no way to clearly distinguish whether public expenditure represented demand on domestic resources or pressured the balance of payments. Third, it was not enough to consider direct public sector purchases from overseas. Officials could not quantify the share of public spending that increased imports indirectly, the import content of the private spending prevented by taxation, or the resources freed for exports by taxation. The lack of knowledge on 'these remoter consequences' of budgetary policy 'forced' officials 'to retreat from the attempt to give any complete account of the impact of the public sector on the pressure on UK resources'.[69]

Officials discussed how the US National Income Accounts (NIA) budget was elaborated. First, the NIA budget recorded Federal, State, and local government transactions that affected private spendable income directly. Second, it followed an accruals method of accounting. Third, it excluded transactions related to loans or exchanges in assets. The US government engaged in numerous financial transactions that were 'extremely important to the operation of the economy', but the NIA budget did not classify them as fiscal transactions because they did not affect spendable incomes directly and, therefore, did not affect private economic agents' net worth or incomes, only their liquidity.[70] Government lending channelled funds 'at low costs to various activities deemed to be of particular social or economic importance'.[71] While many government lending operations had important effects on private spending, these effects were not direct. Accordingly, financial transactions were considered in relation to monetary policy, not fiscal policy. 'When it lends borrowed funds, the Government is acting as a financial institution, much like private financial institutions'.[72]

The CSO argued that the most important lesson was that the US NIA budget was built upon national accounting conventions. There were no special budgetary definitions or conventions.

[67] TNA: T340/70, 10.
[68] TNA: T340/70, 2.
[69] TNA: T340/70, 2.
[70] TNA: T230/870, 'US Council of Economic Advisers, "Appendix, The Federal Budget, National Income Accounts Basis"', January 1967, 71.
[71] TNA: T230/870, 69.
[72] TNA: T230/870, 71.

All items were treated in the same way than in national accounting.[73] The debate was thus not merely about how to elaborate a new table but concerned the very foundations of the UK national accounting system. While US national accounts excluded government financial intermediation activities from fiscal transactions, UK conventions included them. In the words of a Treasury official, if the US example was to be followed, it would clearly lead to excluding some items like on-lending activities to public and private corporations, 'which in the UK one might want to include'.[74] Similarly, officials rapidly agreed that any potential additional table should score transactions on a cash rather than accruals basis. They were not confident that the accruals method measured the effects of taxation on private sector expenditure better.

The group found itself 'quickly returning' to the net balance or borrowing requirement.[75] The conceptual and practical difficulties meant that the new table would inevitably be somewhat arbitrary. Officials mobilised the epistemic authority of existing national accounting conventions. They created a potential new indicator but were unconvinced of its reliability. On the one hand, it required a reclassification of public expenditure in three categories according to their demand effects. This inevitably entailed lumping together items whose demand effect were different, be it regarding size or timing, thus making the new indicator not entirely better than the borrowing requirement as a fiscal measure. On the other hand, it was not easy to distinguish between items with and without direct demand effects. Given the lack of knowledge on the direct and indirect effect of diverse items, 'we are working with a borderline which is not a clear one'.[76] Officials successfully recommended against including the balance of resources in the FS. Even though it was a better fiscal indicator than the PSBR, they considered it too arbitrary and less valid because it rested on Treasury reclassification of transactions according to their demand effects instead of national accounting conventions. Classification was 'so much a matter of judgement' that the balance of resources could 'not claim the same statistical status' than the borrowing requirement.[77] Moreover, as it only captured first round effects, it did not give a complete picture of the budget's economic effects.

However, the group's 1968 report 'foreshadowed the eventual decision a year or so later' of adding a table in the public expenditure white paper (Table 1.2 in Cmnd 4234, 1969) presenting the balance of resources as the correct measure of the budget's impact on the rest of the economy.[78] Notwithstanding its limitations, the government decided to publish it to avoid external commentators taking the PSBR, now officially created, as the key indicator of the government's fiscal stance. If the definition of public expenditure and the key deficit indicator were to be expanded to encompass the whole public sector, it was necessary to avoid misinterpretations. The case for an 'explicit measure' of the budget's demand impact was practical: most observers sought a fiscal indicator and, in so doing, inevitably fell back upon

[73] TNA: T230/870, 'Working Group, "Record of Meeting"', 28 September 1967.
[74] TNA: T230/870, 'Working Group, "Record of Meeting"', 4 October 1967.
[75] TNA: T340/70, 'Working Group, "Draft Report: Public Sector and the Economy"', 10.
[76] TNA: T340/70, 8.
[77] TNA: T340/70, 10.
[78] TNA: T340/70, 'Wass to MacDougal, "Presentation of Public Sector Accounts"', 20 April 1971.

the PSBR as a 'rough-and-ready guide'.[79] While officials themselves did not attach much importance to any of these indicators, at least for fiscal policy purposes, the sheer fact that external observers were discussing the government's demand management policies in terms of the PSBR forced them to create a new indicator. From now on, the balance of resources was to be the main yardstick to assess the demand effects of economic policy. Changes in it measured at constant prices were 'considered to provide the most suitable guide... in the context of demand management'.[80]

Table 1.2 showed the provisional outturn for 1968/1969 receipts and expenditures and estimates for the three next financial years. It classified expenditure and receipts under three main headings: resources; transfers, taxation, etc.; and assets. Net expenditure on resources was the spending category with the most demand effects and net expenditure on assets was the one with the least short-term effects. The balance of resources considered only the balance of the first two categories of transactions, excluding transactions in assets. Changes in it constituted a better guide for the short-term demand effects of public sector activities than other indicators. The other critical aspect of the table was that it made it plain that receipt projections, unlike expenditure estimates, did not 'represent explicit government decisions' (Cmnd 4234, 1969, para. 18). The economic cycle affected tax revenues autonomously. As tax policy was the key tool for short-term demand management, there could be differences between estimated and actual revenue depending on how the situation developed. Hence, the receipt projections were not, and could not be, a government commitment. The projections were built on assumptions about both tax policy, assuming no change in tax rates and allowances, and economic activity, assuming that GDP would grow as estimated.

The 1960s ended with a tacit compromise solution between the two main forces within the policy machinery. The Treasury achieved full budgetisation, but political concerns were not completely disregarded. While the FSBR did not include an appropriate fiscal indicator, the second most important publication of budgetary reporting, the public expenditure white paper, did. The new table and indicator did not debudgetise anything. But the table and document highlighted the balance of resources as the appropriate fiscal indicator, stressing how it should be interpreted. For example, it stressed that the balance of resources did not represent explicit government decisions only.

4. The Keynesian Boundary Taken for Granted

This section traces another review of symbolic fiscal practices that took place in 1971-1972. The balance of resources was short-lived. Only a year after its introduction, the newly elected Conservative government (1970-1974) decided to pull Table 1.2 out. The government argued that it had decided not to publish receipt projections and the corresponding balances because such estimates were necessarily based on 'arbitrary and highly uncertain assumptions'

[79] TNA: T340/70, 'Working Group, "Draft Report: Public Sector and the Economy"', para. 19.
[80] TNA: T340/70, 'Posner, "Alternative Measures of the Government Surplus"', 8 October 1970; TNA: T340/70, 'GE 2 Division, "The Relationship of the Public Sector Balances", PSA(71)3', 21 July 1971, 3.

(Cmnd 4578, 1971, para. 19). Ministers also rejected the option of including a similar table in the FSBR and refused to provide such a table to the Select Committee on Expenditure.[81] The argument was that the classification principles underlying the table did not 'in fact produce the useful information' it was originally expected to provide and that the balance was a 'very unreliable indicator' of the effect of public sector transactions on demand; the balance was 'a poor man's view of the demand effect of public sector operations' and did not reach 'even the minimum level of adequacy'.[82]

Internal and external criticism triggered the creation of a new working party. There was, again, a lack of an appropriate fiscal policy indicator. Whatever the reasons to discontinue the balance of resources, the decision made it necessary to readdress the problem that had triggered its creation in the first place. Internally, some officials thought that dropping out the balance of resources demanded a re-examination of budgetary reporting. The decision left government 'open to the charge that it is giving the public very little help in appreciating certain aspects of the nature and impact of the policies expressed in' the budget.[83] These transparency and accountability concerns mostly referred to the basis and goals of demand management policy (tax measures) and the basis of policy decisions regarding the scale and rate of growth of public expenditure. If no action was taken, there was 'a real danger' that the government would 'get into a position in which it appears to be behaving in a thoroughly obscurantist way'.[84]

Externally, *Financial Times* economics editor, Samuel Brittan, suggested the inclusion of an indicator like the balance of resources in the FSBR to allow public opinion a better glance at the budget's demand effects. The Financial Secretary to the Treasury, Patrick Jenkin MP, responded privately that the Treasury would not include it and explained that the assumptions behind it made it unfit. He also disclosed that Table 1.2 was not 'used in reaching decisions on managing the economy or the public sector'.[85] MPs also criticised the presentational changes, with Dick Taverne, former Financial Secretary to the Treasury, taking the leading voice. He deemed the decision 'regrettable' and criticised the government assertion that they did not wish to make and publish unreliable forecasts when the whole budgetary process was based on 'uncertain forecasts' and there was 'no reason why forecasts of this kind should not be published' (HC, 1971, cols 134–135). This was a significant regression insofar as the government was now withholding relevant information for assessing demand management policy. That same year Taverne chaired a critical investigation by the House of Commons Public Expenditure Committee on the topic.

During 1971-1972, the working party examined 'the logic behind various public sector balances'.[86] The discussion went beyond questions about the public relations effects of representational labour. The idea was to analyse the influences of symbolic fiscal practices on

[81] TNA: T331/781, 'Hopkin to Wass, "Filling the Gap Left by Table 1.2"', 31 March 1971.
[82] TNA: T331/781.
[83] TNA: T331/781.
[84] TNA: T331/781.
[85] TNA: T331/781, 'Jenkin to Brittan', 31 March 1971.
[86] TNA: T331/781, 'HMT, "The First Report of the Working Group on the Presentation of Public Sector Accounts" PSA (72)3', 21 January 1972.

both the public presentation of policy and internal policymaking. In the words of the Chief Economic Advisor and head of the Government Economic Service, Donald MacDougall, 'it might be that policy thinking had been influenced in the past by the way in which the figures' were arranged.[87] The working group's remit was to clarify which balances were appropriate for specific purposes and consider potential changes to help the back-stage policymaking process and the management of public policy debate.

The group analysed how balances were elaborated and the meaning and usefulness of indicators previously existent, existent, and non-existent but used in other countries. Just as in the mid-1960s, officials discarded adopting an accruals basis for budgetary reporting. The Treasury's Home Finance Division stated that considering that budgetary policy paid 'only scant attention' to the government's cash balance, an accruals-based presentation, closely linked with economic activity, was more appropriate for demand management.[88] Because of lagged tax payments in the company sector, an accruals-based budget balance would reduce the fiscal deficit significantly. But even if it was economically better, displacing the cash-based presentation was impractical. It had been developed to enable Parliament control of the government, and even had some uses for economic analysis, as it provided the starting point for analysing the monetary effects of public finance and the determinants of company liquidity. While accruals-based figures were a better measure of the demand effects of government activities, they were not so for monetary analysis. Considering that no table, indicator, or accounting convention could explain the different economic effects of public sector transactions on the economy, the best option was to use cash accounts for spending control and monetary management, and accruals accounts for demand management. The desirability of introducing new accruals table(s) depended on whether officials wanted external commentators to take changes in the new budget balance 'as the best available indicator of fiscal leverage on the economy'.[89]

The issue was settled by the arguments of the fiscal and monetary policy divisions of the Treasury. The advantages of accruals accounting were not significant to internal Treasury needs, and officials doubted whether accruals figures on private sector incomes provided 'a better picture of the demand for resources'.[90] They were not confident accruals accounting was more economically meaningful. For external presentation, while 'some (probably not many) commentators would welcome it', officials noted that there had been 'no pressure' to publish accruals accounts.[91] Moreover, the necessary definitional decisions would elicit controversy among the 'cognoscenti outside government', which would force the authorities to devote significant time and effort to explaining and justifying them.[92] Incurring the opportunity cost of publishing accruals and cash accounts in parallel was not reasonable.

[87] TNA: T340/70, 'Britton & Field, "Meeting of the Working Group" PSA(71)1st Meeting', 21 May 1971.
[88] TNA: T340/70, 'F(H)EU, "An Accruals Basis for Public Sector Accounts", PSA(71)6', 28 July 1971; TNA: T233/2619, 'Wright to Paine, "Public Sector Accounts: Accrual Basis"', 2 November 1971.
[89] TNA: T340/70, 'F(H)EU, "An Accruals Basis for Public Sector Accounts", PSA(71)6'.
[90] TNA: T233/2619, 'Paine to Wright, "Public Sector Accounts: Accrual Basis"', 14 December 1971.
[91] TNA: T331/781, 'Wright & Cassell, "Public Sector Accounts: Accruals Basis" PSA(72)1', 17 January 1972.
[92] TNA: T331/781.

Regarding monetary policy, officials agreed that no published balance should be used for internal policymaking purposes, and that 'the Chancellor should be discouraged from using particular balances'.[93] From the point of view of public debate, the PSBR was the most well-known indicator and the key published budgetary balance vis-à-vis monetary policy. But it had purely presentational goals. It was not the ideal indicator for monetary policy and was not an internal yardstick for policy. The main public sector balance for monetary policy, and the one which was used by officials, was the unpublished domestic borrowing requirement, a narrower statistic equivalent to the PSBR less reserve movements. As it measured the government borrowing from the domestic financial markets and the banks, the domestic borrowing requirement was the key concept for the operation of domestic monetary policy.[94] This led to a discussion between officials on the ambiguities of the borrowing 'requirement' concept in the PSBR.[95] If budgetary policy did not determine reserves policy, but government borrowing was strongly affected by reserve movements, why should something be called a government 'requirement' if government could not really decide whether to require it?[96] However, because publishing forecasts of the domestic borrowing requirement entailed disclosing reserve forecasts as well, 'practical considerations' weighed more than the 'theoretical attractions' of replacing the PSBR with a domestic borrowing requirement.[97]

Regarding fiscal policy, no new indicator was introduced. While public debate and external commentators looked at budgetary reporting for a summary indicator, officials concluded that no reliable indicator to measure demand effects existed. The 'various monetary balances', such as the PSBR, were useful statistics for monetary analysis but had 'little value as measures of the public sector impact on demand'.[98] All available indicators suffered 'from the fatal defect' that they scored 'the demand content of each £1 of expenditure or revenue equally'.[99] In this respect, the discontinued balance of resources, which was not a monetary balance, was not different. Internal policy analysis and decision-making was based on forecasting exercises, whose publication was impracticable. The working group argued strongly against regarding any published balance as indicators of the budget's economic impact.

Similar problems were identified as reasons not to imitate other countries. While discussion on British balances was all about the budget's impact on the economy (e.g., its income-generating effects), other indicators could measure the relationship between the budget and the economy from the opposite analytic angle: the economy's impact on budgetary arithmetic. Discussion touched not only upon how to represent the budget's impact on demand but also on 'the problems involved in distinguishing discretionary changes from automatic changes in the

[93] TNA: T340/70, 'Britton & Field, "Meeting of the Working Group" PSA(71)1st Meeting'.
[94] TNA: T340/70, 'Shepherd to Field, "Presentation of Public Sector Accounts: Draft Report"', 7 December 1971; TNA: T340/70, 'F(H) Economic Unit, "The Ideal Borrowing Requirement", PSA(71)8', 13 October 1971.
[95] TNA: T340/70, 'F(H)EU, "An Accruals Basis for Public Sector Accounts", PSA(71)6'; TNA: T340/70, 'F(H) Economic Unit, "The Ideal Borrowing Requirement", PSA(71)8'.
[96] A fall in reserves required government to borrow less.
[97] TNA: T233/2970, 'Gray to Bridgeman', 5 February 1975.
[98] TNA: T340/70, 'HMT, "The First Report of the Working Group on the Presentation of Public Sector Accounts" PSA (71)10', 30 December 1971.
[99] TNA: T340/70, 'F(H)EU, "The Financial Surplus", PSA(71)4', 27 July 1971.

budget'.[100] Officials discarded the full employment balance used in the US at the time, which distinguished and measured discretionary government action.[101] Interestingly, Samuel Brittan (1969, pp. 148 and ff, 480) had called for the creation of a full employment budget balance, something dully noted by officials.[102] However, 'serious conceptual and statistical problems' in its elaboration made it unreliable, particularly the need for recourse to 'extremely crude' simplifications and a 'large element of judgement' in deciding 'which expenditures are discretionary and which expenditures respond to changes in the level of economic activity'.[103] Moreover, the full employment balance was misleading and imperfect because it was a measure in monetary, not demand terms. Whatever its presentational advantages, Treasury internal procedures were much more appropriate to grasp the demand impact of budgetary policy.

Officials engaged in perceptual error. They noted that in the US the full employment budget was a 'propaganda weapon' to combat the 'balance the budget doctrine'.[104] It had been created to pave the way toward what officials dubbed 'a more positive fiscal approach' that conceived demand management as 'primarily interested in whether the economy was living up to its potential'.[105] The creation of the full employment budget proved that US official thinking, 'which once supported a strict "balance the budget" doctrine', had finally developed 'the view that fiscal policy can be a useful instrument of economic stabilisation'.[106] As officials associated British conventional thinking with a 'positive fiscal approach', the limitations of such a 'propaganda weapon' outweighed any potential gains. They made similar criticisms of the Dutch concept of a structural budget margin (SBM). Particularly relevant was the claim that 'the concern in Western European countries to establish a relationship between the growth of public expenditures and real national income appears to be almost a new orthodoxy'.[107] One of the main implications of the SBM was that it only allowed tax-financed increases in public spending. None of these arbitrary devices was necessary in the UK context.

Officials did not attempt to fill the gap left by the discontinuation of the balance of resources. No balance could be considered a reliable indicator of the thrust of fiscal policy. They took for granted the existence and persistence of an informal Keynesian policy frame. As the role of budgetary policy was well established and agreed upon in the UK, there was no need for any such reductionist, arbitrary, and imperfect devices. Moreover, officials criticised one of the last changes introduced by the Labour government in the 1970/1971 FSBR that replaced the table on public sector capital expenditure for another showing the financial surplus/deficit of the public sector, a net measure, and its difference with the PSBR, a gross measure. The table (see figure 9) had 'obvious' presentational advantages.[108] The financial balance measured

[100] TNA: T340/70, 'Britton & Field, "Meeting of the Working Group" PSA(71)1st Meeting'.
[101] TNA: T331/781, 'Field, "The First Report of the Working Group on the Presentation of Public Sector Accounts", PSA(72)7', 23 February 1972.
[102] TNA: T340/70, 'MacDougal to Hopkin, "Presentation of the Public Sector Accounts"', 14 April 1971.
[103] TNA: T331/781, 'Field, "The Full Employment Budget", PSA(72)2', 17 January 1972.
[104] TNA: T331/781.
[105] TNA: T331/781.
[106] TNA: T331/781.
[107] TNA: T331/781, 'HMT, "The First Report of the Working Group on the Presentation of Public Sector Accounts" PSA (72)3'.
[108] TNA: T340/70, 'F(H)EU, "The Financial Surplus", PSA(71)4'.

the change in the public sector's net holding of financial assets. At a time when the public sector was engaging in significant financial intermediation activities, it was significantly smaller than the PSBR. Heightening the salience of the financial balance helped to convey the message that the public sector financed almost all its large capital expenditures with its own savings. The bulk of the PSBR mirrored government lending to the private sector. Just as the Labour government had tried to communicate with the new form of the traditional accounts in 1965, this table implied that 'there is obviously something more virtuous in a borrowing requirement backed by claims on the private sector or increased holdings of capital assets than in a borrowing requirement that has been needed to meet current expenditure'.[109] Officials thought that the table should be eliminated, because its purpose was questionable and it was 'probably not very helpful'.[110]

Civil servants briefly discussed the practical consequences of their decision not to devise a balance that could be considered the relevant indicator to assess demand management policy. As the report would probably be read by 'the uninitiated', the Principal Executive Officer and Treasury Accountant of the Home Finance division suggested that it should explain that 'this whole subject is far from being and exact science'.[111] As complete expert agreement on how to represent the economic effect of the budget was not expectable, the government could amend budgetary reporting in specific years for political purposes. This, however, was directly rejected by the Chief Statistician of the General Expenditure Division, a more senior official. While it could be helpful to highlight that 'no single concept' or layout could 'serve to meet all analytical requirements', he expressed 'doubts about the advisability of drawing attention in the report to the need to vary the presentation in particular circumstances to meet particular political requirements'.[112] The report was 'essentially a technical document prepared by experts' aiming to devise a presentation of budgetary accounts that could relate the public sector, considering fiscal and monetary policy, to the economy.[113] As such, the report should not encourage or call attention to the possibility of flexibility in budgetary reporting to satisfy political purposes.

In the end, the review did not agree on any major proposal for change, a non-decision that would be highly, if unintendedly and unanticipatedly, influential (see chapter 5).

[109] TNA: T340/70.
[110] TNA: T340/70; TNA: T340/70, 'Field, "Meeting of the Working Group" PSA(71)2nd', 5 August 1971.
[111] TNA: T233/2619, 'Taylor to Field', 29 December 1971.
[112] TNA: T233/2619, 'Rees to Field', 31 December 1971.
[113] TNA: T233/2619.

TABLE 7. PUBLIC SECTOR FINANCIAL SURPLUS AND BORROWING

£ million

	1969–70		1970–71 Estimate	
	Budget estimate	Provisional outturn	Before Budget changes	After Budget changes
TOTAL PUBLIC SECTOR				
Saving(1)	4,540	4,434	5,443	5,293
Capital transfers (net)	74	−16	29	35
Less: Gross domestic fixed capital formation	−4,034	−3,730	−4,116	−4,116
Increase in value of stocks	−42	−22	−29	−29
FINANCIAL SURPLUS	538	666	1,327	1,183
Financial transactions:				
Increase (−) in assets, etc.(2)	−295	−68	−904	−939
Borrowing requirement	−243	−598	−423	−244
CENTRAL GOVERNMENT				
Saving(1)	3,063	3,021	3,863	3,713
Capital transfers (net)	−130	−197	−186	−180
Less: Gross domestic fixed capital formation	−534	−498	−610	−610
Increase in value of stocks	−31	−34	−58	−58
FINANCIAL SURPLUS	2,368	2,292	3,009	2,865
Financial transactions:				
Net lending to local authorities and public corporations	−1,579	−1,480	−1,590	−1,590
Increase (−) in other assets, etc.(2)	−213	100	−646	−681
Borrowing requirement(3)	−592	−915	−790	−611
Borrowing by Northern Ireland central government	16	3	17	17
LOCAL AUTHORITIES				
Saving(1)	558	540	625	625
Capital transfers (net)	126	108	138	138
Less: Gross domestic fixed capital formation	−1,820	−1,698	−1,790	−1,790
FINANCIAL DEFICIT	−1,136	−1,050	−1,027	−1,027
Financial transactions:				
Decrease in assets, etc.(2)	112	47	−34	−34
Borrowing from public sector	581	553	766	766
Borrowing from other sources	443	450	295	295
PUBLIC CORPORATIONS				
Saving(1)	919	873	955	955
Capital transfers	78	73	77	77
Less: Gross domestic fixed capital formation	−1,680	−1,534	−1,716	−1,716
Increase in value of stocks	−11	12	29	29
FINANCIAL DEFICIT	−694	−576	−655	−655
Financial transactions:				
Increase (−) in assets, etc.(2)(4)	−206	−200	−224	−224
Borrowing from central government	1,010	912	824	824
Borrowing from other sources(5)	−110	−136	55	55

(1) This is the current surplus in the current account of the central government and local authorities, and the undistributed income (including additions to interest and tax reserves) in the appropriation account of public corporations. Saving is measured before allowing for depreciation and stock appreciation.
(2) Includes unidentified items.
(3) Includes borrowing of £215 million in 1969–70 and £8 million in 1970–71 to finance redemption of nationalised industries' stock.
(4) Includes lending to local authorities.
(5) Includes redemption of stock.

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Figure 9. Public sector financial balance, 1970/1971 FSBR
Source: (HMT, 1970, p. 17)

5. Conclusion

This chapter traced the processes that led to the unintended rise of the PSBR as the main budgetary indicator. While chapter 3 focused mostly on debates over (1) the redefinition of the government's boundaries of economic control as represented by budgetary documentation, (2) efforts to legitimise borrowing for developmental purposes, and (3) the need to avoid giving undue relevance to existing balances, chapter 4 focused specifically on fiscal policy's cognitive infrastructure vis-à-vis demand management. Politicians and politically minded officials

repeatedly highlighted the need to provide general and expert opinion with some way of assessing demand management. But most officials disagreed, and the 1970-1974 Conservative government supported that position. CSO and Treasury officials mobilised the epistemic authority of national accounting to prevent government from developing alternative symbolic fiscal practices specifically aimed at structuring public economic policy argument.

Officials privileged their bureaucratic interests to the detriment of devoting more efforts to creating cognitive policy devices that, while limited in their internal usefulness, could help manage public economic policy debate. Interestingly, they did not apply the same logic to the PSBR, which was a perfect example of an indicator that had no internal policymaking use, and which presentational and cognitive goals were never deliberately defined. Treasury officials aimed at (1) keeping politicians' room for manoeuvre at bay and (2) defending the knowledge practices that inscribed the Treasury's oversight powers in the official knowledge infrastructures and budgetary documentation. But they did not push this line of argument out of disregard for the public relations point of view. They thought that creating what they deemed arbitrary policy devices was unnecessary. British economic policy debate did not need arbitrary artefacts to convince relevant actors that they should not associate fiscal deficits with government irresponsibility. The US full employment budget had different problems. On the one hand, it made the links between fiscal and monetary policy too diffuse. On the other hand, it was not Keynesian enough: it did not distinguish the varying demand impact of different components of the policy mix. Overall, demand management could 'only be properly measured' within the national income forecasting machinery and associated econometric models.[114] If publishing the real foundations of policy was impracticable, the Keynesian economic policy consensus made it unnecessary to introduce arbitrary policy devices.

Chapters 3 and 4 shed new light on a much-debated topic. Researchers depict the post-war Treasury as highly committed to interventionist and counter-cyclical Keynesian policymaking, or assume it had a very specific set of ideological preferences associated with classic economic liberalism and financial capitalism. These contradictory arguments emerge out of a strong cross-disciplinary tendency among sociologists, historians, and political economists to see the Treasury in ideational or instrumental terms. On the one hand, the consensus thesis associates the post-war decades with a Keynesian consensus over a single-goal policy paradigm around full employment until the 1970s (e.g., Fourcade-Gourinchas & Babb, 2002; Hall, 1992; Hay, 2001). On the other hand, there is the classic critique of imperialist delusions and the global role of sterling (e.g., Cain & Hopkins, 2016; Strange, 1971; but Schenk, 2010). From this perspective, domestic economic policy was secondary to international military and financial preoccupations and suffered the associated burdens of defence spending, high interest rates, excessive outward investment, and the continued threat of speculative exchange crisis and consequent crisis measures on the domestic economy.

Let me discuss here the case of the Marxist-inspired literature. Scholarship from the left conceives the Treasury as an instrument of either backward ruling classes or a narrower

[114] TNA: T331/781, 'Field, "The Full Employment Budget", PSA(72)2'.

financial fraction of the dominant class. The Treasury favoured a non-interventionist small state, balanced budgets, and low taxation (e.g., Anderson, 1964; Longstreth, 1979; Nairn, 1977). A more nuanced but similar version is the notion of a City–BoE–Treasury nexus, originally proposed by Ingham, in which Treasury views and actions are not mere reflections of dominant economic interests but the result of autonomous practices. The Treasury views and actions emerge from its consolidation as the British state's central and strongest department. Economic policy orthodoxy results from a commonality of interests between the City, the BoE, and the Treasury, and the specific institutional connections between them (Green, 2020; Ingham, 1984). The interdependence between the Treasury, BoE, and the City explains the consequent subordination of industrial capital and the relative decline of the productive economy. From this perspective, the Treasury's fiscal conservativeness is an independent causal factor, and its double institutional role as budgetary and economy ministry the prove of its success (Ingham, 1984). But while Ingham helpfully distances himself from instrumentalist notions of the state, he assumes the Treasury to have ahistorical ideological preferences and interests for a non-interventionist small state and balanced budgets.

Conceptions of the Treasury as eminently conservative on fiscal matters are not entirely misplaced. They come, however, with relevant pitfalls. First, they take an overly ideational take on Treasury strategies. Starting from a relatively predefined set of conservative economic views, they assume that Treasury efforts to block less orthodox policies reflect those previous ideological commitments—or those of finance capital. Second, they make for a totalising argument that does not differentiate between different policy domains and situations. Third, this tends to ignore the organisational dimension of bureaucratic politics within the state. The Treasury's continuing dominance over the rest of the British state is taken for granted and, consequently, Treasury actions interpreted as mostly driven by ideological bias. Fourth, traditional criticisms of the 'Treasury view' tend to have an overly unitary and static conception of the Treasury. This overlooks that the Treasury has been profoundly divided internally at different points in time and disregards the need to explain the processes by which one section or vision prevailed over the others. Similarly, the Treasury view is not necessarily static.

I take a different approach. I follow Middlemas (1991, p. 455) in conceiving the Treasury of the post-war decades as eager to re-establish its relatively diminished influence over the British state. This allows for another causal factor to become relevant: bureaucratic politics. As chapters 3 and 4 show, this entails placing the analytical attention on the bureaucratic conflicts dimension of policymaking and tracing oversight struggles to their organisational context. This shows the relevance of distinguishing between the Treasury's desires to establish its oversight powers and strategies to that end, from its ideological biases or beliefs. Considering that the Treasury's oversight powers over other state departments and organisational units depended primarily on its control of public spending, its attempts at inscribing as comprehensive conventions into symbolic fiscal practices as possible do not necessarily prove a dislike of counter-cyclical macroeconomic policies. Just as in the case of Richard Kahn (see chapter 3), there may be several reasons to support broad budgetary conventions, different from austerity or deficit-averse convictions.

Besides showing that bureaucratic politics was a key factor behind civil servant efforts to inscribe Treasury oversight powers in symbolic fiscal practices, chapter 4 discards the fiscal conservative explanation for the late-1960s and early-1970s. Most Treasury officials saw counter-cyclical fiscal policy as the main goal of the budget and struggled with external commentators' interpretations of the PSBR as the main fiscal indicator. However, they rejected gearing symbolic fiscal practices toward an appropriate Keynesian policy framework. First, doing so weakened the connection between budgetary reporting and official knowledge practices. This was the crucial link inscribing Treasury oversight powers into the economic policy machinery. Second, they thought that doing so was not worth the risk of seeing their bureaucratic interests hampered. Such propaganda strategies were not necessary in the UK context, where there was a consensus around Keynesian ways of thinking about fiscal policy. In a classic example of bounded rationality, they incurred in perceptual error: they mistook the consensus at official Treasury level as reflecting a broader societal consensus.

Finally, officials missed the claims-making consequences of institutionalised categorical distinction. Even if they were right in thinking that Keynesianism was firmly ingrained in expert and non-expert circles as the best way of thinking about, designing, and assessing economic policy, they disregarded how symbolic fiscal practices could be mobilised to challenge that conventional wisdom some years ahead. Chapter 5 analyses how that happened in the mid-1970s and 1980s.

CHAPTER 5. THE EMERGENCE AND LEGACIES OF THE MONETARY-CUM-FISCAL CONSTRAINT

1. Introduction

In February 1975, Labour Chancellor of the Exchequer, Denis Healey, asked Treasury officials whether presenting the fiscal deficit in a way 'more conducive to favourable international comparisons' was 'entirely out of the question'.[1] As the consequences of policy errors by the previous Conservative government and the impact of the international economic recession reflected themselves in inflationary pressures, the balance of payments, and the public finances, policymakers realised how singular British budgetary conventions were. While in most countries fiscal indicators covered only borrowing on account of the central government or of the central government and local authorities, the public sector borrowing requirement (PSBR) considered borrowing on account of public corporations as well. The consequent (much) larger relative size of the PSBR was perceived to damage confidence at home and abroad. Healey worried that these presentational issues would affect the UK's creditworthiness and make it more difficult to navigate through the economic downturn without sacrificing the government's economic strategy.

The UK met the mid-1970s recession with a well-established (if incomplete) budgetary framework that placed a monetary aggregate like the PSBR at the centre of economic policy. Sooner than later, public expenditure came to be discussed in terms of its monetary (inflationary) consequences, or what the Chief Secretary to the Treasury (1974-1979) called the 'four damned letters': the PSBR (Barnett, 1982, p. 124; Odling-Smee & Riley, 1985, p. 73). The government lost the capacity to frame fiscal policy, and the budget came to be discussed 'much more than has been customary in the past in terms of the' PSBR.[2] Structural changes played their part on that. First, the introduction of a new approach to monetary policy in 1971—reflecting officials' increasing focus on the money supply—and consequent changes in the institutional configuration of the bond market empowered investors vis-à-vis the government (see chapter 6). Since the Labour government pledged to avoid 'inflationary' financing—i.e., borrowing from the banking sector—investors had the power to force interest rate movements by refusing to buy government debt. Second, the June 1972 decision to float the pound, 'a leap in the dark' (Eichengreen, 2019, p. 129), and the consequent changes in the rules of the game made economic management more difficult for some years (Britton, 1991, p. 3). Third, the oil shock of 1973 injected massive inflationary pressures on top of the Barber boom of 1972-1973.

This chapter studies the 'golden years' of the PSBR by looking, first, at how the 1974-1979

[1] TNA: T233/2970, 'France to Norgrove', 20 February 1975.
[2] TNA: T378/10, 'Britton, "Economic Strategy and the PSBR"', 19 July 1976.

Labour governments lost control of public debate and tried but failed to reframe fiscal policy. Then, it traces how the PSBR became the cornerstone of economic policy during the 1980s Conservative governments. The PSBR became the centrepiece of public economic argument. Figure 10 plots the number of mentions to the PSBR in *The Times* between the 1964 and 2001. Not surprisingly, it appears in the late-1960s and explodes in the mid-1970s and during the Conservative governments of 1980s-1990s.

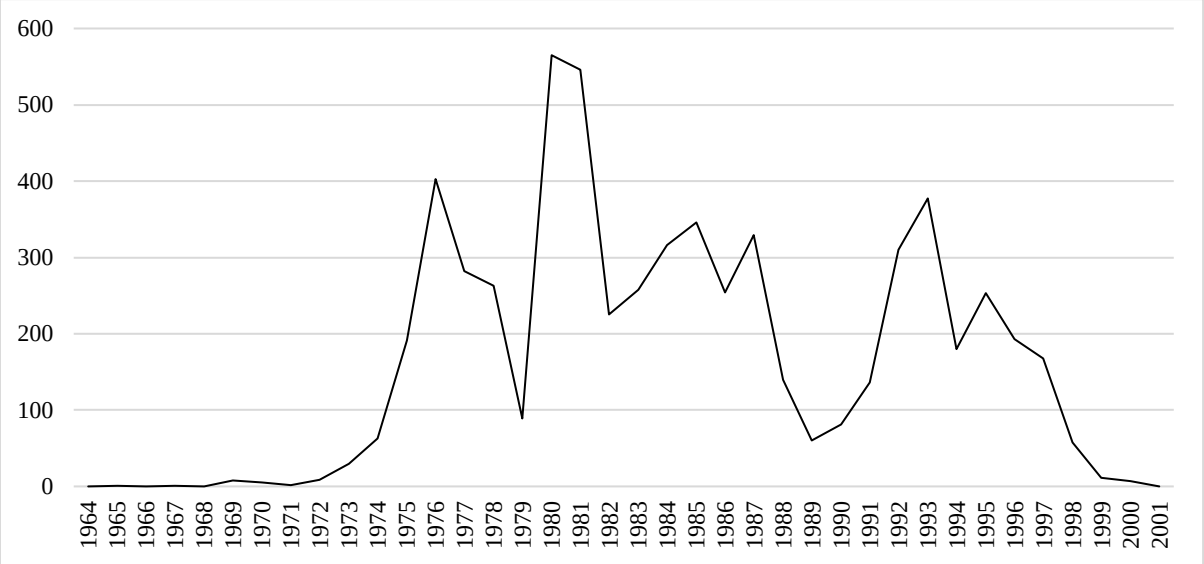

Figure 10. Annual frequency of PSBR and related terms, The Times, 1964-2001
Source: Author's elaboration using Defoe with the support of the Centre for Data, Culture & Society of the University of Edinburgh

When the PSBR ballooned, both regarding size and public salience, there was no room, political or bureaucratic, to reform budgetary reporting and craft another indicator. Politically, officials thought it would affect government credibility vis-à-vis financial markets and international institutions. Even if the PSBR was inadequate, the fact that external commentators and international authorities attached so much importance to it made it too risky for the government to change it. Bureaucratically, not all Treasury officials considered the PSBR *that* inadequate. While sometimes these differences are explained by reference to professional identities—e.g., Keynesianism, Monetarism, and New Cambridge—not every official adhered to one and, even when they did, they did not necessarily agree on their concrete policy preferences and advice. Different policy prescriptions did not necessarily reflect differences in grand economic theory. Most commonly, they related to dissimilar appraisals of the economic situation: making sense of what is really happening or is likely to happen in the economy may lead people to different conclusions and, thereby, to different policy prescriptions even if officials share a professional identity.[3] The groundwork of differing policy advice is commonly more consequential than professional identities. We should distinguish between professional identities linked to theoretical paradigms and policy programs understood as concrete causal claims and policy prescriptions in a particular context (Van Gunten, 2015).

[3] E.g., TNA: T364/41, 'Maynard to Hopkin, "The PSBR in Recession"', 3 November 1976.

Besides the general relational approach, this chapter contributes to the literature on macroeconomic indicators. It argues that the changing uses and understandings of the PSBR as a macroeconomic indicator were causally relevant to the inscription of an almost undisputed conservative fiscal schema. While the literature on indicators tends to conceive them as top-down tools with political connotations and effects, I show how the cognitive legacies of 1960s efforts to legitimise developmental policies were critical for the emergence of the monetary-cum-fiscal constraint. The story of the PSBR helps us understand why and how some statistics become salient and consequential. Macroeconomic indicators can gain prominence in relatively quick fashion, and against the will of policymakers. They are critical mediating devices and can be much more consequential than initially intended. Once in use, they are open to strategic struggles over their meaning, operationalisation, and importance for economic policy.

The chapter is structured as follows. Section 2 traces how the Labour governments lost the terms of economic policy debate. Section 3 analyses officials-led and politicians-led attempts at reframing fiscal policy. Sections 4-5 deal with the Conservative governments, when the PSBR was the official cornerstone of economic policy. They examine the brief period of what I call mystical monetarism and the turn to more traditional (selective) anti-state ideological notions.

2. The Power of Big Numbers: The Loss of Control Over the Terms of Debate

1974 was a bad footing regarding confidence. From the beginning, the government instrumentally used monetarist intuitions to criticise the economic mismanagements of the previous 1970-1974 Conservative government (Davies, 2012). In his first budget in March 1974, Healey argued that the 1973/1974 PSBR of over £4bn had been a key driver of excessive monetary expansion, high nominal interest rates, and inflationary expectations. He pledged 'a massive reduction' for 1974/1975 (HC, 1974a, col. 294). In so doing, he was following Treasury advice regarding the likely effects of publishing a high PSBR in the context of a trend of rapidly rising government deficits: it could both 'trigger off an external confidence crisis, resulting in large outflows of funds' with negative effects on foreign reserves, exchange rate, and interest rates, and a domestic confidence crisis, with large effects on the markets for government debt and, thereby, on the money supply.[4] Even the publication schedule of financial statistics could have significant effects on confidence. Gradual publication of negative figures was to be avoided. If negative figures, e.g., too high, or higher than forecast PSBR, were published gradually, 'hostile commentators' like stockbroking houses Philips and Drew and Greenwell's would respond with considerable and increasingly higher-toned 'adverse comment', which could have massive negative impacts on external and domestic financial markets.[5] Non-bank sources of government borrowing could dry up. The potential investor strike could freeze government debt sales to the non-bank sector and lead to an explosion of the money supply (see chapter 6). The economy would become 'considerably more liquid and

[4] TNA: T233/2970, 'Housley to Wass, "Note on Forecasts for the PSBR in 1974/5 and 1975/6"', 3 December 1974.
[5] TNA: T233/2972, 'Gray to Paymaster General, "Draft Minute to the Chancellor for the Paymaster General's Signature"', 28 August 1975.

hence difficult to control'.[6]

Partly because of the extraordinary economic circumstances and world recession, budget estimates were significantly off course. This forced Chancellor Healey to repeatedly revise his estimates. He revised his PSBR forecast to £6.3bn in November 1974 and £7.6bn in April 1975. A similar situation occurred in 1975/1976. After saying in April that a PSBR of over £10bn involved 'unacceptable risks' (HC, 1975a, col. 286), the Chancellor disclosed in December that 'it might be as much as' £12bn.[7] General and expert trust in government numbers and forecasts plummeted. Whatever the government published came to be considered a baseline for a much larger actual figure. This added to the difficult economic and confidence situation.

The PSBR was larger than expected and significantly large relative to other countries. This lent substance to charges that the British economy and public expenditure were out of control. The Bank of England (BoE) stated publicly that the large PBSR and the successive upward revisions of its forecast were worrisome. Much firmer public spending control was needed (BoE, 1975a, p. 221). Public expenditure had to be reduced to leave room for more investment and exports. The BoE also expressed its concern about the alternative: if the PSBR was not reduced by controlling and cutting public spending, 'the only way to reduce' it 'would be by a considerable increase in the already high tax burden' (BoE, 1975b, p. 336).

Symbolic fiscal practices became once again a matter of concern. The 'sheer size of the PSBR figure now plays a crucial part in the general reaction to the budget' and had short- and long-term psychological consequences.[8] In this context, government elites realised and/or remembered how broad the UK's budget approach was relative to other industrial countries. Officials explained that the UK budgetised more and was the only country with a public sector budgetary boundary.[9] Different financial and symbolic practices, and 'the extent to which central government thinks it desirable for control or other reasons to bring certain areas within the budget ambit' were the key issue.[10] Most continental European governments classified public corporations outside the government sector and did not report an equivalent to the PSBR. They did not act as financial intermediary for local authorities and public corporations, which generally borrowed directly from the markets with an off-budget government guarantee. Had the UK followed those practices, central government would have had a balanced budget without any change in policies.

But why did the PSBR receive so much attention? A September 1975 note on the significance of the PSBR as a macroeconomic indicator tried to explain this to the Chancellor. Drafted by the former Treasury Press Secretary and current Head of the Treasury Monetary

[6] TNA: T233/2970, 'Housley to Wass, "Note on Forecasts for the PSBR in 1974/5 and 1975/6"'.
[7] IMFA, 'Letter of Intent', 18 December 1975, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125007835.
[8] TNA: T233/2972, 'Middleton, "PSBR Papers for the Chancellor"', 18 September 1975.
[9] TNA: T233/2972, 'Brown to Wass, "French and German Budget Preparation"', 30 October 1974; TNA: T233/2972, 'Brown to Henley, "PSBR – Definition"', 2 September 1975.
[10] TNA: T233/2972, 'Court to Henley, "Budgets in Other European Countries"', 8 November 1974.

Policy Division, it stressed that the PSBR's power to affect confidence resulted 'from both the apparent precision and the nature of the figure'.[11] It was 'the only published figure' apparently offering 'a simple summary of whether *the economy* is in balance', to which 'a substantial and increasing body of informed opinion attaches importance'.[12] The PSBR was the best indicator available to external commentators. Moreover, the 'seemingly simple' concept that the government was 'living beyond its means' was an effective political rhetoric weapon, particularly for 'a large body of uninformed opinion'.[13] On top of that, the government's reaction to outside commentary reinforced the PSBR's salience and perceived significance in that it paid increasing attention to it, even if for defensive purposes, trying to accommodate itself to the new climate of opinion through strategic ambiguity (see chapter 6). Indeed, some senior Treasury officials thought the Chancellor was being dragged by the increasingly fashionable monetarist rhetoric and framing.[14]

But external commentators were not alone in considering the PSBR an appropriate fiscal indicator. Treasury officials did not agree on its significance. Already in February 1975 senior Treasury officials discussed the 'continuing need to reach a firm departmental view on the significant of the PSBR and its effects on the rest of the economy'.[15] Most officials did not attach much importance to it and thought that it should not be treated as a policy target. The degree to which government borrowing mattered depended on the different purposes to which it was put. Some parts of the PSBR were very helpful for exports and investment. But not only external commentators of monetarist tendencies were arguing that the large PSBR revealed structural economic imbalances. Famous post-Keynesian economists argued that there was a direct lagged relationship between the PSBR and the balance of payments deficit. Besides professional identities, however, a good portion of Treasury officials thought that the salience of the PSBR as a macroeconomic indicator could be useful to deal with uncontrolled increase in government expenditure and its consequences in terms of inflationary pressures and/or indiscriminate enlargement of the state. While the main concern of most officials was with the balance of payments, the PSBR argument could be useful to that end. Some officials even told IMF representatives that more than a source of dear funds, they saw the IMF as 'an even more valuable source of discipline' on government spending and borrowing.[16] While the traditional IMF monetary targets, e.g., Domestic Credit Creation, would force the government to make very difficult political choices, they could be a 'useful discipline' for Treasury purposes.[17] This lack of a unified view within the Treasury reinforced policymakers' attempts to adapt to the emerging climate of opinion through strategic ambiguity.

The Head of the Economic Analysis Unit doubted whether a consensus among Treasury economists on the topic was even conceivable.[18] First, while some considered it a respectable

[11] TNA: T233/2972, 'Middleton, "PSBR Papers for the Chancellor"'.
[12] TNA: T233/2972, my italics.
[13] TNA: T233/2972.
[14] TNA: T461/128, 'Hopkin to PPS, "The Economic Recovery and the PSBR"', 5 July 1976.
[15] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 4 February 1975"'.
[16] TNA: T364/50, 'Folger, "Note for the Record: Conversation between Wass and Woodley, 9 May 1975"'.
[17] TNA: T364/60, 'Downey to Airey, "Treasury/Bank Monetary Policy Group"', 30 April 1975.
[18] TNA: T378/10, 'Britton to Wass', 19 July 1976.

indicator of the budget's demand effects and thought a PSBR target was forcing policy adjustment in a helpful way 'notwithstanding a cosmetic element',[19] others considered the PSBR inadequate and rejected its use as a guide for fiscal policy.[20] Second, while some thought that the PSBR crowded out industrial investment,[21] others were strongly against: high personal savings *and* low business propensity to invest meant that a high PSBR was not 'undue' pressure on finance availability.[22] Third, not all were equally worried about the debt and debt interest burden. As average real return on debt was negative, borrowing enriched government and impoverished investors. Finally, while some highlighted the need to spell out that a large part of central government lending and 'over a third of the national debt' was accounted for by lending 'for "productive" purposes',[23] others considered that a 'moral rather than economic' argument.[24] This last point about the claims-making consequences of naturalised categorical distinctions, about how symbolic fiscal practices made the UK deficit appear comparatively bigger and lumped very different types of transactions together, is remarkable. Agreement over the desirability of counter-cyclical policies was vanishing just when they were most necessary.

The Chancellor tried to counteract misleading interpretations of the budget by downplaying the public sector boundary and stressing that other countries only reported central government finances (HC, 1974b, col. 252). But critics responded with a strong campaign of boundary policing. Stockbroking houses were key actors of that campaign. The most influential financial circulars were written by connotated monetarists, and their estimates and concerns were republished by the media and closely read by government elites themselves. It is common to find in the archives questions from ministers to official economists about their opinion on the meaning and implications of these publications. This, in combination with Treasury divisions, was another factor underlying the government's adoption, even if strategic, of the monetarist rhetoric and economic policy framing which, in turn, helped to entrench monetarism in public discourse. For example, Greenwell's *Monetary Bulletin* used 'government' and 'public sector' interchangeably, and implied that uncontrolled fiscal deficits would lead to 'an explosion in the money supply' and hyperinflation.[25] Cutting public expenditure was the only solution.[26] Peter Jay, economics editor of *The Times*, argued that inflation threatened British democracy. To stave off political collapse, the government had to balance its budget and keep the growth of the money supply in single figures (Jay, 1974). Overall, City financial analysts and the financial press played a key role in framing public economic argument in ways that constrained the government's room for manoeuvre, turning a currency crisis into a sovereign debt crisis in 1976 (Needham, 2015a; Parsons, 1989).

Some government actors joined the boundary policing campaign. In the words of the BoE governor, Gordon Richardson, the need for a 'steady' reduction of the PSBR and public

[19] TNA: T378/9, 'Turnbull to Britton, "Importance of the PSBR"', 16 June 1976.
[20] TNA: T378/9, 'Stamler to Britton, "PSBR"', 15 June 1976.
[21] TNA: T378/9, 'Cassell to Posner, "PSBR"', 8 July 1976.
[22] TNA: T378/9, 'Hopkin to Posner, "The PSBR"', 21 June 1976.
[23] TNA: T378/9, 'Brown to Britton, "The PSBR"', 22 June 1976.
[24] TNA: T233/2970, 'Bridgeman to Cassell, "Presentation of the PSBR"', 9 January 1975.
[25] TNA: T374/77, 'W. Greenwell & Co., "Monetary Bulletin 30, November 1974"'.
[26] TNA: T374/77, 'W. Greenwell & Co., "Monetary Bulletin 33, February 1975"'.

expenditure was ‘widely accepted’ and had ‘rightly’ become ‘a touchstone for the credibility of government strategy as a whole’.[27] There was a looming fiscal crisis. Public spending cuts were necessary because the burden of taxation was too high, particularly for higher-income earners. If the government did not take severe action to reduce public spending, there would be an ‘insoluble problem’ as ‘the implied need for tax increases may be so great as to be beyond the bounds of political possibility’.[28] There was ‘no escaping the need for the enactment, in public, and with an element of public drama, of a struggle to keep the figures down’.[29] Similarly, Home Secretary and former Chancellor of the Exchequer, Roy Jenkins, claimed that pushing public expenditure significantly beyond 60% of GDP was incompatible with ‘the values of a plural society with adequate freedom of choice’, and stressed that ‘we are here close to one of the frontiers of social democracy’ (quoted in Wood, 1976). The press interpreted such statements by a Labour politician as proof that taxation spurred inflation, and that the limits of public expenditure had been reached. Any additional enlargement of the state would destroy democracy.

Notwithstanding those criticisms, the government defended its policies to the IMF by pointing to the specificity of British budgetary conventions. The 1975 letter of intent made this explicit, and the UK representative stressed to the Executive Board that the PSBR ‘concept involved the widest possible coverage of public expenditure, encompassing’ not only the whole public sector but also, ‘in 1975, £1.5bn of government lending to the private sector’.[30] Reductionist international comparisons were misleading. These aspects were repeatedly pressed by UK representatives around the 1976 loan as well.[31] The size of the PSBR reflected the economic recession and was not more expansionary relative to other countries. Taking the general government deficit as a share of GDP, the British budget deficit was smaller than in Germany and only slightly larger than in Japan and the US.[32] The Fund's staff conceded the point by saying that international comparisons of the PSBR were ‘not the most meaningful’.[33] But this did not ease the pressure to reduce public expenditure. The IMF's key concerns were not the demand aspects of fiscal policy—although it expressed preoccupation about the appropriateness of a large PSBR when economic recovery seemed to have started—but its monetary consequences. While they conceded the PSBR was broad, it did express how much finance the government had to obtain. The IMF demanded ‘non-monetary measures’, such as reducing the fiscal deficit, to control the growth of the money supply and inflation.[34]

[27] TNA: T233/2972, ‘Draft Letter from BoE Governor to Chancellor, “Public Spending and Borrowing”’, 21 July 1975.
[28] TNA: T233/2972.
[29] TNA: T233/2972.
[30] IMFA, ‘EBM/75/208’, 31 December 1975, 4–5, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125007752; IMFA, ‘Letter of Intent’, para. 11; IMFA, ‘EBM/75/108’, 25 June 1975, 29, https://-archivescatalog.imf.org/Details/ArchiveExecutive/125009190.
[31] IMFA, ‘EBM/76/117’, 30 July 1976, 6, https://archivescatalog.imf.org/Details/ArchiveExecutive/125006025; IMFA, ‘EBM/76/116’, 30 July 1976, 4, https://archivescatalog.imf.org/Details/ArchiveExecutive/125006026.
[32] IMFA, ‘EBM/77/1’, 3 January 1977, 7, https://archivescatalog.imf.org/Details/ArchiveExecutive/125029318.
[33] IMFA, ‘EBS/76/519, European Department Report’, 16 December 1976, 9, https://archivescatalog.imf.org/-Details/ArchiveExecutive/125005219.
[34] IMFA, ‘SM/76/153, Staff Report’, 7 July 1976, 16, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125006229.

The issue was settled by the confidence argument. In a performative spiral, the government had to consider the PSBR a key macroeconomic indicator *because* other relevant economic agents at home and abroad, as well as public debate more generally, did so. Whatever government elites thought, and they disagreed on many issues, most recognised that, to the extent that public debate, financial markets, creditor countries, and international institutions deemed the PSBR the correct indicator, the government was bound to abide. External commentators' interpretation of the PSBR 'may be irrational' but it could not 'be ignored'.[35] Moreover, the own government had validated and strengthened the salience and significance that relevant economic agents and public debate attributed to the PSBR. A large PSBR was associated with inflationary spirals, with 'too big, or too fast growing, a public sector',[36] excessive public expenditure, and private sector starvation.[37] As credit rested on economic *and* political considerations, the government needed to convince external observers about its determination to tackle what they perceived as the UK's economic problems. On what those problems were in observers' eyes, the Chancellor of the Duchy of Lancaster and close economic advisor to the Prime Minister (PM), Harold Lever, said they were related to 'our basic commitment to a mixed economy'.[38]

Overall, 1970s economic policy was increasingly framed around confidence. The size of the PSBR was perceived to affect overseas creditors' willingness to lend the UK, overseas sterling holders' confidence, prospective sales of government debt, the pattern of interest rates, monetary expansion, industrial investment, and economic growth. To be sure, confidence was not related to financial markets only. While arguments about the opposition between (national) industrial and (foreign) financial interests were common at the time and figure in the literature, the existence of such division in the mid-1970s is dubious. To the inter-locking of (national) financial and industrial interests, a new ideological and political alliance was added in the mid-1970s (Barrat-Brown, 1959; Davies, 2017, p. 108). Indeed, when amidst the 1976 crisis the TUC General-Secretary suggested reducing the PSBR through 'faster growth and lower unemployment', the Chancellor alluded not only to the fact that the IMF deemed cutting the PSBR 'a pre-condition for faster growth', but referred to what he considered 'the central problem' as well: the slow rate of industrial response to economic stimulus.[39] A confidence economic policy frame meant that government policies were construed as either observing the 'adequate' role of the state or intruding beyond its 'natural' arena of action.

3. Attempts at Reframing Fiscal Policy

In parallel, the government and some officials attempted to re-frame fiscal policy. The Treasury Chief Economic Advisor regretted the lack of ready-available tools to reframe fiscal policy in counter-cyclical terms. To change the terms of debate, counteract hostile

[35] TNA: T461/128, 'Cassell, "The Definition and Significance of the PSBR"', August 1975.
[36] TNA: T378/9, 'Couzens to Britton, "The PSBR"', 22 June 1976.
[37] TNA: CAB197/56, 'Mitchell to PPS, "External Financing Assessment"', 29 April 1976.
[38] TNA: CAB197/56, 'Lever to Chancellor, "External Financing Assessment"', 21 May 1976.
[39] TNA: PREM16/801, 'Monck, "Discussion, 14 November"', 18 November 1976.

wrongheaded opinion, and avoid the government being dragged by it, a concept like the full-employment balance needed to be 'better established among us and more familiar both within Whitehall and outside'.[40] This would help distinguish the recession's impact on the budget from discretionary fiscal policy and, thereby, avoid a priori demonisation of budget deficits. After a failed attempt in April 1975, further efforts to quantify the relationship between unemployment and the PSBR allowed civil servants to promote its official creation for internal use and publication. It would help reframing fiscal policy and structuring public economic argument correctly.[41] However, other officials thought elaborating such an indicator involved too many arbitrary decisions and were sceptic about 'the value of the concept itself'.[42] In the end, it was not adopted.

Similarly, politicians concluded that changing symbolic fiscal practices was the only way to regain control of the fiscal policy frame. This followed from officials' analysis that 'so long as we continue to publish the figure [PSBR] in its present exact form' there was not much room for improvement.[43] No matter how big a portion of it had on-lending purposes, 'external opinion is likely to regard it as "our" borrowing, wherever the funds end up'.[44] The first attempt by Healey, quoted in the introduction to this chapter, received a negative answer by officials on confidence and seriousness grounds.[45] Instead, the Treasury published an article explaining how superficial international comparisons were misleading (HMT, 1976). As no official international standard for budgetary accounting existed at the time, the article was only tentative.[46] Around a year later, in May 1976, PM Callaghan, who had had some experience with these issues as Chancellor in the 1960s, initiated a new attempt at boundary redefinition and asked the Chancellor to redefine fiscal indicators by reclassifying items out of public expenditure and the PSBR. Central Statistical Office (CSO) officials warned that the proposal could affect the 'credibility of statistics' and advised against manipulating conventions with the 'sole object' of reducing 'the apparent size of the numbers'.[47] Treasury officials remarked that, while they were already considering the issue, the overriding goal should be to avoid giving 'any impression that we are seeking to rig the figures' and suggested against opening such controversial topic when Cabinet was negotiating public expenditure cuts, as definitional and classification arguments were always spending ministers' 'last refuge'.[48] In the short-run, the best course of action was to try to 'improve public understanding' of the figures and make 'more use of narrower definitions within the grand total'.[49]

[40] TNA: T461/128, 'Hopkin to PPS, "The Economic Recovery and the PSBR"'.
[41] TNA: T374/77, 'Mortimer, "NIER: The Full Employment Budget Balance"', 10 September 1976; TNA: T374/77, 'Britton to Hopkin, "Full Employment Budget Balance"', 10 March 1977.
[42] TNA: T374/77, 'Cassell to Wass, "Full Employment Balance: Letter from Mr Pardoe"', 29 July 1977; TNA: T378/9, 'Todd to Britton, "The Full Employment PSBR"', 15 March 1976.
[43] TNA: T233/2972, 'Middleton, "PSBR Papers for the Chancellor"'.
[44] TNA: T378/9, 'Brown to Jones', 17 May 1976.
[45] TNA: T233/2970, 'France to Norgrove'.
[46] TNA: T233/2970, 'Norgrove to Bridgeman, "International Comparison of Public Sector Borrowing"', 18 February 1975.
[47] TNA: T378/9, 'Moser to Wass', 14 May 1976.
[48] TNA: T378/9, 'Pliatzky to Wass, "Definitions of Public Expenditure Borrowing"', 18 May 1976.
[49] TNA: T378/9, 'Barnett to PM, "Definitions of Public Expenditure and the PSBR"', 19 May 1976.

On July 22, 1976, the government started preparing the ground for a legitimate shift in symbolic fiscal practices. When presenting a package of economic measures, the Chancellor announced that budgetary conventions would be updated and employed rhetorically the 'general government financial deficit' concept used in other countries, which excluded on-lending to public corporations and the private sector (HC, 1976d, col. 2018). Moreover, proving the PM's determination, Cabinet commissioned further work on legitimate ways of producing narrower budget figures. The main goal was to craft an indicator that excluded borrowing on public corporations' account and presented government policies 'favourably in an international context'.[50] Treasury, BoE and CSO officials worked again on the financial practices and classification conventions underlying budgetary reporting. The experience and tendency of other countries pointed in the direction of either a change in symbolic practices, by debudgetising borrowing on public corporations' account, or a modification of financial practices, by extending them off-budget guarantees.

But the attempt was arguably doomed from the start. In a reiteration of similar contradictory 1960s decision timings, parallel to politicians' attempts at re-framing economic policy, the July policy measures, aimed at bringing the PSBR down to £9bn, placed PSBR targets as an official fiscal constraint *before* the December 1976 IMF loan. This allowed officials to argue that a redefinition 'would look extraordinarily suspect' just when the government needed to avoid being seen as 'resorting to blatantly optical devices rather than genuine measures'.[51] Officials thought it unrealistic to think that 'we can quickly displace' the PSBR's primacy 'in the public mind',[52] and did not see any 'immediate prospect' of removing it 'from the centre of debate'.[53] The public salience of the PSBR, a process accentuated by the IMF's attention to it and culminated by the publicised government aim of reducing it, made the case for keeping it.

Beyond circumstantial considerations, most officials did not welcome a change in conventions on other grounds either. Debudgetising public corporations would weaken actual and perceived Treasury control, a most unwelcome prospect for officials 'deeply wounded by the general charge that public expenditure was out of control' (Benn, 1990, p. 593). The 'general government financial deficit' would conceal that the government was responsible of 'financing the public sector as a whole' and create an artificial distinction in the National Loans Fund (NLF) by budgetising only some financial transactions.[54] Moreover, the PSBR would continue to be the most relevant concept for monetary analysis. A better alternative that did not imply changes in classification conventions was switching to, for example, the Central Government Borrowing Requirement (CGBR). But that would not do much in reducing the figures, as nearly half the CGBR was accounted for by on-lending activities.[55] Overall, while British conventions made large numbers 'look even bigger', officials stated that the

[50] TNA: CAB128/59/22, 'Conclusions of Cabinet Meeting, CM(76)22', 3 August 1976.
[51] TNA: T378/10, 'Middleton, "Nationalised Industries and the PSBR"', 3 September 1976.
[52] TNA: T378/9, 'Barnett to PM, "Definitions of Public Expenditure and the PSBR"'.
[53] TNA: T461/155, 'Middleton to Lord, "Nationalised Industries and the PSBR"', 7 September 1976.
[54] TNA: T461/155, 'O'Mara to Isaac, "An Alternative Measure of the Government's Financing Requirements"', 24 November 1977; TNA: T378/10, 'Middleton, "Nationalised Industries and the PSBR"'.
[55] TNA: T378/9, 'Barnett to PM, "Definitions of Public Expenditure and the PSBR"'.

government ought to remember they had been introduced by a Labour government to 'encompass the area of the economy over which Government has sought to plan and control expenditure directly'.[56]

As an alternative, the government sought to exclude NLF loans from the public expenditure white paper, provided 'the cognoscenti' could be persuaded 'that our presentation is reasonable and not a fiddle'.[57] The initial Treasury idea was to distinguish between 'taxpayer' (voted) and 'non-taxpayer' (non-voted) money: 'soft money' or money lent on 'concessionary' terms, e.g., government grants and public dividend capital (PDC), would score as public expenditure, but lending activities at market rates, i.e., all NLF loans, would not. This was geared at lowering the headline government expenditure figures and avoiding public corporations falling within the scope of future reductions of public expenditure. This reform 'would be consistent with a subsequent move to a "general government own account" definition of public expenditure'.[58] However, ideas of 'hiving off' public corporations were abandoned as differences with the Department of Industry and Trade over where to draw the line made Treasury officials change their mind.[59] The fact that 'any classification means establishing borderlines, and these are bound to raise borderline problems' meant that if NLF lending was excluded, spending departments would 'press for PDC to follow' and, should they be successful, others would jump on the bandwagon, undermining Treasury control and credibility.[60] Since reclassifications would prove debatable, the mere rise of borderline problems was to be avoided. The potential disadvantages of such a move were significantly greater than any 'trivial presentational gain' which, in any case, would most likely trigger adverse reactions from outside critics with potential 'great damage to confidence'.[61] The Chancellor agreed that in the circumstances of 1976 credibility was the most important factor.

In the end, changes partially inscribed a general government boundary which did not previously exist. The white paper eliminated double counting of debt interest, scored only on-lending funds to public corporations as public expenditure instead of all their capital expenditure, and calculated GDP at market prices instead of factor cost (Cmnd 6721, 1977). In the words of one of the officials behind the reform, until 1977, the published public spending to GDP ratio compared 'like with unlike' (Pliatzky, 1982, p. 166): GDP was calculated at factor cost, a way of measuring economic activity by the cost of factors of production, and public expenditure at market prices, a method that measures prices paid by consumers on the market, including subsidies and taxes. This magnified the share of GDP represented by public spending significantly. As a result of these three 'purely presentational' modifications, public expenditure as a share of GDP went from 60% to 46% (Pliatzky, 1982, p. 166). For its part,

[56] TNA: T378/9, 'Brown to Jones'.
[57] TNA: T461/155, 'Monck to Pliatzky', 16 September 1976.
[58] TNA: T461/128, 'HM Treasury, "Conclusions of a Meeting to Discuss the Presentation of Public Expenditure Figures"', 6 August 1976.
[59] TNA: T461/155, 'Pliatzky, "Presentation of Public Expenditure – Nationalised Industries Etc"', 9 September 1976.
[60] TNA: T461/155, 'Pliatzky to PPS, "Public Expenditure – Treatment of NLF Loans to the Nationalised Industries"', 17 September 1976.
[61] TNA: T461/155.

while no transactions were debudgetised, the 1977/1978 FSBR table on public sector transactions identified, by disaggregation, general government, public corporations, and financial transactions of the public sector (see figure 11). The goal was to distinguish symbolically between what the Treasury was directly responsible for and could control (general government), and what it could 'only influence'.[62] Beyond the huge adjustment in the spending-to-GDP ratio, the main significance of these changes was that budgetary conventions were decoupled from national accounting conventions, which did not make such distinctions in the financial accounts. This opened the window for potential future redefinitions. Soon enough, however, the Conservative government reversed the changes. Public corporations' capital expenditure scored as public spending once again, and the PSBR became the centrepiece of Conservative economic policy.

[62] TNA: T378/9, 'Barnett to PM, "Definitions of Public Expenditure and the PSBR"'.

TABLE 6. PUBLIC SECTOR TRANSACTIONS BY ECONOMIC CATEGORY

£ million

	1976–77		1977–78 Forecast	
	Budget(1) forecast	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT(2)				
CURRENT RECEIPTS				
Taxes on income	19,543	19,556	22,310	20,480
Taxes on expenditure	16,512	17,101	20,498	21,270
National insurance, etc., contributions	8,574	8,810	9,415	9,415
Gross trading surplus(3)	82	120	102	102
Rent(3)	2,348	2,626	3,007	3,007
Interest and dividends from—				
Public corporations	1,549	1,613	1,809	1,809
Other	629	786	873	873
TOTAL	49,237	50,612	58,014	56,956
CAPITAL RECEIPTS				
Current surplus(3)	−1,064	431	1,408	350
Taxes on capital	857	876	915	915
Financial deficit (on current and capital transactions)—				
Central government	5,093	3,126	2,452	3,510
Local authorities	2,334	2,153	1,770	1,770
General government	7,427	5,279	4,222	5,280
TOTAL	7,220	6,586	6,545	6,545
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: INCOME				
Gross trading surplus(3)	3,692	4,201	4,740	4,740
Rent and other non-trading income	562	634	725	725
TOTAL	4,254	4,835	5,465	5,465
CAPITAL RECEIPTS				
Undistributed income(3)	1,788	2,435	2,750	2,750
Capital transfers from—General government	247	292	292	292
Other	40	52	52	52
Financial deficit (balance of appropriation and capital accounts)—Nationalised industries	2,102	1,312	1,237	1,237
Other public corporations	1,057	1,075	1,060	1,060
TOTAL	5,234	5,166	5,391	5,391
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
RECEIPTS				
Receipts from certain pension schemes (net)	204	230	168	168
Adjustment for accruals of taxes on expenditure	−26	−98	−439	−439
Miscellaneous capital transactions (net)(4)	−258	25	78	78
Net borrowing from the private sector and overseas by—				
Central government	10,426	5,830	5,801	6,859
Local authorities	937	1,278	890	890
General government	11,363	7,108	6,691	7,749
Nationalised industries	400	1,302	625	625
Other public corporations	199	410	97	97
Total (public sector borrowing requirement)	11,962	8,820	7,413	8,471
TOTAL	11,882	8,977	7,220	8,278

	1976–77		1977–78 Forecast	
	Budget forecast(1)	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT(2)				
CURRENT EXPENDITURE				
Current expenditure on goods and services	27,358	27,192	29,891	29,891
Subsidies	3,187	3,519	3,163	3,163
Debt interest	5,549	5,365	6,267	6,267
Current grants to personal sector	13,471	13,284	16,048	16,048
Current grants abroad	736	821	1,237	1,237
Total	50,301	50,181	56,606	56,606
Current surplus(3)—Central government	−2,723	−1,124	−265	−1,323
Local authorities	1,659	1,555	1,673	1,673
TOTAL	49,237	50,612	58,014	56,956
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	5,576	5,114	4,913	4,913
Increase in value of stocks	54	25	50	50
Capital grants to—				
Public corporations	247	292	292	292
Private sector	1,343	1,155	1,290	1,290
Overseas	—	—	—	—
TOTAL	7,220	6,586	6,545	6,545
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: PAYMENTS				
Interest and dividends to—				
General government	1,549	1,613	1,809	1,809
Other	912	778	896	896
Taxes on income	5	9	10	10
Total	2,466	2,400	2,715	2,715
Undistributed income(3)	1,788	2,435	2,750	2,750
TOTAL	4,254	4,835	5,465	5,465
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	4,850	4,569	5,097	5,097
Increase in value of stocks	384	597	294	294
TOTAL	5,234	5,166	5,391	5,391
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
EXPENDITURE				
Financial deficit—				
General government	7,427	5,279	4,222	5,280
Public corporations	3,159	2,387	2,297	2,297
Total	10,586	7,666	6,519	7,577
Net lending to private sector	517	357	370	370
Net lending, etc., abroad	654	761	802	802
Cash expenditure on company securities	125	193	−471	−471
TOTAL	11,882	8,977	7,220	8,278

(1) Differences from the figures given in Table 5 of the Financial Statement and Budget Report 1976–77 (H.C. 306) reflect changes of classification.
(2) See Introduction to Part II.
(3) Before allowing for depreciation and stock appreciation.
(4) Includes unidentified transactions.

Figure 11. Disaggregated table on public sector transactions

Source: (HMT, 1977, pp. 16–17)

4. The Failure of Mystical Monetarism

There was no monetarist Golden Age.
We did not abandon the monetarist guiding light.
It was the light that abandoned us.
Nigel Lawson

In May 1979, a general election led Margaret Thatcher to become PM with a majority of 43 seats. The government's first budget, only three weeks after taking office, had only relatively minor presentational changes. But work on how to present economic policy started early on. If until the late 1970s the PSBR had acquired a central role out of the combined forces of the Treasury's bureaucratic interests, external commentators' preferences, and IMF conditionality, the incoming Conservative government would lend renewed emphasis on cutting the PSBR as a measure of policy success. The centrality of the PSBR was 'a distinctive feature' of Conservative economic policy (Tomlinson, 2017, p. 77) and, more significantly, 'the issue of "rolling back state intervention" *became* the issue of keeping the deficit low' (Prasad, 2006, p. 106). This approach would be embodied by the Medium-Term Financial Strategy (MTFS) launched as part of the 1980/1981 FSBR.

In June 1979, Chancellor Geoffrey Howe stated, in very declinist terms, that his first budget was but the first step of a broader strategy aimed at reversing the long-term decline and weaknesses of the British economy, particularly high inflation, slow economic growth, and poor industrial performance. Reversing decline would take more than one or two budgets. Controlling inflation was the central goal of economic policy and, to achieve it, the government would introduce firm discipline on monetary expansion. Crucially, to reduce the rate of money growth without suffocating the private sector, the bulk of the burden was to fall on fiscal restraint. Besides monetary control, reducing the PSBR was also conceived as a means to pressure public expenditure and taxation down. Finance should determine spending, not the other way around. Accordingly, fiscal restraint had to consist of making 'savings in public spending' and rolling 'back the boundaries of the public sector' (HC, 1979, col. 246). Reducing government's economic role, as represented by its spending and borrowing, would help controlling inflation and be consistent 'with our conviction that it is people and not Governments who create prosperity' (HC, 1979, col. 262). The new strategy would put an end to decades of state intrusion in economic matters.

In contrast to previous classification struggles, during the Conservative government changes in the FSBR were triggered, led, and defined mainly by politicians and their Party or at least non-state experts, not officials. National accounting conventions did not emerge as a significant constraint anymore. Already in 1978 Nigel Lawson, Financial Secretary to the Treasury (1979-1981) and later Chancellor of the Exchequer (1983-1989), had argued, along with other economic commentators, that economic policy should abandon what he deemed its obsession with short-term economic stabilisation. Only a long-term stabilisation programme would succeed in controlling inflation, recreating business confidence, and encouraging a pro-growth climate. The only way to defeat inflation was a resolved and persistent policy towards

a steady and gradual reduction in the rate of monetary growth until it was consistent with sustainable real rates of economic growth. But that alone would not suffice. Restoring 'something operationally and psychologically akin to the old balanced-Budget discipline' was crucial, as 'the secret of practical economic success... is the acceptance of known rules. Rules rule: OK?' (Lawson, 1978). The first discussions to implement the idea took place during the second half of 1979. Lawson, supported by Treasury officials Peter Middleton and Adam Ridley, was the main advocate and 'principal architect' of the MTFS (Needham et al., 2012, p. 12). Cabinet members and senior officials were sceptical at first. They thought such a strategy would be an 'act of faith' because it depended on the assumption that wage bargainers would adjust their behaviour quickly to changes in the monetary environment, just as modelled by rational expectations economics (quoted in Needham, 2014, p. 147).

In view of Cabinet scepticism, the Chancellor decided to lead a 'process of sounding out informed opinion'.[63] He invited advisers within and outside civil service to discuss whether the government should publish an MTFS and what should be its contents. Among the participants, there were Treasury and BoE officials, financial commentators (e.g., Tim Congdon, Gordon Pepper), and economists (e.g., Brian Griffiths, Patrick Minford). In a meeting held October 5, there was almost unanimous agreement on the desirability of an MTFS. At the heart of it would be a path of declining monetary (£M3) expansion targets. The minutes only record opposition from Fred Atkinson, Chief Economic Adviser to the Treasury and soon to retire, under the grounds that quantified targets produced only marginal gains in credibility vis-à-vis a general commitment to reduce monetary growth but constrained the government's freedom of manoeuvre much more.[64] Others thought that after numerous instances of unfulfilled promises of controlling inflation, governments and politicians had lost credibility. A precise path for monetary growth was needed to overcome this 'credibility gap'.[65] In Lawson's words, 'the market has become increasingly cynical of Governments pledging themselves to tread the path of virtue—but not yet'.[66] As a middle-ground, the Permanent Secretary to the Treasury, Douglas Wass, suggested a long-term monetary target for 1983/1984 only, without corresponding year-to-year targets. But Lawson responded that economic commentators would figure out and publish a straight path 'from here to there' anyway, 'with the result that we shall be judged by precisely the yardstick as if we had published that path ourselves, but without the beneficial effects on confidence (and hence expectations) from having taken the initiative'.[67] The Chancellor, too, thought that 'inflation psychology' mandated a path of annual targets to enhance the sustainability and credibility of the policy.[68]

Regarding what, if anything, should complement the diminishing money supply targets, there was general agreement that the MTFS should demonstrate the consistency of fiscal policy

[63] MTFA, 'HMT, "Note of Chancellor's Meeting with Outside Economists"', 5 October 1979, https://-www.margaretthatcher.org/document/113110.
[64] MTFA.
[65] MTFA.
[66] MTFA, 'Lawson to Howe, "A Medium-Term Financial Plan"', 24 September 1979, https://www.margaret-thatcher.org/document/113283.
[67] MTFA.
[68] MTFA, 'HMT, "Note of Chancellor's Meeting with Outside Economists"'.

with monetary control without establishing PSBR *targets*. A line of PSBR *forecasts* would be enough. According to Lawson, the PSBR had to be part of the financial strategy because of various reasons. First, the Chancellor had mentioned it in the 1979 budget, and ignoring it now would spur criticism and misinterpretation. Second, medium term PSBR forecasts would boost the credibility of the monetary targets and, thereby, the entire plan. Third, a declining PSBR line proved that monetary targeting would not need excessively high interest rates, which was paramount for private sector confidence. Fourth, it would help the Chancellor to persuade the Cabinet to cut public spending: 'once the PSBR is given, the level of public spending determines the level of taxation'.[69] The undersecretary to the Treasury, John Odling-Smee, warned that the PSBR was difficult to control, its link with £M3 growth only haphazard, and that government should let the PSBR expand during recessions and contract during booms. Lawson responded that the cyclical factor should not be exaggerated and pointed to the findings of a paper by Treasury officials, among which authors was, funnily enough, Odling-Smee, that 'proved' the link between the PSBR and monetary growth. The 'massive secular rise' of the PSBR in GDP terms since 1973 'must be reversed' regardless of the economic cycle.[70] Publishing a quantified commitment 'to a steady return to pre-1973 levels of PSBR', as opposed to publication of the 'quasi-metaphysical concept' of a constant/full employment PSBR, would be 'most valuable' in psychological and expectational terms.[71]

The MTFS had no basis in expert economic knowledge. There was no empirical evidence, econometric or otherwise, to support the argument that a medium-term path of declining monetary growth was necessary or sufficient to lower inflation or how it would do it (Needham, 2014, p. 147). Neither was there any econometric basis for why one path (e.g., more stringent) should be preferred rather than another. This was congruent with Lawson's suspicion of economic policy based on forecasts and econometric models.[72] Instead of projections of why and how it would achieve its precise goals, the MTFS was based on the belief that it would enhance the credibility of anti-inflation policy, have positive effects on inflation expectations, and reassure private economic agents that the government would not relax fiscal policy if the PSBR fell, as in 1977/1978. It would be 'a bulwark against fine-tuning'.[73] Confidence was the cornerstone of the strategy, as long-run inflation expectations were 'what mattered to financial markets'.[74] As to how would the MTFS affect confidence and expectations, there was no further evidence than the doctrinal conviction that providing certainty that the government would not return to an activist (perceived as inflationary) policy would suffice. The MTFS was conceived as a performative policy device (Best, 2020).

This earned the MTFS some influential detractors. The BoE was critical. Not only was the governor angry because the Treasury sent final drafts to the PM without consulting the Bank.

[69] MTFA, 'Lawson to Howe, "A Medium-Term Financial Plan"'.
[70] MTFA.
[71] MTFA.
[72] MTFA, 'Lawson to Howe, 'Forecasts: The "Bray" Schedule"'', 24 August 1979, https://www.margaret-thatcher.org/document/133750.
[73] MTFA, 'HMT, "Note of Chancellor's Meeting with Outside Economists"'.
[74] MTFA.

He expressed ‘serious reservations’ about the figures' credibility and ‘the wisdom of publishing’ the MTFS.[75] Publishing quantified monetary targets ‘so far ahead’ would put the government ‘in an undesirable strait-jacket as far as interest rates and fiscal policy are concerned’.[76] Defining monetary targets four years in advance was obviously more difficult than the already ambitious task of setting a target for the year ahead.[77] According to a former BoE official, since at least the mid-1970s, there was no certainty over the foundations or appropriateness of specific monetary targets (Goodhart, 1984b). This was, indeed, a very discretionary way of operationalising the keystone of rules-based policy (Clift, 2020). The governor criticised ‘the essence’ of the MTFS, i.e., the pre-commitment to implement a policy ‘irrespective of the circumstances’.[78] Moreover, while defeating inflation was the overarching goal, the MTFS included no future inflation rate figures or figures on the relationship between changes in £M3 and inflation. The Chief Secretary to the Treasury, John Biffen, too, shared his reservations about publishing monetary yardsticks for the whole life span of the Parliament, causing Howe's annoyance (Lawson, 1992, p. 67).[79] Firstly, ‘the demand’ for an MTFS came from journalists, academics, and commentators, not from relevant economic agents. Secondly, to produce any confidence, the statistics would need to become official PSBR forecasts. Thirdly, to establish the credibility of monetary policy over several years, the figures had to assume a mechanistic relationship between the PSBR, monetary aggregates, and inflation. A renowned monetarist, Biffen plainly stressed that ‘I do not believe such a relationship can be thus demonstrated’.[80] Fourthly, he argued that the fact that the MTFS omitted the one statistic of ‘supreme political importance which justifies the policy’, inflation, underscored that no such relationship existed. Biffen concluded by stressing that the government's monetary policy was still ‘at the stage of apprenticeship’ and criticised Lawson's pretence that there was ‘a certainty about pace and direction that we do not possess, either technically or politically’.[81]

These arguments did not convince the Chancellor and the PM, who thought that the MTFS would ‘greatly help the presentation of this year's Budget’.[82] Archival evidence supports Needham's (2014, p. 149) argument of why the MTFS was launched in 1980 after being put on hold in November 1979. The combined effect of new forecasts that allowed to present ‘a fiscal picture that would be thought credible and consistent’ with the monetary strategy, and the need to counteract criticism for the failure to meet the annual £M3 target strengthened the MTFS's

[75] MTFA, ‘BoE, “Record of Conversation, Chancellor and Governor”’, 22 February 1980, https://www.margaret-thatcher.org/document/113027.
[76] MTFA, ‘Lankester to PM, “Medium-Term Financial Strategy”’, 22 February 1980, https://www.margaret-thatcher.org/document/115609.
[77] According to a former BoE official, since at least the mid-1970s, there was no certainty over the foundations or appropriateness of specific monetary targets (Goodhart, 1984b).
[78] MTFA, ‘Richardson to PM, “Medium-Term Financial Strategy”’, 7 March 1980, https://www.margaret-thatcher.org/document/115616.
[79] As Needham (2014, p. 150) shows, there were officials from other government divisions against the MTFS as well.
[80] MTFA, ‘Biffen to Chancellor, PM and Wass, “Medium-Term Financial Strategy”’, 4 March 1980, https://-www.margaretthatcher.org/document/133942.
[81] MTFA.
[82] MTFA, ‘No. 10, “Record of Conversation, Thatcher, Howe, Richardson, Wass, Armstrong”’, 7 March 1980, 10, https://www.margaretthatcher.org/document/115615.

attractiveness.[83] The new forecasts made it possible to introduce a fiscal adjustment or tax reduction item in the last two years of the PSBR projection, which would help forestall criticism from fiscal conservatives. Howe argued that by presenting a credible medium-term strategy the government would be 'better able' to 'ride out the immediate problems of high monetary growth and interest rates'.[84] More broadly, establishing a 'self-imposed constraint on economic policy-making' was precisely 'the point of the whole exercise' (Lawson, 1992, p. 67). The quantified form and context of publication (the FSBR) would strengthen the MTFS's credibility.

The 1980/1981 FSBR had a radically different layout. It placed economic policy in a new meaningful context. Symbolic fiscal practices conveyed no link between government transactions and the short-term economic situation and provided only a chimeric link with medium-term developments. Part I of the FSBR presented tax and expenditure measures. It stated that gradual reduction of monetary expansion was the key anti-inflation policy tool and that it would be achieved via reducing the fiscal deficit instead of 'intolerably high interest rates' (HMT, 1980, p. 3). Lowering the PSBR and raising interest rates were seen as alternatives (see chapter 6). After more than a decade of discussions over how to present the relationship between budgetary policy and the economy, table 1 of the FSBR presented estimates of the direct effect of budgetary measures on the budget accounts to then specify the net effect of the budget on the forecast 1980/1981 PSBR (see figure 12). Part II presented the MTFS and stated the general goals and instruments of medium-term policy. In contrast to post-war 'interventionist' policy, the MTFS was only concerned with the 'very few' things that government could control (HC, 1980, col. 1443). It presented a target path (1980/1981 to 1983/1984) of annual ranges for the growth of £M3 and corresponding projected PSBRs. It stated confidently that 'control of the money supply will over a period of years reduce the rate of inflation' (HMT, 1980, p. 16). Finally, part III reviewed the economic situation and the prospects to mid-1981, now presented as something unrelated to budgetary policy. Parts IV and V presented public sector and central government transactions.

The MTFS inscribed the subordination of fiscal policy to the monetary strategy. The logic and instruments of the strategy, if not the presentation and narrative which intensified it significantly, were not Thatcherite creation. They were directly taken from the previous Labour government's economic policy, particularly the crisis measures of 1976 (see chapters 6-7). Public spending and tax policy were geared toward monetary control to avoid relying excessively on interest rates. As the PSBR as a share of GDP had been a major factor behind excessive monetary expansion, the government pledged a 'substantial' reduction of it (HMT, 1980, p. 16). Reducing the PSBR was also essential to bring interest rates down and, thereby, ease the private sector's financing problems. Crucially, by suggesting that there would be tax reductions in 1982/1983 and 1983/1984, the implied fiscal adjustment item helped to legitimise a tough budget (Lawson, 1992, pp. 68–69).

[83] MTFA, 'Howe to PM, "Medium-Term Financial Strategy"', 20 February 1980, https://-www.margaretthatcher.org/document/115605.
[84] MTFA.

TABLE 1. DIRECT EFFECTS ON PUBLIC SECTOR TRANSACTIONS(3)

£ millions

Tax Proposals	1980–81 Current prices	*Full Year 1980–81 prices*	Expenditure Measures	1980–81 Current prices	*1980–81 1979 Survey prices*(4)
Income tax	−1,190	(−1685)	Programmes	−900	(−670)
Other direct taxes	+245	(+90)	Contingency reserve	+325	+(250)
Specific duties	+1,245	(+1,275)			
Other indirect taxes	−65	(−60)			
Total tax proposals	+235	−(380)	Total expenditure measures...	−575	(−420)

The total net direct effect of the Budget is to reduce the borrowing requirement in 1980–81 by £810 million, the sum of the increase in revenue and the reduction in expenditure. The PSBR is forecast to be £8,536 million in 1980–81.

(1) The value of expenditure decisions is taken to measure their direct effect. The direct effects of tax changes are the differences between the yields estimated by applying the new and the old tax rates and allowances to the taxable income and expenditure projected in the post-Budget forecast. A further adjustment is made to the estimates of the Customs and Excise taxes to allow for the changes in taxation resulting from both substitution by consumers between goods and the change in real incomes. Estimates of both direct and indirect effects together would also allow for second round changes in tax receipts and some items of expenditure, especially unemployment benefits. These changes occur because of induced movements in some or all of incomes, prices, interest rates, the exchange rate and unemployment and hence taxable income and expenditure. Further details of the definition of the effects of tax changes are provided in the methodological note to Table 2 (on page 11).

(2) The Government's Expenditure Plans 1980–81, Cmnd. 7746.

(3) +/− indicates an increase/decrease in revenue or expenditure.

(4) See also Table 3.

3

Figure 12. Direct effects on public sector transactions, 1980/1981 FSBR
Source: (HMT, 1980, p. 3)

These were monetarism's zenith years in British economic policymaking. Instead of presenting the budget in relation to the wider national economic situation and prospects, the 1980/1981 FSBR presented and justified budgetary policy in relation to the state of government accounts and monetary growth. It made little precise reference to how the budget affected the economy (e.g., inflation). A brief disclosure acknowledged that it would likely have deflationary effects but was followed by a reassurance that this was 'a necessary step' to reduce the PSBR burden and improve incentives (HMT, 1980, p. 4). The strategy consisted of reassuring economic agents that the government would not intrude beyond its righteous and natural role whilst hoping that this would somehow lower inflation and enable economic growth. The MTFS was designed 'to restore confidence' after decades or perhaps a century of 'too much instability, too much experimentation, too much economic and social engineering'.[85] At the same time, it was a strategy to depoliticise financial discipline (Copley, 2022, Chapter 6). The MTFS embodied the arrival of 'wholehearted' monetarism in replacement of late-1970s 'practical' monetarism (Goodhart, 1984a; Richardson, 1978). As monetary growth control was now the sole intermediate monetary policy target, monetary targeting was the only goal of changes in nominal interest rates.[86]

[85] MTFA, 'Cropper, "Draft Speech for Delivery to Conservative Political Centre, City of London, 28 April 1980"', 22 April 1980, 6, https://www.margaretthatcher.org/source/hmtpo/t639-0015.

[86] In theory, policymakers can control either interest rates or the money stock. In post-war decades (and today) they set interest rates and let the money supply adapt. During wholehearted monetarism, they did the opposite: set a monetary target and drive nominal interest rates up or down as much as necessary to hit the target.

1979-1981 can be described as the short-lived period of mystical monetarism. The structural context of monetary policy changed with the 1979 abolition of exchange controls and of direct credit controls in the summer of 1980. This made it much harder to estimate and control movements in the money supply. The government had now two main levers for monetary control, short-term interest rate policy and sovereign debt management. Moreover, since the early 1970s there was no econometric evidence that enabled using interest rate policy as the key monetary control lever. In the words of a former BoE official, public monetary targets in the UK 'were *never* operated, or based on an econometric equation or model' (Hotson, 2010, p. 4). The missing link between a determined interest rate and the short-term private demand for bank loans were demand-for-money functions, but officials had no such trustworthy function (Needham, 2014, Chapter 3). In words of the BoE executive director (home finance), John Fforde, 'discovery of reliable relationships' between private demand for bank loans and other variables, such as short-term interest rates, proved 'very elusive' (Fforde, 1982, p. 204). Without a way of controlling/influencing short-term demand for banks loans, the policy had little chances of success. The authorities were caught on a trap. The strategy was based on two pillars. First, it was based on publicised yearly monetary targets over the medium-term, which would reduce inflation. Second, it relied on the effects on expectations of 'official monetary declarations and performance' (Fforde, 1982, p. 204). While aiming at reducing long-term inflation expectations, the strategy pledged the authorities 'to respond mechanically to deviations of £M3' (Hotson, 2010, p. 20). Whatever previous experience suggested about the relationship between £M3 and inflation over the medium-term measured in years, the 'political economy' of the strategy 'seemed to require a demonstration of quite close control, and an absence of intolerable side-effects, in a *short* term measured in months' (Fforde, 1982, p. 204). That was the main problem of £M3 targeting.

As the authorities had no method to control bank lending, short-term monetary control depended 'critically' upon sovereign debt management, a lever that had 'rather close limits to what could be achieved by' it (Fforde, 1982, p. 204). Besides the lack of econometric evidence, the authorities disliked the very high interest rates necessary to restrain private demand for bank borrowing. High rates affected mortgage payers, a key constituency for the Conservative Party, and were fiercely resisted by the private sector in general. As an alternative, the authorities overfunded the PSBR. By selling more government debt to the non-bank sector than it was necessary, overfunding pressured the money supply down even more than normal funding policy.[87] However, this did not prevent £M3 targets from being widely overshot just when inflation started to fall. When it became evident that inflation would start falling, short-term interest rates were reduced by 1% to 16% in July 1980, regardless of the trajectory of £M3. In the words of a former treasury under-secretary, this cut in interest rates proved that 'the retreat from monetarism had begun' (Britton, 1991, p. 53). Interest rates were cut again to

[87] Copley (2022, Chapter 6) states that, given the inability of short-term interest rates to control £M3, the government discovered overfunding as a second-best tool for monetary targeting. It is worth remembering, however, that there was little to discover in it. Funding had been used as method of monetary control since the early post-war years, and overfunding had occurred before (BoE, 1984). See chapter 6.

14% in November and the £M3 target 'taken out of action'.[88] The authorities cut short-term interest rates when monetary growth was widely overshooting its target. Whatever economic recovery followed these early years of Conservative rule, it was based on a reversal of the government's key economic policy strategy (Tomlinson, 2007a, p. 13).

The 1981 budget, remembered for its deflationary policies amid a deep economic recession, marked another milestone of the end of mystical monetarism. The 1981/1982 MTFS was less rigid. It presented diverse targets for different (broad and narrow) monetary aggregates, and mentioned, among other things, the course of the exchange rate as a relevant indicator for policy. The new MTFS was 'somewhat confusing' (Riddell, 1983, p. 87). Now 'everyone could focus on what they liked best' (Hotson, 2010, p. 22). Even the pretence that rules were ruling was abandoned, and £M3 was no longer the intermediate policy target. In practice, the government resorted to the traditional use of demand management to control inflation. They deepened the economic crisis. In the words of Fforde, this made monetary policy 'a more humble pursuit', recognising 'once more that the successful execution of monetary policy requires the exercise of judgement, and of a constantly interpretative approach to the evolving pattern of evidence' (Fforde, 1982, p. 204). Mystical monetarism or the attempt to defeat inflation by controlling and measuring the money supply was proved to be, in the words of a famous 'wet' Conservative MP, Sir Ian Gilmour, 'the uncontrollable in pursuit of the indefinable' (quoted in Haviland, 1981). In practice, both Howe and Lawson adjusted interest rates 'in the light of exchange rate developments' (Hotson, 2010, p. 23). £M3 targets were not, however, suspended until 1985 and only in 1987 the FSBR stopped publishing any monetary targets at all.

Some relevant policymakers of the time argue that while working with monetary growth as intermediate target presented insurmountable difficulties, the strategy did work in the sense that inflation was brought down (e.g., Fforde, 1982). In the words of Lawson, while monetary targets were missed, the 'spirit of the strategy was observed, as a result of which inflation fell' (Lawson, 1992, pp. 413–414). At least two arguments cast doubt on that statement. First, inflation fell only temporarily. The 1980s can hardly be considered a decade of controlled inflation (see figure 13). Second, when it comes to debates on economic policy, it is crucial to consider decision-making and policy outcomes in relation to one another: more than the outcome itself, it is the link between the precise mechanism and the outcome that matters. If the desired outcome, in this case, inflation control, *is* achieved but not for the reasons policymakers said and/or expected they would, it can hardly be considered a doctrinal triumph. Even if the headline number resonates with the desired outcome, it may have been the outcome of reasons different to those expected by policymakers. In this case, whatever hints at lower inflation there were in the early 1980s, they largely resulted from brutish deflationary policy and the consequent economic recession.

[88] MTFA, 'HMT Record of Conversation, Chancellor and Governor', 20 November 1980, https://-www.margaretthatcher.org/document/113205.

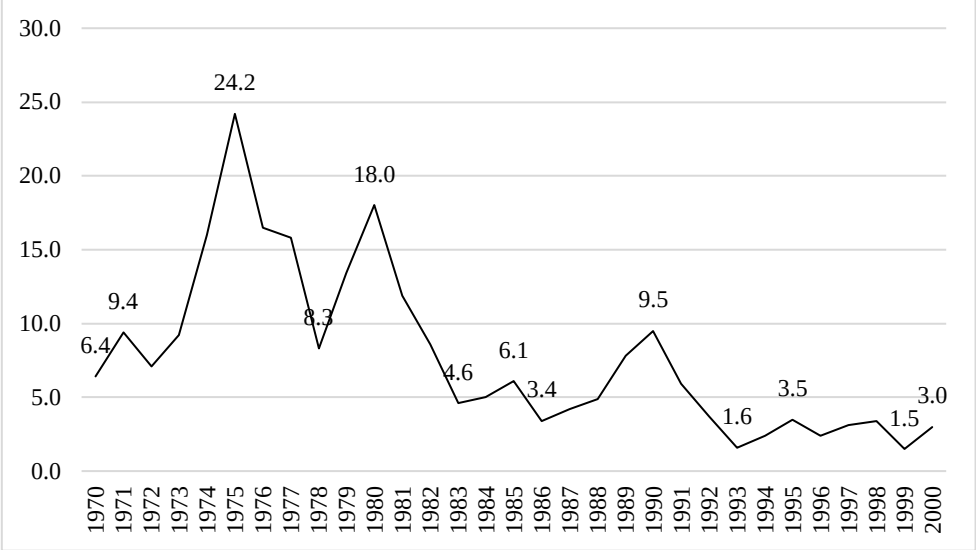

Figure 13. Inflation (Retail Prices Index), annual percentage change
Source: (ONS, 2020)

5. Back to Basics

The MTFS marked a relevant step towards the standardisation of public money. According to the Chancellor, the fact that the 1979/1980 PSBR 'almost exactly' matched national savings 'available for investment' proved that 'the State was neatly pre-empting the whole of the country's institutional savings flow' and forcing private investment down.[89] This led him to reject one of the ways in which the counterparts approach to the creation of money—on which more on chapter 6—had been implemented. He criticised the 'Keynesian' argument that, as long as it was financed by borrowing from the non-bank financial sector, there was nothing wrong with a high PSBR. This argument stated that there were no *necessary* consequences from a given PSBR alone. It depended on how it was financed. Only that portion financed through short-term borrowing from the banking sector expanded the money stock and, thereby, affected inflation. Beyond what Howe meant by 'Keynesians', such reasoning *had* indeed been used to try to accommodate the need of letting the fiscal deficit reflect the economic recession and the perceived need to control the growth of the money supply for anti-inflationary purposes. While 'it may be strictly true, although I doubt it, that a large PSBR financed wholly in the non-bank financial sector is compatible with strict control of the money supply', Howe rejected it because 'savings absorbed by the State are savings lost to the private sector' and, 'if one believes, as I do, that the private sector is more likely to bring prosperity to this country than is the public sector, then the sooner the PSBR falls towards zero the better'.[90] From this perspective, not only the structure of the PSBR but its overall size were problematic. Even when financed through borrowing from the non-banks, it crowded out private investment (see chapter 6).

Given the failure of mystical monetarism, the PSBR displaced £M3 as the authorities'

[89] MTFA, 'Cropper, "Draft Speech for Delivery to Conservative Political Centre, City of London, 28 April 1980"'.
[90] MTFA.

preferred indicator of the government's economic record, and became the key yardstick for assessing government success, both regarding its anti-inflationary goals and more broadly. What had been thought of as a complement to £M3 targets became the centrepiece of economic policy. The PSBR went from being an intermediate target (aiming to reduce monetary growth) to acquire characteristics of an end in itself. Besides supporting monetary targeting, symbolic fiscal practices had now public finance sustainability, understood as no deficit, as their gravitational centre. This rendered the presentation of the PSBR path in the MTFS even more relevant than before. Crucially, and different from past governments, the FSBR did not distinguish public expenditure or PSBR items according to their purposes—e.g., current vs capital expenditure. Whether a specific balance or monetary effect resulted from current or capital transactions was irrelevant. From this perspective, 'borrowed money is borrowed money... whatever it is used for' (Butt, 1981). While some 'wet' Cabinet members favoured, in January 1980, letting the PSBR reflect the economic recession, the 'dry' side stressed that the PSBR was already too high, was inflationary, and detrimental to industrial investment.[91]

Interestingly, in October 1981, after the so-called 'purge of the wets' that secured a Thatcherite Cabinet majority, the Cabinet objected Chancellor proposals for cutting public expenditure in 1982/1983. Howe favoured a 1982/1983 PSBR no greater than £9bn (the figure foreseen in the 1981 budget) to avoid higher debt servicing costs in a context of excessively high tax burden. He acknowledged that this was not a precise figure and did not 'represent the outcome of the application of any particular economic theory'; it only 'represented a practical judgment of what it might be possible to borrow in the financial markets at reasonable levels of interest rates'.[92] But the Chancellor's proposals cut public capital expenditure ignored previous agreements that public capital spending should increase and the likely negative consequences for employment and economic activity. Cabinet members thought it right to aim for a PSBR around £9bn 'provided that the figure was not regarded as sacrosanct'.[93] The uncertainty inherent in PSBR forecasts and some economic commentators' expectations of a higher figure meant that a higher deficit could be acceptable if other considerations, besides the deficit number itself, suggested it. It was essential for fiscal policy to 'give a psychological lift to the morale of private industry', still greatly affected by the deflationary 1981 budget.[94] The government had to take its goal of stimulating wealth creation seriously. This required not implementing policies that could be seen as 'socially divisive' for 'bearing more harshly on the poorer members of the community'.[95]

However difficult controlling the PSBR might be, there were core ideological reasons behind the government's decision to stick to PSBR targets. Among many other 'misconceptions', the Chief Economic Adviser to the PM, Alan Walters, argued that a critical misapprehension had gone unrebutted in Cabinet discussions on public spending. The 'quite correct belief that the outcome of the PSBR is subject to very large errors does not imply that

[91] TNA: CAB128/67/3, 'Conclusions of Cabinet Meeting, CC(80)3', 24 January 1980.
[92] TNA: CAB128/71/13, 'Conclusions of Cabinet Meeting, CC(81)33', 20 October 1981.
[93] TNA: CAB128/71/13.
[94] TNA: CAB128/71/13.
[95] TNA: CAB128/71/13.

one should not aim for a precise PSBR'.[96] A precise PSBR target was 'of the utmost importance' regardless of how uncertain the grounds for setting it.[97] The goal was 'not to get a precise outcome but first to create the appropriate policies, and secondly to indicate those policies to the markets of the world. It is the policies that matter. The outcome will be affected by all sorts of events over which we can have very little or no control'.[98]

But criticisms to the government's obsession with the PSBR did not stop there. Conservative-friendly *The Times* columnist, Ronald Butt, criticised the conventions underlying the indicator. In deciding whether borrowing was acceptable, the PSBR was 'both illogic and unscientific' (Butt, 1981). He called to re-examine it, particularly its treatment of all borrowings as equal regardless of their purposes. It should distinguish current from capital transactions and borrowing for investment purposes should not be discarded for the sole motive that they increased the PSBR. Investment borrowing should be treated differently from borrowing to fund current spending. Moreover, the conventions to compile the PSBR undermined 'confidence in its validity as an economic indicator' (Butt, 1981). The problem was not only that it did not distinguish between current/capital transactions, but also that its scope—what included/excluded—was arbitrary. While inclusion depended on whether the government had more than 50% of the equity of a public corporation, British Aerospace's demand for long-term finance, for example, would be financed from the same sources regardless of whether they were included in the PSBR. The government should increase productive public investment instead of cutting it 'to pay for current spending which ministers are politically frightened of resisting' (Butt, 1981).

Butt's criticisms, as those of some members of government (Slater, 2018, p. 277), are relevant because they came from government supporters and were carefully presented as different from calls for reflation. It was about recasting the accounting conventions underlying policy to fit the economic circumstances. 'The conquest of inflation will not be a real victory if economic recovery dies in the battle' (Butt, 1981). Similarly, a *The Times* editorial criticised the government for including public investment in its struggles to cut public spending and ignoring the fundamental difference between current consumption and investment spending. The brunt of the burden of expenditure cuts was being borne by investment, not current spending. Curtailing public investment to control the PSBR was 'a recipe for disaster' (The Times, 1981). Opposition MPs raised similar concerns and stressed that the deficit indicator should distinguish between investment and consumption borrowing purposes (HC, 1982, col. 227).

In 1988 Chancellor Lawson officially reinscribed the balance the budget doctrine. The 'catastrophe' of the mid-1970s had resulted, to a large extent, from the increasing disregard for this rule (HC, 1988, col. 995). Balanced budgets buttressed a sound monetary policy and provided a useful medium-term discipline. Zero PSBR would be the new fiscal rule. Lawson

[96] MTFA, 'Walters to Scholar, "Cabinet Meeting on Public Expenditure"', 20 October 1981, https://-www.margaretthatcher.org/document/127840.
[97] MTFA.
[98] MTFA.

championed the PSBR as the main indicator of the retreat of the state and flirted with the Laffer curve. Balanced budgets underpinned 'an enviable virtuous cycle in public finance', as lower government borrowing and taxation 'create both the scope and the incentive for the private sector to expand', which in turn generated 'higher revenues which permit further reductions in borrowing or tax' (HC, 1988, col. 996). According to Lawson, he succeeded in reinscribing balanced budgets despite Treasury officials' disbelief and distrust of the arbitrariness of the PSBR definition. Officials deemed it 'a useful weapon in the unending battle to control public spending', particularly after 'the alleged connection between public borrowing and the level of short-term interest rates became increasingly implausible' (Lawson, 1992, p. 812). Despite ideological and economic differences, political and bureaucratic interests were aligned.

The salience of the PSBR as the quintessential indicator of economic policy underpinned the government-led process of denationalisation of the national economy and intensified deindustrialisation. Asset sales and privatisation more generally, which proceeds were classified as negative expenditure, were partly justified by reference to the PSBR. As reducing the PSBR came to symbolise the government's economic policy, the case for privatising public corporations and, thereby, re-classify them into the private sector and out of the PSBR grew stronger (Bootle, 1985, p. 83). Public investment and development finance were similarly strangled in the name of fiscal and monetary rectitude. PSBR targets were a crucial tool for framing spending, monetary, and privatisation policy. They were a lever to discipline within-Cabinet spending pressures and a useful reference in the public campaign for privatisation. A balanced budgets rule provided 'a readily comprehensible rule of thumb which is less likely to be fudged than any other more complicated rule which would mean nothing to the average voter' (Lawson, 1992, pp. 812, 70).

The focus on the PSBR and the consequent emphasis on the fungibility of public money allowed policymakers to manage conflicts within and outside government. The PSBR was both a containment dyke and enabling tool. In different moments of the 1980s, PSBR targets were promoted for different reasons. This was particularly so after the fiscal deficit became notably low by international comparison and the argument that large PSBR always caused higher inflation and unduly high interest rates became untenable. Large PSBRs embodied all things wrong with economic policy since the early post-war years. Those concerned with inflation, were told that a large PSBR was necessarily inflationary, no matter what the borrowed money bought. Those concerned with economic recession and deindustrialisation were told that a large PSBR was the fundamental and prime cause of high interest rates, which were 'incompatible' with economic growth.[99] Those concerned with failing public services were told that, however noble their concerns, additional spending would increase the PSBR, monetary growth, and inflation, thereby adding more strain to public services. For their part, people worried about the tax burden were told that a large PSBR was the fastest route to increased taxation. Only low PSBRs built the conditions for tax cuts. Those with more general anti-state beliefs were told that a large PSBR was the key indicator of undesirable state intrusion in the economy and society. Those dealing with public expenditure control were told that PSBR targets

[99] TNA: CAB128/67/3, 'Conclusions of Cabinet Meeting, CC(80)3'.

strengthened their oversight powers over other public bodies.

Many aspects of the Conservative strategy were not implemented. Reducing taxation was, ideologically speaking, the original measure of rolling back the state. 1970s Thatcherism equated high taxes with socialism and pledged to cut taxes to leave more resources for individuals to spend as they like and for restoring incentives for work and investment.[100] In this crucial aspect, and besides all the accompanying rhetoric, there was not a roll back of the state (Daunton, 2002, p. 338, 2017; Tomlinson, 2017, p. 75). Using contemporary (not historical) concepts, while total managed public expenditure went from 41.5% of GDP in 1978/1979 to 35.6% of GDP in 1996/1997, tax revenues as scored by the national accounts went from 30.4% of GDP in 1978/1979 to 33% in 1996/1997 (OBR, 2020). Of course, beyond the overall tax and spending levels, Conservative governments did restructure them. While defence spending rose significantly in the Thatcher years, the tax structure became more regressive. Regardless of the problems they encountered to implement it, the Conservative economic strategy was not cold-blooded but selectively anti-statist. The Conservatives wanted to reduce public ownership and welfare spending and to reject short-term economic stabilisation and purposeful developmental policies. But they always wanted to increase defence spending and programmes and boost, again financially and organisationally, law and order. Along the way, however, government needed an overarching totem or narrative to embody their approach. One that could supersede these internal contradictions and give a sense of coherence. After the money supply failed to provide such overarching framework, the PSBR became the pillar of economic policy. Clothed up in monetarist language and fiscal conservative notions, it was instrumental to the government's desires to present itself as a radical break with the past.[101]

6. Conclusion

This chapter, and part II, studied how symbolic fiscal practices—the many rules, technologies, practices, and devices that compose them—organised and gave meaning to the complex and open-ended process of government budgeting in which sovereign debt and borrowing took place. Since the decision to tie up budgetary reporting and national income accounting in the 1960s, the differences between the boundaries of government and the whole public sector increasingly disappeared from public debate. The incompleteness of the 1960s-overhaul of public finance statistics bequeathed symbolic fiscal practices with a wide monetary indicator at the core of economic policy. These conventions scored twice the fiscal deficit that a more traditional concept would have count but had been initially accompanied by efforts to distinguish public money according to its sources and purposes. The argument that the scope of British budgetary reporting was broader was at the centre of consequential policy debates

[100] E.g., MTFA, 'Thatcher, TV Interview for Thames TV This Week', 5 February 1976, https://www.margaret-thatcher.org/document/102953; MTFS, 'Conservative Policy Statement, "The Right Approach"', 4 October 1976, https://www.margaretthatcher.org/document/109439; MTFA, 'Thatcher, Speech to Scottish Conservative Party Conference', 12 May 1979, https://www.margaretthatcher.org/document/104082.

[101] See, for example, a paper commissioned by the Centre for Policy Studies, created in the mid-1970s by Thatcher and others, and presented at a seminar organised by the PM's Policy Unit on May 1981. The prominence of the PSBR symbolised the transition from a Keynesian to a monetarist economic policy philosophy (Peacock & Shaw, 1981).

within the Treasury, in the OECD working party 3, and in dealings with the IMF. UK negotiators and representatives repeatedly made the case that it was *by definition* that the PSBR was so large relative to other countries, and that most of it was the counterpart to productive investment. The 1970s Labour governments lost control of the terms of economic policy debate. The combined effect of erratic budget estimates and the larger relative size of the PSBR were instrumental to fiscal conservatives' attempts to frame economic policy around confidence and statism. The same classification system that emerged along the drive for a developmental state schema was instrumental for what Edgerton calls the rulers' revolt (2018, pp. 442–465). It rendered fiscal conservatives' household analogy more evocative and helped obscuring the short- and long-term role of public finances.[102]

The consolidation of a public sector boundary in symbolic fiscal practices had long-term legacies. In a context in which debt and deficits acquired increasing relevance worldwide, British budgetary conventions introduced a bias against public ownership and public investment that lasts to this day. The main legacy of this PSBR-centred framework was the dramatic reduction in net public investment. From a pick of 7.5% of GDP in 1967/1968 it fell to less than 1% at the end of the century (see figure 8 above). The centre-stage status of the budget constraint legated by the mid-1970s had consequential impacts on subsequent electoral strategies and outcomes (Sloman, 2021). This was not an entirely unanticipated outcome. As we saw, in the latter half of the 1970s, politicians and officials discussed the idea of debudgetising public corporations to insulate them from future public spending cuts. In the end, the brunt of the adjustment burden fell on them. Even more so during the 1980s. In a context of economic crisis, curtailing public corporation and local authority investment and borrowing was the easiest way of reducing public spending and the PSBR. In the words of a former economic advisor to PM Thatcher, cuts on the capital account of public expenditure were ‘the easy ones’ (Minford, 1990, p. 96). The relative weight of the three components of public borrowing inverted (see figure 14). While the 1960s boom in public investment was matched by significant central government savings aimed at boosting public capital expenditure, the 1980s saw a dramatic reduction in local authority and public corporation borrowing, including privatisation receipts, to dissimulate the increase in central government borrowing on its own account.[103] This does not imply that the Conservative government let the automatic stabilisers work. On the contrary, it overrode them, a procyclical policy that deepened the recession (Tomlinson, 2017, p. 150).

[102] MTFA, ‘Thatcher, TV Interview for Thames TV This Week’; MTFA, ‘Thatcher, “Speech to Conservative Trade Unionists (Annual Conference)”’, 1980, https://www.margaretthatcher.org/document/104439.
[103] On the privatisation of public housing and public corporations, see Chick (2020, Chapter 6).

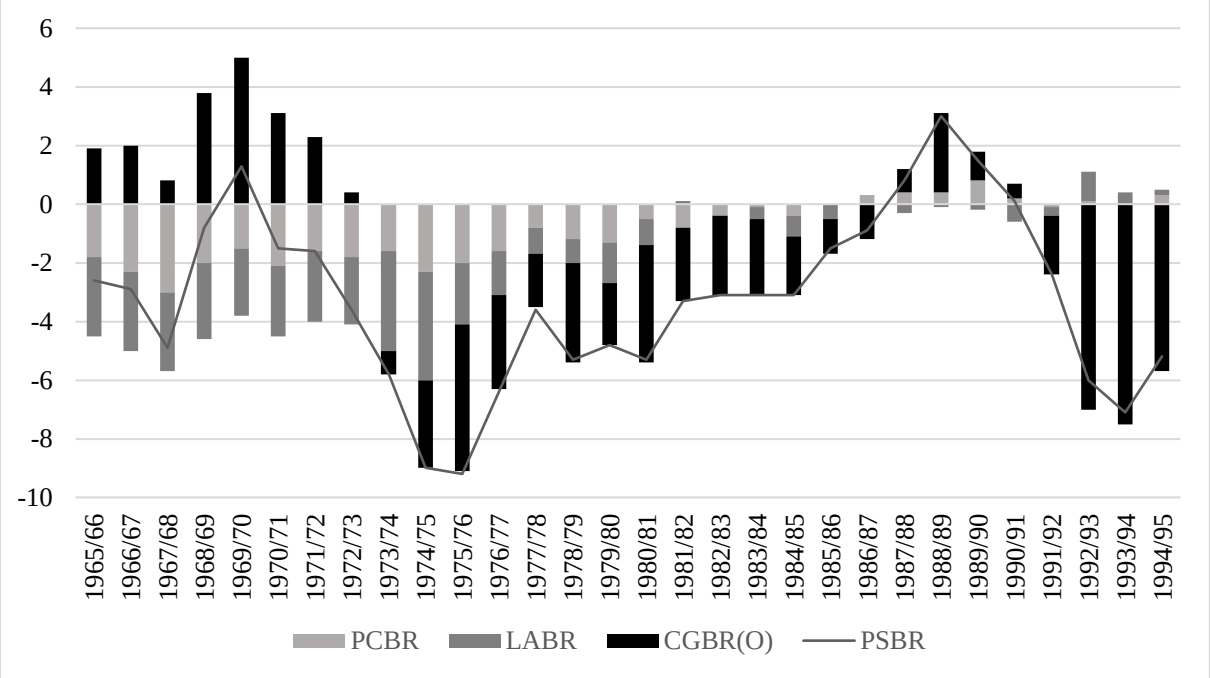

Figure 14. Composition of the PSBR, 1965-1995

Source: Author's elaboration based on (CSO, 1996, p. 126)

Note: PCBR = Public Corporations Borrowing Requirement, LABR = Local Authorities Borrowing Requirement, CGBR(O) = Central Government Borrowing Requirement (Own Account)

This case study helps us theorise the broader role of symbolic fiscal practices. It shows that budgetary conventions mediate the relations between the economic role of the state and general and expert opinion, between guardians and spenders, between certain within-government elite coalitions and others, and between debtor governments and their creditors. The story of the PSBR shows how consequential budgetary conventions can be. In the case of economic policy, there are potential conflicts between policymakers' need for numbers to inform decision-making, the government's obligation to allow democratic debate, the limitations and moral judgments underlying the numbers, and the later uses and understandings of them. Wildavsky once argued that the most visible administrative procedures governing national budgeting are more than mere bureaucratic instances; they represent ‘a kind of highly moralized and ritualized process of political theater’ (Quinn, 2017, p. 53; Wildavsky, 1964, pp. 84–90). British accounting and budgetary conventions had significant effects. As a non-neutral classification system, symbolic fiscal practices influenced how people thought of the economy, government, and economic policy. National budgets frame economic policy in a certain way, highlighting, playing down, or even ignoring certain aspects of policy. They encourage specific ways of thinking about the economy and economic policy.

This story shows that the views underpinning macroeconomic indicators may be more contested and malleable than has been thought hitherto. The literature on macroeconomic indicators theorises statistics as a government tool ‘to manage unruly publics’ (Demortain, 2019, p. 975) and as ‘political artefacts’ that reify power relations (Mügge, 2020). The story of the PSBR shows that this is an insufficient theorisation. While statistical standards are sticky partly because of their normative underpinnings (Mügge, 2016; Mügge & Linsi, 2020),

macroeconomic indicators' connotations and underlying moral values should not be taken as monolithic. They may change over time. Budgetary conventions' and the PSBR's connotations for economic policy changed dramatically. The role of the PSBR as the main fiscal indicator, and the subsequent bias against short-term demand management and medium-term developmental policies, was neither inevitable nor accidental. The PSBR was the outcome of the 1960s-drive for developmental policies. Its de facto role as main fiscal indicator resulted from Treasury officials' (mis)calculation that a Keynesian indicator was unnecessary in the British context. They missed that institutionalised categorical distinctions have claims-making consequences. No matter the conventions that explained why the British budgetary deficit and public spending figures were so large relative to other countries, fiscal conservatives, financial investors, and even Labour politicians overlooked statistical oddities and argued that the size of the state threatened the principles of a mixed economy and the foundations of democracy.

The process of structuring the budget along modern macroeconomic and developmental considerations was incomplete. As the three chapters comprising part II show, the PSBR was invented and established as the (default) main fiscal indicator as a result of developmentalist attempts to reform the public infrastructure of economic policy and, thereby, combat conservative notions of the government's economic role. Its position as the core fiscal indicator was an unintended consequence of officials' resistance to detach budgetary accounting from national accounting conventions. They used knowledge practices as a straitjacket for budgetary reporting and economic policy framing. Worried about their oversight powers, Treasury officials mobilised the epistemic authority of national accounting as the only objective ground for policy and prevented government from developing alternative symbolic practices specifically crafted to manage public debate. This type of boundary policing continues to this day, albeit with more explicit political overtones. In the words of the chief economist of the Office for National Statistics (the former CSO), one of the main benefits of using a public sector boundary for budgetary reporting is that it shields fiscal policy from incentives ‘to set up public corporations where not required’ (Vaughan, 2017).

PART III

SHRINKING POLICY SPACE: THE 1970S RELATIONAL CONTEXT OF DEBT

CHAPTER 6. TRAPPED BETWEEN MONETARY GROWTH AND CROWDING OUT: THE 1970S ECONOMIC POLICY TRILEMMA

1. Introduction

In September 1979, former Chancellor of the Exchequer (1974-1979), Denis Healey, identified the main constraints to active fiscal policies involving borrowing. On the one hand, the deficit had to be financed by borrowing from the non-bank sector, for if financed 'simply by printing money' it would lead to inflation and unemployment.[1] On the other hand, as lenders set borrowing terms, even non-inflationary borrowing could have negative consequences. Creditors may (1) demand high interest rates, which added to public expenditure via debt servicing and affected industrial investment, (2) lend to the government at the expense of new industrial investment and economic growth, and/or (3) demand policy changes that would offset the desired increase in output. The authorities had not in their power to define whether the size of a prospective deficit was safe. While a mixed economy was still the best way of dealing with Britain's economic problems, in the case of fiscal policy, the authorities were not free to set the boundary 'between state intervention and the market'.[2]

This chapter studies how and why attempts at implementing active fiscal policies after the 1973 oil shock failed. I trace the strategic interactions between policymakers intending to legitimise an active fiscal policy and uncooperative financial markets. I argue that the institutional and cognitive underpinnings of the relational setting of sovereign debt shaped government elites' (and financial investors') understandings of economic policy options. If part II studied how symbolic fiscal practices structured budgetary politics in relation to both the sources and purposes of public finance, chapter 6 focuses on how concerns over the sources of government finance displaced narratives about borrowing purposes. At the root of this was the specific interlinkage between fiscal and monetary policy provided by the counterparts approach to the creation of money (hereafter, counterparts approach).[3] This provided an explicit, quantified, and seemingly direct link between fiscal and monetary policies via sovereign debt management (SDM) and the size of the fiscal deficit (PSBR). While SDM is conventionally defined as the policy machinery and process behind decisions about how and from whom government borrows money (Fastenrath et al., 2017, p. 274), it became a weapon to delegitimise any kind of government borrowing. Usually concerned with the structure, not the level of debt, SDM concerns became a reason to discourage government borrowing.

Three factors were critical to the emergence of financial constraints. The introduction of

[1] T639/11 MTFA, 'Denis Healey, Labour Shadow Chancellor, Fourth Dame Sara Barker Memorial Lecture', 8 September 1979, https://www.margaretthatcher.org/source/hmtpo/t639-0011.
[2] MTFA.
[3] I follow Tobin (1971, p. 426) and historical actors in working with a broad concept of monetary policy as covering interest rate policy, sovereign debt management, and direct quantitative and qualitative controls on bank lending.

Competition and Credit Control (CCC) in 1971 changed the institutional architecture of government debt markets, a 'most likely locus of financial market influence' on government policies (Mosley, 2000, p. 741). This legacy laid the infrastructural conditions for the influence of financial markets on economic policy. Linking those infrastructural conditions to the perception and actions of both financial investors and policymakers were two influential analytical devices: the counterparts approach, and the financial crowding out hypothesis. The analytical link between government borrowing and monetary expansion provided by the counterparts approach, on top of the perceived causal relationship between the money supply and inflation, pushed policymakers to try to sell as much debt as possible to the non-bank financial sector to restrain monetary growth. This policy was called funding the deficit. To do so, they needed to offer non-bank investors attractive returns (interest rates). For its part, the perceived causal link between large sales of government debt to non-bank investors and high interest rates pushed policymakers to avoid over-relying on the financial markets so as not to crowd out private sector investment borrowing. Overall, the interaction between actual or expected monetisation and crowding out made lowering the fiscal deficit the only feasible policy. Amid a turn towards intensified market-based government finance, these analytical tools increased the infrastructural power of finance and constrained the government's policy space (Braun, 2020). This substantiates the claim that the 1970s saw 'a quantum jump' in the influence of financial markets on economic policy (Keegan & Pennant-Rea, 1979, p. 132).

The chapter's contribution is fourfold. First, while much has been written about the influence of the financial interests grouped in the City of London on government policy (e.g., Anderson, 1964; Cain & Hopkins, 2016; Ingham, 1984), there is little archives-based research on the relationship between financial markets and government in the 1970s. Joining recent efforts to remedy this gap (Davies, 2017; Green, 2020; Needham, 2014), I draw on original archival evidence to analyse the emergence of financial constraints. Second, the chapter traces the structural and cognitive conditions that influenced how policymakers and financial investors made sense of the situation and possible actions.[4] While researchers have traditionally conceived the counterparts approach to broad money as either a monetarist creation, the embodiment of a specifically British form of monetarism, or simply a tool used by financial markets to make sense of monetary developments (Batini & Nelson, 2005; Davies, 2017; Wansleben, 2018), this chapter shows that the counterparts approach had been at the core of SDM since the early post-war years. What changed in the 1970s was the institutional configuration of the gilt market and the rationale behind its use. Neither monetarists, financial analysts, or others created the counterparts approach in the 1970s. They politicised or repurposed a policy tool that had long been part of policymakers' repertoire of epistemic tools.

Third, while most research explains fiscal constraints by referring to the publication of fixed numeric monetary targets from 1976 onwards, I show that monetisation fears had been consequential before that. The Labour government was pursuing monetary control since taking office in 1974. By looking to the relational setting of SDM and the consequent relational pattern between government and financial investors, I show that official monetary targeting is better

[4] Lemoine (2017a) takes a similar approach. He studies the French case by focusing on policy instruments.

understood as a stage within a longer pattern, not a turning point. Fourth, existing explanations of the emergence and consequences of fiscal constraints tend to overlook the role of crowding out fears in narrowing the range of policy options that policymakers perceived as open. Shrinking the PSBR was not the logical complement to monetary control. It became so because the alternative of funding the deficit was undermined by uncooperative financial markets and crowding out allegations. I argue that the notion of an economic policy trilemma is useful to explain and theorise the way in which financial confidence became a binding constraint on government policy.

The chapter is structured as follows. The next section presents the domestic economic policy trilemma. Section 3 describes the institutional and cognitive underpinnings of the relational setting of sovereign debt. Sections 4-5 focus on two critical instances of these strategic interactions.

2. The Domestic Economic Policy Trilemma

This section presents the main argument of the chapter, namely that 1970s Labour policymakers thought of their economic policy options in terms of an economic policy trilemma. The government tried to achieve three intermediate policy goals. First, running a relatively large fiscal deficit to counteract the socio-economic effects of the recession and implement discretionary policies aimed at boosting manufacturing industry. Second, controlling the rate of monetary growth was an intermediate target of anti-inflation policy. Third, setting as low nominal interest rates as possible was deemed critical to encourage private investment borrowing and, thereby, increase medium-term productive capacity. In practice, the perceived relationship between these intermediate goals meant that policymakers could only achieve two at the same time. They could run a large PSBR and avoid a rise in interest rates by renouncing to fund the deficit with the consequence of a significant government-induced monetary expansion and widespread criticisms of inflationary policy. Alternatively, they could run a large PSBR and control money by offering high returns on government debt to non-bank investors—i.e., by funding the deficit—with the consequences of triggering allegations and/or fears of curbing industrial investment borrowing. The third logical option was shrinking the PSBR to achieve monetary control and avoid crowding out. Figure 15 offers a visual representation of the trilemma. It distinguishes between ultimate (yellow) and intermediate policy goals (blue).

There was a ‘triangular relationship’ between the PSBR, monetary growth, and nominal interest rates (Dow & Saville, 1990, p. 112). Underlying it was the fact that, once changes in short-term interest rates proved ineffective for monetary control, SDM became the government's most effective monetary policy lever. The government committed itself to fund the PSBR, i.e., to absorb liquidity from the economy and control monetary growth by selling as much government securities as possible to the non-bank financial sector. Because the marketability of government debt depended on investors' prospective returns, however, this led to historically high levels of nominal interest rates.

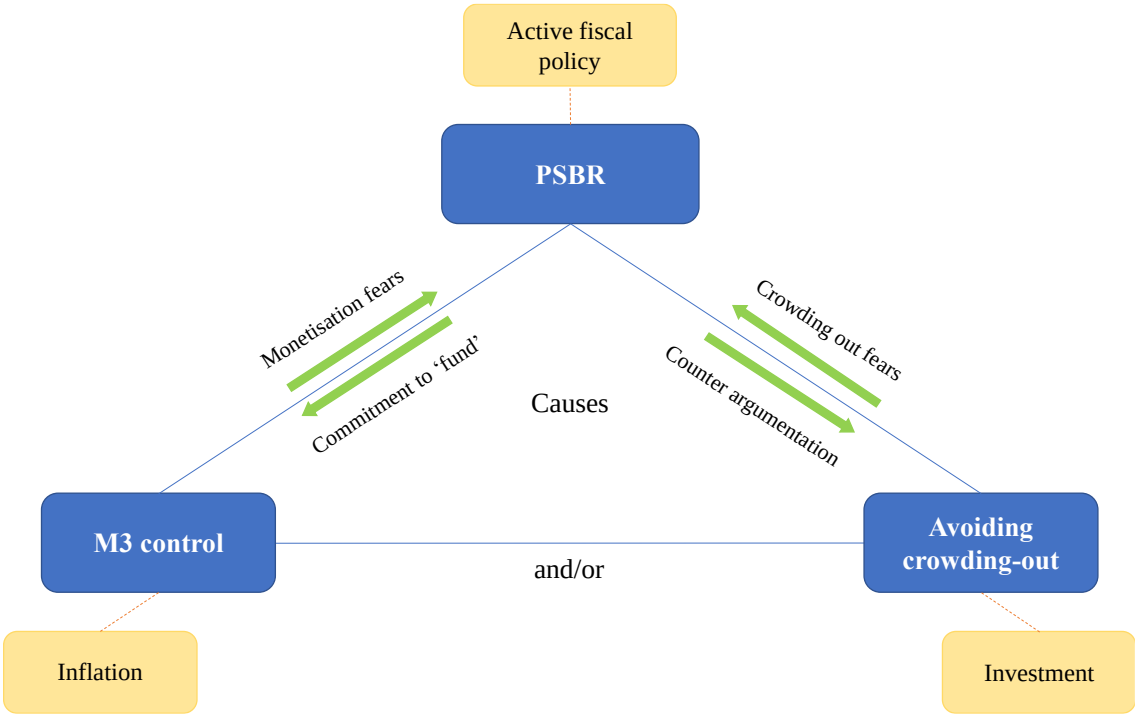

Figure 15. The 1970s economic policy trilemma
Source: Author's elaboration

The trilemma framed economic policymaking, public economic argument, and the strategic interaction between the government and its creditors. It emerged out of the most remarkable and politically consequential economic event of the 1970s, the joint rise of inflation and the PSBR (Tomlinson, 2007b, p. 440). This entrenched the belief that the monetary effects of budget deficits were the key cause behind monetary expansion and, with a lag of two years, uncontrolled inflation (see figure 16). Because relevant financial markets, in this case the gilt market and the foreign exchange market, centred their attention on statistics for outturn and prospective PSBR and monetary growth, the authorities' power to control money and avoid crowding out depended on the public acceptability of economic policy and the cooperation of the financial markets in the form of purchases of government debt. The authorities engaged in symbolic identification. While the goal of monetary control enjoyed high and widespread legitimacy, the means to achieve it, raising interest rates, enjoyed only limited legitimacy. It was difficult to convince investors that interest rates would not keep rising and, at the same time, high interest rates triggered crowding out fears. On the contrary, while the goal of avoiding crowding out enjoyed high legitimacy, the means to achieve it, an accommodative monetary policy that led to monetary expansion, was widely illegitimate. A large PSBR was seen as crowding industrial borrowing out of both non-bank and bank sources of borrowing. The PSBR was deemed inflationary and inconsistent with private investment borrowing.

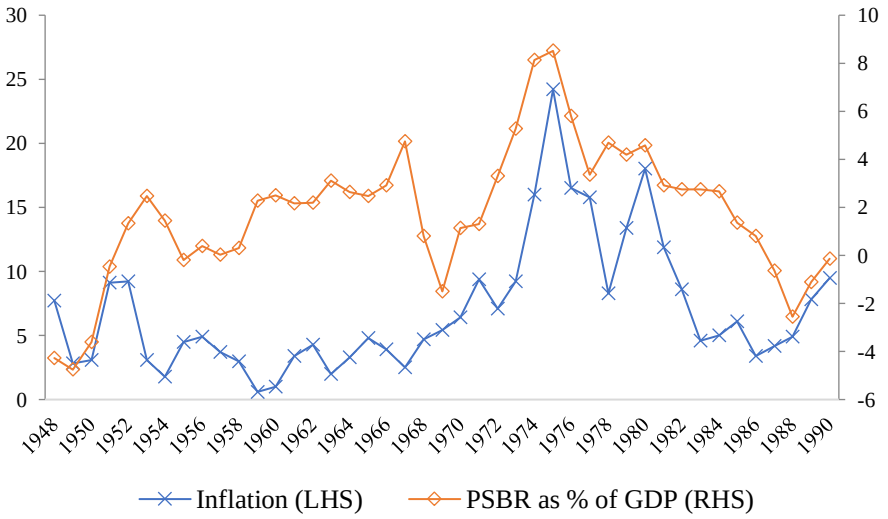

Figure 16. The joint rise of inflation and the PSBR
Source: Author's elaboration based on (OBR, 2020; ONS, 2020)

The outcome was monetary dominance. The PSBR was seen as the cause of inflation and crowding out. The only way of achieving both monetary goals was to partially renounce to the goal of pursuing an active fiscal policy. Policymakers realised that the relational setting of SDM rendered monetisation and crowding out fears interdependent and mutually reinforcing. If government prioritised avoiding a government-induced expansion of the money supply, it was blamed for starving the private sector and damaging medium-term economic prospects. If government prioritised the crowding out argument, it was accused of irresponsible inflationary policies. As government tried a conciliatory strategy to avoid abandoning its fiscal policy entirely, financial markets threatened with a gilt strike—i.e., investors' refusal to buy government debt—and forced interest rate rises. In the end, the only way of dealing with monetisation and crowding out fears was to reduce the PSBR.

3. The Relational Setting of Sovereign Debt

Sections four and five analyse two episodes of this relational pattern. To set the scene, this section describes in mostly expositional terms the institutional and cognitive underpinnings of the relational setting of sovereign debt.

3.1.The Institutional Configuration of the Gilt-Edged Market

After the official demise of Bretton Woods, the introduction of Competition and Credit Control (CCC) in September 1971 represented 'the biggest change in monetary policy' since World War II (Capie, 2010, p. 427). At the heart of it were dissatisfaction with quantitative credit controls, desires to promote a more competitive banking system, and renewed emphasis on controlling monetary growth as an intermediate anti-inflation target.[5] The authorities

[5] For a recent, much needed take on the political economy of banking in post-war UK, see Davies (2017, Chapter 2).

identified bank credit to the private and public sectors as the main drivers of monetary expansion and tried to devise methods for controlling them. The market mechanism of changes in interest rates was seen as the best way to do it (Allen, 2019, p. 157; Needham, 2015b, p. 90). In the words of the governor of the Bank of England (BoE), credit allocation would now be 'primarily determined by its cost' (O'Brien, 1971). In so doing, the authorities surrendered three powerful instruments of credit control: quantitative controls, most qualitative controls, and hire purchase controls (Moran, 1984, p. 31).

CCC was predicated upon the belief that the market mechanism of interest rate policy could control the private demand for finance (Copley, 2017; Hopkin, 1999; Hotson, 2017, p. 134). This was based on recent econometric evidence suggesting the existence of a stable demand-for-money function. But the introduction of CCC changed the behaviour of the banking system and disrupted the basis of stable demand-for-money equations, thus hindering the authorities' ability to regulate money and credit through interest rates. This led to the formulation, in 1975, of Goodhart's law 'that any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes' (Goodhart, 1984b, p. 96). The BoE became disillusioned with monetary targets or at least with its ability to control monetary aggregates. Already in December 1973 the authorities abandoned the key principles behind CCC and introduced a policy of direct control of the banking system called the Supplementary Special Deposits scheme or corset. This was nothing else but a return to quantitative controls. The collapse of demand-for-money equations meant that SDM and lowering the PSBR became the most reliable ways to control monetary expansion. This was particularly so after the PSBR became the main counterpart to the growth of the money stock in the early 1970s, which fed notions that government borrowing was inflationary. Overall, the authorities had now four ways of controlling the money supply: (1) SDM, changes in interest rates to fund the fiscal deficit, (2) calls for special deposits, (3) activating the corset, and (4) lowering the PSBR.

CCC had significant implications for SDM and the institutional architecture of government debt markets. The BoE was no longer committed to stabilise the price of government debt and minimise interest rate fluctuations. Until CCC the BoE was ready to buy (sell) government securities in the market at prices close to market prices whenever demand for gilts was weak (strong). Stability was perceived to be the backbone of gilt marketability and investor confidence. This followed from the authorities' notion that extrapolative expectations were the main driver of gilt market behaviour. From this perspective, a rise in interest rates spurred expectations of even higher interest rates, and a fall could self-reinforce itself much further than desired, potentially demoralising the market (Needham, 2015b, p. 93). With its commitment to perform as market maker of last resort, the BoE showed investors that government bonds were secure investment in terms of the (un)likelihood of capital losses and the liquidity of the market. The authorities hoped that this policy of leaning into the wind or Cashier's theory of market management maximised gilt sales in the long run and, therefore, diminished the government's dependence on bank credit and its accompanying increase in the money stock (BoE, 1966b, p. 141). But intensified BoE intervention in the gilt market in the 1960s led to a conflict between policies aimed at controlling credit via changes in interest rates and at stabilising the price of government securities. The government could not do both at the

same time (Allen, 2019, p. 132; Needham, 2015b, p. 99).

CCC inaugurated a new era of intensified market-based government finance. To make more active use of interest rates compatible with the authorities' goal and ability to fund the deficit, the BoE's position and role in the gilt-edged market changed. The BoE would no longer act as market maker of last resort. The marketability of government debt, and thereby the chance of avoiding so-called inflationary government financing, now depended on investors' expectations of prospective returns. Managing interest rate expectations was the key to maximise gilt sales. As gilt sales pressured the money supply down, the new approach allowed the authorities to intensify their use of gilt sales to control monetary expansion. In so doing, they gave relatively less importance to the cost of government borrowing. This solution came to be known as the Grand Old Duke of York theory of market management. Just as in the homonymous nursery rhyme, the authorities would raise interest rates (MLR) swiftly to the 'point at which market expectations would again be for a reduction', and then lower them in several tiny steps (see figure 17).[6] This induced large gilt sales because it offered investors high yields and immediate capital gains. As interest rates fell, bond prices rose and investors held 'a rapidly appreciating commodity' (Hall, 1992, p. 101; Allen, 2019, p. 168; Gowland, 1978, pp. 122–123).

This changed financial investors' behaviour (Davies, 2017, pp. 186–187; Hall, 1992, pp. 101–102). SDM became the most reliable tool of monetary control, and interest rate hikes to promote debt sales came to be interpreted as proof of government commitment to monetary control. While monetary policy was stated in terms of controlling a collection of liabilities—in the case of M3, notes and coin in circulation plus the public and private sectors' sterling and non-sterling deposits held with the UK banking sector—in practice it operated as it always had in the UK, i.e., by influencing the assets of the banking sector (the supply side, see next subsection). Once capital losses (and huge profits) became a regular possibility, investors tailored their actions to interest rate developments. Expected and actual changes in interest rates intensified market cohesion significantly. As anticipating interest rate (gilt price) movements was crucial, financial institutions acquired appropriate economic expertise. This stirred stockbroking companies to publish a growing number of client circulars which became widely influential in financial circles, policymaking, and public debate.

This legacy of CCC laid the structural conditions for the influence of financial markets on economic policy. Linking those structural conditions to the perceptions and actions of both policymakers and financial investors were two analytical devices, the asset-counterparts approach to the creation of money, and the financial crowding out hypothesis. The following subsections describe each in turn.

[6] TNA: T364/60, 'Downey to Airey, "Treasury/Bank Monetary Policy Group"', 30 April 1975; TNA: T386/13, 'Bridgeman to Couzens, "Money Supply: Gilt Sales and Interest Rates"', 23 December 1975.

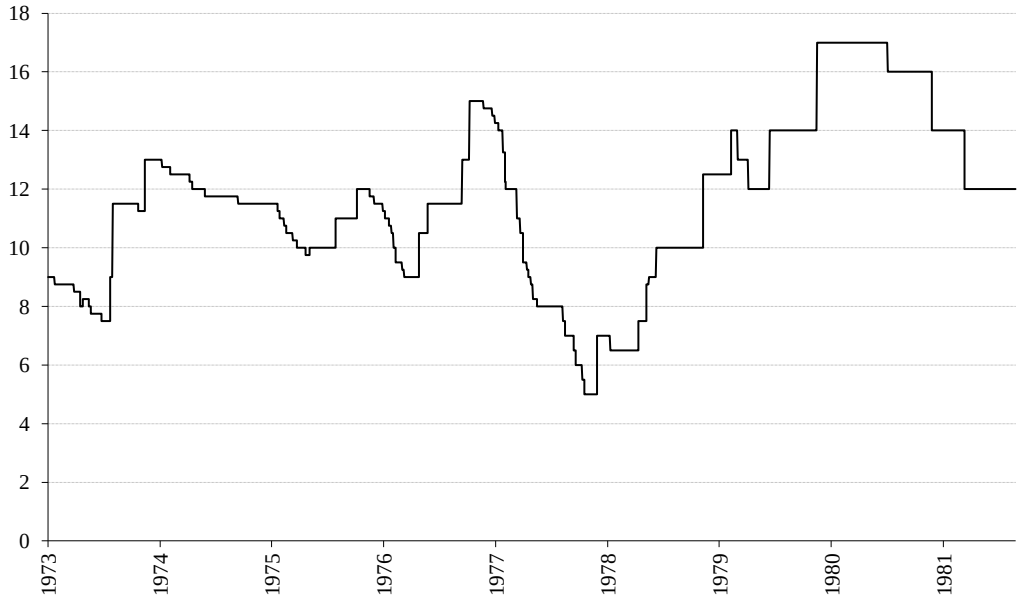

Figure 17. Minimum Lending Rate, 1973-1981
Source: (BoE, 2021)

3.2.The Origins and Legacies of a Policy Device: The Credit Counterparts Approach

Since the early post-war years, the conception and operation of SDM rested upon an analytical framework linking the balance sheets of the banks and of the government, the counterparts approach (Cmd 8509, 1952, paras 50–52). Post-war monetary policy was generally geared towards supporting demand management, with periods of more or less intense focus on inflation and the balance of payments (Dimsdale, 1991, p. 89). In 1951 the authorities reactivated interest rate policy and created the formal bank liquidity ratio to regain control over the money supply understood as bank deposits (BoE, 1957/1960a, p. 36). Controlling bank deposits through a statutory cash ratio stating the maximum cash a bank could lend in relation to its reserves was unviable because banks' large holdings of short-term government debt, mainly Treasury bills, allowed them to replenish their reserves by monetising Treasury bills (Dow, 1964, p. 230; Goodhart & Needham, 2017, pp. 337–338). The cash ratio was supplemented with a 28-32 liquidity ratio measuring the relationship between bank deposits and banks holdings of cash, money at call with the discount houses, eligible commercial bills, and Treasury bills. To render this lever actionable, the authorities implemented a funding operation. They converted £1000mn Treasury bills into Serial Funding Stock and instructed the banks to switch £500mn Treasury bills for them. Because Serial Funding Stocks would not count as liquid assets, banks' liquidity ratio fell from 40% to 32% in 1952. Thus, from 1951 onwards, the authorities limited bank credit creation by pressuring bank liquidity—through SDM—and imposing formal quantitative and informal qualitative controls (BoE, 1957/1960d, p. 9; Cobbold, 1957/1960, p. 3).

Credit control policy depended on government financing operations because banks were the residual source of government finance. Treasury bills increased bank liquidity and had an effect ‘several times as great on the potential volume of bank credit’ (BoE, 1957/1960c, p. 38,

1957/1960d, p. 9). The dominant goal of SDM was to fund: to lengthen the average outstanding maturities and cover as much of the deficit as possible through non-bank sources of borrowing. Given the 'obvious relevance' of the structure of government debt 'to the abnormal liquidity of the economy', funding was 'an aid to monetary control' (Cmnd 827, 1959, para. 533; BoE, 1962, p. 253, 1966a, p. 35; HMT, 1957/1960, p. 108), and became standard practice in the early post-war years and remained so for the decades to come (Howson, 2004). Because borrowing from the banking sector was deemed inflationary finance, as opposed to drawing on genuine savings (e.g., HC, 1956a, col. 867), the government's reliance on Treasury bills was relatively marginal in these decades. This constrained the growth of the clearing banks' liquid assets, with a consequent contractionary effect on the money supply. SDM came to be discussed in terms of whether, and how much, it added to the money supply. For example, the BoE rejected the idea of introducing a statutory ceiling to the national debt to mitigate the budget's monetary impacts. From a monetary policy perspective, the key was the structure of debt holders and type of securities, not the debt level (BoE, 1957/1960c, p. 38, 1957/1960b, p. 50).[7]

This was the origins of the flow of funds, supply side or counterparts approach to the analysis of money creation in the UK. In 1956 the Central Statistical Office (CSO) developed an accounting system to rationalise the principles of SDM operation in the form of 'rudimentary flow-of-funds matrices' to monitor monetary growth (Goodhart & Needham, 2017, p. 340). Based on these efforts, the US example, and suggestions by the (famously Keynesian) National Institute of Economic and Social Research, among others, the 1959 Radcliffe Report encouraged the elaboration of flow of funds accounts as part of the official knowledge infrastructures to make explicit 'the inseparability of debt management and monetary policy' (Cmnd 827, 1959, para. 865; BoE, 1972a, pp. 7, 14; NIESR, 1958/1960). The aim was to know how the financial operations of the public sector affected the liquidity of other sectors by specifying the pattern of government debt holders and types of debt issued. Quarterly figures for the financial accounts became available in 1965, and a year later monthly presentation of a balance sheet analysis 'interlinking the government and banking sector' was introduced as table 48 of *Financial Statistics* (Artis & Nobay, 1969, p. 42; Bell & Berman, 1966). A fuller presentation of broad money supply growth and domestic credit expansion in terms of its credit counterparts was included as tables 53-56 in the 1969 November issue of *Financial Statistics.* In words of a CSO statistician, while financial or flow-of-funds accounts were still an innovation in the UK, the 'one thing' they illustrated clearly, 'even if they do nothing else', was the relationship between transactions of the banking system and of the government (L. S. Berman, 1965, p. 359). This policy device was a critical building block of internal financial forecasts.

While showing the asset-counterparts to monetary growth was conventional wisdom, the table's title and the visual-grammatical arrangement of the items were not neutral. It placed government borrowing as the starting point of the analysis, thereby encouraging the idea that there was a direct link between the size of the budget balance and monetary expansion. The

[7] IMFA, 'SM/64/60, Staff Report, Part II', 22 June 1964, 39, https://archivescatalog.imf.org/Details/-ArchiveExecutive/125047707.

title—*Factors determining changes in the money supply*—turned a descriptive device whose results followed directly from definitions into an explanatory one (Sheppard, 1968, p. 299). By highlighting the separate monetary consequences of, e.g., public borrowing and bank lending to the private sector, the presentation ignored that they were interdependent. This was further intensified when a footnote stated that public borrowing and bank lending to the private and public sectors *determined* changes in money supply, thus bestowing explanatory power to an ex-post accounting identity (CSO, 1968b, p. 106). This ignored that the budget balance did not 'convey anything' about the structure of government borrowing (Artis & Nobay, 1969, p. 44). The table rendered invisible monetary policy decisions: monetary policy and SDM, not the budget balance, determined bank lending to the private sector and bank holdings of government debt.

The *Financial Statistics* presentation of M3 changes was the prototype of official BoE statistics and public pronouncements. Already in 1968, the BoE was explaining money supply developments in counterparts terms (BoE, 1968a). As government flow-of-funds reporting and forecasting gained notoriety in the context of CCC, in late 1972 the BoE introduced a new regular table, *Influences on money stock* (M3) *and domestic credit creation* (DCE), to its *Quarterly Bulletin.* The table presented changes in M3 as determined by the PSBR, less debt sales to non-bank creditors, and bank lending to the private sector (BoE, 1972b), and changes in DCE as determined by the PSBR, less purchases of public sector debt by the UK non-bank private sector, plus bank lending to the private sector. According to the BoE's deputy governor, the table showed 'some of the quantifiable elements' influencing monetary growth which the authorities could influence (Hollom, 1973).

The counterparts approach had the advantage of relating monetary expansion to specific policy instruments: the PSBR to fiscal policy; gilt sales to interest rates; bank lending to credit controls; the external counterparts to government intervention in the foreign exchange market (Cobham, 1991, p. 43). Table 3 presents the counterparts identities as included in mid-1970s internal financial forecasts.

Since the late 1960s, the authorities' published assessments, press releases, public appearances, and informal briefings increasingly explained monetary developments in asset-counterpart terms. This way of thinking about monetary developments soon spread out. While the media and City agents still gave little attention to it in the early 1970s, the decision to float the pound, its presence in the official knowledge infrastructures, the BoE's use of it in written and oral communications, and the political embarrassment of unexpected monetary expansion in 1973, boosted the salience of monetary aggregates (Dow et al., 2013, p. 37; R. Middleton, 1996, p. 551).[8] The official knowledge infrastructure encouraged financial analysts and economic commentators to write client circulars and media articles appealing to the counterparts approach as the main calculative device to make sense of current and prospective monetary developments and their policy implications. The monthly publication of BoE figures

[8] MTFA, 'Gordon Pepper, "The UK Gilt-Edged Market". W. Greenwell & Co. Monetary Bulletin', 17 November 1979, https://www.margaretthatcher.org/document/112571.

became an important event in the calendar of the gilt market (Hotson, 2017, p. 138). Media outlets, financial circulars, and informal discussions were held on the likely outlook of each credit counterpart and the likely consequences for interest rates, with massive impact on financial behaviour.

Table 3. The counterparts accounting identity

PSBR	
	less purchases of public sector debt by private sector (other than banks)
	plus bank lending to private sector and in £ to overseas sector
DCE	
	less external finance of public and banking sectors
	Plus increase in banking non-deposit liabilities
ΔM3	

Source: TNA: CAB197/56, 'Treasury/Bank Monetary Policy Group, "Financial Forecast October 1976", MPG(76)8', 29 October 1976; TNA: T371/23, 'Cassell to Shepherd, "Talks with IMF on Forecasts"', 10 November 1975.

Notes: There are several ways of presenting this accounting identity. For example, after the December 1976 IMF loan, broad money targets were set in 'sterling M3'. £M3 excluded UK residents' foreign currency deposits. See Dimsdale (1991) and Wass (2008, p. 273).

Finally, a fateful coincidence in the early 1970s lent legitimacy to monetarists and monetarist intuitions. The 1971-1973 time-path of M3 was followed, with a lag of two years, 'by a similar surge, and then decline in inflation' (Goodhart, 1986, p. 81; Walters, 1978, p. 227). Because this was not so for the narrower measure of the money supply, and because of a similar increase in the PSBR, the episode reinforced the focus on broad money, with its link to the PSBR, as the preferred monetary indicator. While the whole episode was mostly accidental, others saw it as 'vivid confirmation of the central tenet of monetarism' (Britton, 1991, p. 97; e.g., Rees-Mogg, 1976).

3.3.Financial Crowding Out: A Case of Relational Claims-Making

The financial crowding out argument first became prominent in the early 1970s in the form of academic papers by US-based economists (e.g., Spencer & Yohe, 1970). The term could imply different things, all of which shared the basic notion that increased government spending led to an undesired suppression of private spending (Gowland, 1978, pp. 73, 135). Indeed, some Treasury officials interpreted it 'as an assimilation of borrowing to taxation'.[9]

A June 1976 note by the Head of the Treasury Monetary Policy Division, Peter Middleton, discussed whether crowding out, which had become a vogue word , was a genuine problem for

[9] TNA: T461/128, 'Britton, "The PSBR"', 11 June 1976, para. 24.

policy. He distinguished between real and financial crowding out. Real crowding out was synonymous with excess aggregate demand or structural economic imbalances. This was not, however, the UK situation in the mid 1970s, with large unemployed resources and a PSBR about matched by private savings. There were two variants of the financial crowding out hypothesis, availability and cost. First, whenever demand was higher than supply, there 'simply' was 'not sufficient finance available to meet the demands of all potential borrowers'.[10] This variant assumed that the pool of savings or loanable funds was fixed. Whenever government captured more funds, there was less for others. Second, whenever one powerful category of borrowers pushed up the cost of finance, others were deterred from borrowing. This happened when the need to sell debt to the non-bank sector led government to raise the price it paid to borrow to levels that discouraged private borrowing. This variant assumed a constant money stock and, thus, predicted that funding a larger fiscal deficit would *necessarily* lead to higher interest rates (Dow & Saville, 1990, p. 100).

Most officials advised the Chancellor against using the crowding out hypothesis in public. Should this 'vulgar and misleading' variant of monetarism become part of the Chancellor's 'public vocabulary', it would be impossible to 'get rid of it'.[11] There was no evidence of financial crowding out in the first half of the 1970s. Real borrowing costs, allowing for the effect of taxation and inflation, were significantly negative, and in any case interest rates had no negative impact on the demand for investment borrowing. As to the availability version, government economists generally considered the fixed savings pool assumption fallacious (Dow & Saville, 1990, p. 100). In a context of high personal savings ratio *and* low business propensity to invest, a high PSBR should not be considered undue pressure on the availability of finance. The financial crowding out hypothesis was too simplistic and ignored that there were several ways of making a high PSBR consistent with monetary stability.[12]

In the eyes of policymakers, however, two factors weakened the case against public use of the crowding out hypothesis. First, not all officials agreed. Some argued that it was 'not difficult' to envisage situations in which the government could outbid 'the private sector for the available savings'.[13] An excessive PSBR could harm industrial investment. Middleton argued that a continuously large PSBR coupled with sustained commitment to monetary growth restriction could lead to crowding out 'in no more than a year's time'.[14] An expansionary fiscal policy would have to be offset by tight monetary policy, which would dampen private demand for finance.

Second, and more importantly, the sheer fact that so many critics and creditors accused

[10] TNA: T378/9, 'Middleton, "Crowding-out — A Genuine Problem for the Medium Term?"', 9 June 1976; MTFA, 'Gordon Pepper, "The UK Gilt-Edged Market". W. Greenwell & Co. Monetary Bulletin'.
[11] TNA: T378/9, 'Posner to Wood', 28 June 1976.
[12] TNA: T461/128, 'Britton, "The PSBR"', para. 13; TNA: T378/9, 'Hopkin to Posner, "The PSBR"', 21 June 1976, para. 3a; TNA: T378/9, 'Wass to PPS, "PSBR: To Quantify or Not to Quantify"', 28 June 1976; TNA: T378/9, 'Posner to Britton, "PSBR"', 7 July 1976.
[13] TNA: T378/9, 'Isaac to Britton, "Importance of the PSBR"', 22 June 1976; TNA: T378/9, 'Cassell to Posner, "PSBR"', 8 July 1976; TNA: T461/128, 'Cassell, "The Definition and Significance of the PSBR"', August 1975.
[14] TNA: T378/9, 'Middleton, "Crowding-out — A Genuine Problem for the Medium Term?"'

Labour's fiscal policy of crowding out forced policymakers to take the argument into consideration. The mere existence of crowding out fears could explain, at least partly, why industrialists were not investing. Crowding out appeared widely in financial circulars and massive media outlets. *The Economist* claimed that financial circles wondered how the Chancellor would reconcile his PSBR forecast and monetary control goals. It referred to brokers W. Greenwell's monetary bulletin, which foresaw 'either an explosion in the money supply', caused by the Chancellor's 'printing press', or 'an acute shortage of funds for industry' (The Economist, 1975b). Cutting the PSBR was the only way out of the conundrum. Another *Economist* article (1975a), entitled *Saving for the state to spend*, argued that 'many people' wondered how continuing massive government overspending would be financed without triggering a monetary explosion that would have disastrous consequences for industry. Similarly, the Chairman of the Stock Exchange lamented that just 'at the time when it cries out for money for industry', government was competing 'on virtually unmatchable terms for its own requirement in the fixed interest market' (Marriot, 1975).

The debate was not merely about economic theory. It was about whether, by definition, an increase in government borrowing displaced private investment borrowing. From both the expert and political camps, the opposition used the argument to make the case that there was a zero-sum game between the state and the private economy. Critics rejected the relative distribution of borrowing and spending in the economy and took advantage of the claims-making consequences of institutionalised categorical distinctions. Large PSBRs threatened the very existence of the private sector. The government was violating the basic resource distribution principles of a mixed economy. Beyond the sources and purposes of debt, they worried about who the borrower or user of money was and who decided the purposes of spending. Not only the availability of financial resources was in danger but also the right of independent private economic agents to decide how and for what purpose to spend. As a result, since very early on in the Labour government, avoiding crowding out became an explicit goal of policy, at least as presented in public (e.g., HC, 1975d, col. 701, 1976a, cols 236–237).

4. Strategic Interaction in the Financial Markets

The relational setting of sovereign debt emphasised the interlinkages between fiscal and monetary policy. The money supply became a key indicator of fiscal discipline after the collapse of the Bretton Woods exchange rate system (Davies, 2017, p. 194; R. Middleton, 1996, p. 551), and the counterparts approach rose to the centre of public economic policy debate.[15] The new flexible exchange rate regime heightened the relevance of the opinions and behaviour of the foreign exchange markets, just as the large fiscal deficits after the oil shock enhanced the influence of the gilt market given its new, more market-based architecture (Keegan & Pennant-Rea, 1979, pp. 132–133; R. Middleton, 1996, p. 546). This section and the following analyse two episodes in which the strategic interactions that emerged from this relational setting became especially consequential. While most of the literature identifies fiscal

[15] On the origins, features, and collapse of the Bretton Woods system of fixed but adjustable exchange rates and the reemergence of global finance, see Eichengreen (2019), Helleiner (1994, 2014), and Zoeller (2019).

constraints with pressure from the IMF and the publication of fixed numeric monetary targets in 1976 (e.g., Davies, 2017; Green, 2020; Harmon, 1997a), I show that public numeric monetary targets on credit creation, money growth, and government borrowing intensified strategic interactions between the government and financial markets that had taken place before (see figure 17). Rogers (2011, 2012) rejects explanations that stress the causal role of external pressures—e.g., the balance of payments crisis and IMF conditionality—as the main causes behind controversial policy reforms. Policymakers strategically used currency crises, IMF conditionality, and the crisis vocabulary accompanying them as tools to configure the appropriate structure of political opportunity to introduce policy reforms. While this argument helpfully overcomes the traditional international/domestic divide, it still stresses conditionality as the key immediate cause of the counter-inflationary policies and public spending cuts of the mid-1970s.

The global economic turmoil caused by the breakdown of the international monetary system and the oil shock of 1973 intensified divisions as to how governments should behave. The Labour government responded with strategic ambiguity (cf. Van Gunten, 2017) and presented economic policy in ambiguous terms. Reducing the rate of monetary growth was a monetary policy goal from the outset of the Labour government. Labour hit Heath's Conservative government (1970-1974) for 'fuelling the fires of inflation' by borrowing and printing 'hundreds of millions of pounds at home', thus giving the impression that all monetary growth caused inflation, but then claimed to have 'stopped printing money to finance *unnecessary* expenditure', thus putting the emphasis on the purposes to which monetary growth was put (Labour Party, 1974b; HC, 1975a, cols 279–280). Moreover, in parallel to its policy of monetary control, the government remained committed to cost-push theories of inflation and introduced policies aiming to control inflation without resorting to demand deflation. Incomes policy was the main anti-inflation policy. Indeed, the salience of inflation as the most pressing economic issue was partly the result of government efforts at shaping popular understandings of its significance and causes. While these efforts at managing public opinion were aimed at persuading wage earners of the need for wage restraint, they unintentionally ended up being functional to a very different political economy of inflation (Tomlinson, 2014). Overall, Chancellor Healey justified his eclectic policy diagnoses and initiatives by reference to the divisions among professional economists on almost all crucial economic policy challenges, including the basic causal relationships within the economy (HC, 1975a, cols 284–285).

Some Treasury officials questioned the wisdom of publicly aiming to reduce monetary growth amid an economic recession. But, from the outset, the Labour government took 'pride' from its ability to combine large fiscal deficits with monetary retrenchment or, in other words, to pursue active fiscal policies without resorting to 'inflationary' borrowing.[16] Indeed, in 1976 officials argued that a government that had followed a policy of monetary control for two years should remain consistent and not abandon it in response to different stages of the economic

[16] TNA: T378/9, 'Britton to Hopkin, "PSBR"', 8 July 1976.

cycle.[17]

Financial market collaboration was critical for the government's attempt at combining large fiscal deficits with monetary control without resorting (too much) to raising interest rates. If non-bank investors took up the necessary amounts of debt, the government could keep succeeding at monetary control while letting the automatic stabilisers work and stimulating industrial investment. For a while, it seemed like this would be possible. But when the recession proved less temporary than initially thought, high PSBR outturns and forecasts became increasingly problematic for financial confidence. In 1974 and 1975 the PSBR was systematically underestimated, and the Chancellor had to take back statements about the bounds of what he considered acceptable fiscal deficits (see chapter 5). According to the BoE governor, the compound confidence effects of consecutive wrong PSBR forecasts undermined the credibility of government statistics with the result that government estimates came to be interpreted as the floor of a much higher outturn. The need for a continuing contraction in the PSBR and public spending had not only become key for the credibility of the strategy to improve the balance of payments and make room for greater industrial investment; it was worth pursuing for its own sake. Public spending and borrowing were the main causes of inflation. High prospective PSBRs led to an uncooperative gilt market, making it more difficult to control monetary growth without significant interest rate hikes.[18] On top of that, financial circulars and the specialised press denounced large PSBRs as inconsistent with the authorities' stated aim of controlling money without excessive interest rates (Congdon, 1975; Jay, 1974).[19]

The need to nurture financial cooperation worried the Treasury-BoE Monetary Policy Group. While the economic recession made spending cuts or tax increases unlikely in July 1975, non-action in the fiscal side, besides no additional PSBR increases, was insufficient. Considering financial circles' behaviour and opinions, higher interest rates and direct controls on bank credit were the only way to make a large prospective PSBR consistent with monetary control. The Chancellor's ‘firm commitment’ to control monetary growth made such measures worthy despite their negative economic impact.[20] On one hand, honouring the Chancellor's promise of monetary control was crucial for domestic and external confidence. On the other, officials deemed it ‘arrogant to dismiss monetary influences when they are treated with respect in most other countries with a better performance than our own’.[21] Moreover, there were self-referential dynamics in the behaviour of financial investors. High prospective PSBRs led to monetisation fears within financial circles because they thought it was incompatible with the government's monetary policy. If the authorities resisted validating market expectations of higher interest rates, investors withheld from buying gilts, thereby producing dramatic monetary expansion, which provided an ex-post justification for their decision and made it

[17] TNA: T364/41, ‘Cassell, “The Financial Case for Reducing the Deficit”’, 30 June 1976; TNA: T378/9, ‘Posner to Hopkin and Wass, “Reducing the Fiscal Deficit”’, 30 June 1976.
[18] TNA: T233/2972, ‘Draft Letter from BoE Governor to Chancellor, “Public Spending and Borrowing”’, 21 July 1975.
[19] TNA: T374/77, ‘W. Greenwell & Co., “Monetary Bulletin 30, November 1974”’; TNA: T374/77; TNA: T374/77, ‘W. Greenwell & Co., “Monetary Bulletin 33, February 1975”’.
[20] TNA: T364/60, ‘Downey to Wass, “Monetary Policy Group Meeting 28 July”’, 25 July 1975.
[21] TNA: T364/60.

impossible to keep monetary expansion to 'non-inflationary' levels.[22] A projected high PSBR could have similar implications for external confidence. The combined effect of a dry up of the gilt and forex markets could lead money supply to increase dangerously.

1975 saw the first explicit public allegations of crowding out, as opposed to statements about its theoretical possibility (HC, 1975c, col. 598; The Economist, 1975a, 1975b). While many economists rejected such statements as baseless (Allsopp, 1975), these criticisms announced what was to come. The debate turned into a discussion about what was the proper economic role of the state. It was not policy divisions anymore, but the very nature and role of the state which was at the centre of public economic argument. Extreme monetarists like Tim Congdon, financial analyst and later advisor to the Thatcher government, argued that, as the government's (correct) commitment to monetary control led them to finance the deficit by selling debt to the non-bank sector, high PSBRs necessarily crowded out industrial investment. If M3 was kept stable, fiscal policy could not affect aggregate economic activity; it only displaced private investment. Fiscal stimulus was not only 'futile', even amid the deepest economic recession since 1929, but also damaging (Congdon, 1975). Internally, the BoE governor reacted to forecast rising interest rates by pressuring the Chancellor to cut public spending to avoid crowding out.[23] The Chairman of the US Federal Reserve, Arthur Burns, privately complained that countries were trying to run large fiscal deficits 'in a non-Keynesian world'.[24] He alerted that in this context fiscal stimuli might lead to negative results. Governments should behave according to the circumstances, which were nothing but a 'crisis of capitalism'.[25] Governments needed to accept higher unemployment. Burns referred to the US example, in which the main threat to economic recovery was not the policy of controlling monetary expansion, but the crowding out effect of unreasonably loose fiscal policies.

Just as in the previous years, during the 1976 currency and confidence crisis the acceptability of a determined PSBR estimate and outturn was discussed first and foremost by reference to its effects on broad monetary aggregates and interest rates. Mediated by interest rates (gilt sales), the PSBR was deemed the main determinant of changes in M3 (later £M3) and DCE. Large PSBRs were undesirable because of their impact on the monetary aggregates and interest rates.[26] While this was not the only perspective from which it was possible to argue in favour of reducing the fiscal deficit, public and internal discussion was framed in terms of the financial case for reducing it. Most Keynesian and monetarist economists agreed that reducing the PSBR was necessary, albeit for different reasons and with distinct timings. For example, the Chief Economic Advisor to the Treasury, Bryan Hopkin, made the economic, as opposed to financial, case for reducing the fiscal deficit from 1977/1978 onwards. He argued his case by referring to the balance of payments and the medium-term external position. By

[22] TNA: T233/2970, 'Housley to Wass, "Note on Forecasts for the PSBR in 1974/5 and 1975/6"', 3 December 1974.
[23] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 11 November 1975"'.
[24] TNA: T364/50, 'Rawlinson, "Sir Douglas Wass Call on Chairman Burns"', 8 September 1975.
[25] TNA: T364/50.
[26] Of course, concern with high interest rates was not only embodied by crowding out accusations. A more conventional approach interpreted higher nominal interest rates as unnecessary deflationary policy.

reducing the PSBR the government would be able to make the most of the benefits of North Sea oil that would start to flow in at the end of the decade.[27] Be that as it may, at least as presented in public, monetary policy had two crucial goals: ensuring that the PSBR did not crowd out industrial investment and exports, and restraining monetary expansion (HC, 1976a, col. 237, 1976e, col. 1534; HMT, 1977, p. 52).[28] In this logic, a given PSBR was considered acceptable to the extent that it was compatible with tight monetary control and acceptable interest rate levels. SDM concerns were not about how to accommodate the monetary impact of the PSBR anymore. It was necessary to reduce the PSBR and public spending themselves to facilitate SDM and monetary policy.

The collapse of financial confidence intensified the relational pattern. Present and prospective high PSBRs triggered financial confidence crises precisely when the authorities needed to sell more debt to non-bank investors. The constraint further intensified when government introduced public fixed numeric monetary targets. Interest rates had been steadily lowered since reaching 12% on October 5, 1975, and were set at 9% on March 8 1976. The confidence crisis that started that month made 'marked shifts in sentiment' in the gilt market very likely, with significant effects on the government's ability to fund the PSBR (see figure 17).[29] Interest rates were first raised in April and May to 10.5 and 11.5% respectively. When the July 22 announcement of a PSBR target and M3 guideline, coupled with cuts in planned public spending for 1977/1978 and 1978/1979, failed to convince the markets that the pressure of government borrowing would ease, interest rates were hiked again in September and October to 15%. Interest rate hikes and controls on bank credit were imposed to prove the authorities' determination to achieve the monetary guideline, which had become a target, announced in July (Richardson, 1976, p. 453). Later, as part of the December 1976 IMF loan, the government set targets for the PSBR and DCE and gave an £M3 forecast.[30]

Crucially, mid-1970s monetary targeting was not based in the authorities' belief in the effectiveness of interest rate changes to affect private demand for money in any predictable way. Monetary targets aimed to reassure the financial markets that the government 'would control' the PSBR 'and raise interest rates promptly to fund' it (Hotson, 2017, p. 139). They were a tool, wielded among others by the BoE governor, to force the government to reduce the PSBR. As the counterparts approach suggested monetary growth stemmed 'in the first instance' from the unfunded part of the PSBR,[31] financial and some government actors, notably the Chancellor, deemed reducing government borrowing from the banks a precondition for

[27] TNA: T364/41, 'Hopkin, "The Economic Advantages of a Reduction in the Fiscal Deficit"', 30 June 1976.
[28] TNA: CAB129/193, 'Note by the Chancellor, "Economic Measures and the IMF", CP(76)131', 13 December 1976.
[29] TNA: T386/194, 'Bridgeman to PS/Minister of State, "Tap Stocks"', 13 May 1976.
[30] The government had worked with public monetary targets before in the context of its dealings with the IMF in the 1960s. Then they worked with internal targets since the introduction of CCC and made public commitments to restrain monetary growth. This went further when the Chancellor established a DCE ceiling and PSBR estimate in his letter of intent to the IMF in December 1975.
[31] TNA: CAB197/56, 'Williams, "DCE and Money Supply"', 11 January 1977; TNA: CAB197/56, 'Williams, "Draft Note from Chancellor of the Duchy Lancaster to the PM. DCE and Money Supply"', 18 January 1977.

controlling inflation and stabilising financial markets.[32]

Davies (2017, pp. 204–205) interprets the absence of an explicit £M3 target in the 1976 IMF deal as proof that conditionality did not include formal monetary targets and that only the Chancellor's mention of an £M3 forecast reinstated them. The argument implies that, had the Chancellor not announced an £M3 forecast in December 1976, financial market power would have diminished. But DCE was a monetary target as well. It was the other broad aggregate for which the official counterparts accounting framework worked well. The IMF preferred DCE because it included external finance (extended by non-residents) and, therefore, was perceived to be a more appropriate indicator for countries in balance of payments distress: in a situation of balance of payments deficit the government acquired sterling finance from abroad, which reduced its need to borrow from the UK banking sector. This resulted in larger increases in DCE than in £M3. Government elites were eager to avoid having all PSBR, DCE, and £M3 as trigger clauses. However, considering that financial investors' interest in £M3 and the monthly money growth figures would hardly vanish, particularly after the government itself had introduced an M3 target in July, government elites decided to (1) delete any reference to M3 in the letter of intent, (2) make it clear that DCE would be the main target from then on, and (3) offer in the speech a range forecast for £M3, consistent with the new DCE target, to make it clear that the July M3 guideline was being discontinued.[33]

Policymakers thought they could not successfully ignore £M3 when announcing the December 1976 policy measures associated with the IMF loan. Partly encouraged by the authorities, financial investors had focused on M3 for years, and the Chancellor himself introduced what in practice was an M3 target in July 1976. The government could not ignore broad money and convince investors to do so as well. More importantly, from policymakers' perspective *in December 1976*, any of the two broad monetary targets had similar implications for the strategic interactions between government and the markets. Both elevated the role of SDM in monetary policy operation (BoE, 1979, pp. 138–139). The authorities aimed to avoid having both as quantified IMF conditionality. But this did not modify the commitment to reduce the PSBR to allow a simultaneous reduction in interest rates and monetary growth, and make room for private investment borrowing from the banking sector.[34] Davies (2017, p. 205) also argues that public numeric monetary targets were not devised to satisfy the markets but were a product of luck. He substantiates this claim by quoting the former Treasury Chief Economic Adviser, Bryan Hopkin. This is, however, a misquotation: what, according to Hopkin, was ‘mostly luck’ was the fact that the outcome of monetary control in the mid-1970s ‘proved not too far from the targets’ (1999, p. 312). It was the apparent success of monetary targeting that was mostly luck, not the emergence of monetary targets.

This policy framework empowered a highly concentrated and cohesive market. If

[32] TNA: CAB197/56, ‘Williams, “DCE and Money Supply”’; TNA: CAB197/56, ‘Williams, “Draft Note from Chancellor of the Duchy Lancaster to the PM. DCE and Money Supply”’.
[33] TNA: CAB197/56, ‘Couzens to PPS, “The Statement, DCE and M3”’, 3 December 1976.
[34] IMFA, ‘Letter of Intent’, 15 December 1976, paras 18–20, https://archivescatalog.imf.org/Details/Archive-Executive/125005219.

institutional investors, e.g., insurance companies, pension funds, and investment trust companies, held 17% of the total market value of issued government securities (all maturities) in 1957, they held 34% in 1972 and 46% in 1978. More strikingly, net purchases of long-dated gilts (over 15 years) by insurance companies and pension funds amounted to 65% of total net purchases in 1979 (Cmnd 7937, 1980, pp. 499, 628). In the context of an explicit government commitment to control monetary growth, the institutions' attempts to predict policy changes and the likely actions of their competitors made them prone to act together (Sargent, 1981, p. 103). They enjoyed a 'sure prospect of success' and acted accordingly (Budd, 1981, p. 128). Whenever they expected an interest rate rise or thought it necessary, they stopped their purchases of government debt. The mere knowledge that government needed to sell large amounts of debt encouraged them to pause purchases until the authorities validated their expectations of higher interest rates, which government were forced to do if they wanted to avoid excessive monetary growth. Whenever the government was seen as failing to meet its funding and monetary growth goals, the market internalised a belief about interest rates that the authorities would have to validate.

Gilt strikes or the threat of them forced changes in short-term interest rates (MLR). The SDM strategy was 'necessarily gilt-strike prone and spasmodic in operation'.[35] Whenever an increase in interest rates was seen as inevitable or desirable, the authorities faced the threat of a gilt strike. 'No one in his right mind would buy gilts till' interest rates were raised.[36] In this context, there was practically no way of avoiding a sharp increase in interest rates. The longer the authorities delayed the increase the deeper the gilt strike and the larger the hike needed. The outcome was significant interest rate fluctuations, which 'added to the general uncertainty in the economy' (Cmnd 7937, 1980, para. 934). As monetary growth responded only slowly to interest rate changes, this self-referential dynamic pressured the authorities to overkill. Whenever investors identified excess monetary growth, they anticipated countervailing policy measures and made it harder to curtail it. In the words of the BoE, once financial circles thought that £M3 was 'out of control', even if the authorities deemed the excess temporary, 'it might not only take several months, but a large rise in interest rates (overshooting) to re-establish control'.[37]

The need to resort to high interest rates furthered allegations of crowding out. According to the IMF, sustained PSBR-induced high level of nominal interest rates would suffocate the recovery of investment and employment. Cutting public expenditure to establish a persistent and substantial reduction in the PSBR was essential. The deficit had become a touchstone of government credibility and should not force interest rates to levels that inhibited industrial investment. The positive confidence effects of an improved balance of payments and lower

[35] MTFA, 'Ridley to Chancellor, "Notes of Conversation with Griffiths"', 9 November 1979, https://-www.margaretthatcher.org/document/112114.
[36] MTFA, 'Ridley to Chancellor, "Notes of Conversation with Burns"', 9 November 1979, https://www.margaret-thatcher.org/document/112114.
[37] TNA: T364/112, 'BoE, "Monetary Policy and the Exchange Rate"', 17 October 1977.

PSBR would foster investment via reducing interest rates.[38] Similar fears were voiced by, among others, brokers, the Confederation of British Industry, the Accepting Houses Committee, the Stock Exchange, and the Shadow Chancellor, who argued that reducing public spending was the only effective way of avoiding 'monetary incontinence' and 'the total crowding out of private sector investment' (HC, 1975c, col. 598; AHC, 1978; CBI, 1977; SE, 1978).[39]

As 'so many critics (including our creditors)' accused government of crowding out, officials and policymakers had to take the argument into consideration regardless of their own position as to its validity. Furthermore, the lack of historical experience with sustained high nominal interest rates made it more difficult to discard the existence of crowding out outrightly.[40] According to the Treasury, expectations of output and sales growth dominated investment decisions, but financial factors could be important in certain circumstances. The lack of 'firm econometric evidence' to support the existence of crowding contrasted 'both with the strong theoretical grounds for expecting' it and 'the frequent statements by businessmen that investment ha[d] been held back by restrictive financial conditions' (HMT, 1977, p. 48). Avoiding crowding out became an explicit goal of policy. The mere existence of crowding out fears could be a reason why industrialists were not investing. It was also possible that 'fears about the size of the PSBR next year' and its implication for interest rates cast 'forward a shadow, deterring industrialists from investing now'.[41] Whatever the empirical foundations of crowding out allegations, the effect was 'accentuated by fears of crowding out occurring in future years when investment projects being planned in 1976 would have to be financed' (HMT, 1977, p. 53).

5. Past the Crisis, Past the Strains?

The December 1976 measures were specifically geared at restoring government control over financial markets and redirecting economic resources towards manufacturing industry. Putting the PSBR 'on a clearly declining trend' would, it was hoped, bring interest rates down 'forthwith' and remove crowding out fears (HMT, 1977, p. 53). Measured by financial confidence, the financial crisis seemed to vanish much more rapidly than expected. According to the Chancellor, the 'success' of the measures was 'shown by the sales of gilts which have kept the monetary aggregates under tight control and by the fall in interest rates' (HC, 1977, col. 256). There was a huge fall in interest rates. Short-term interest rates reached 5% in October 1977, from 15% in October 1976. This was their lower level since 1964. These unexpected results meant that the DCE targets lost constraining power much sooner than

[38] TNA: CAB197/56, 'IMF, "Memorandum 1. Summary of Views"', 21 November 1976; TNA: CAB197/56, 'IMF, "Memorandum 2. Some Reasons Why the Forecasts Derived from the Treasury Model May Be Unduly Pessimistic on the Assumption That Substantial Changes in Policies Are Announced and Implemented"', 21 November 1976; TNA: CAB197/56, 'IMF, "Memorandum 3. Domestic Credit Expansion"', 21 November 1976; TNA: CAB197/56, 'IMF, "Memorandum Prepared by the IMF Staff Team in London"', 16 November 1976.
[39] TNA: T386/111, 'W. Greenwell & Co., "Evidence Submitted to the Wilson Committee"', 1977.
[40] TNA: T378/9, 'Couzens to Britton, "The PSBR"', 22 June 1976; TNA: T364/41, 'Hopkin to Wass, "The PSBR in Recession"', 9 November 1976.
[41] TNA: T364/60, 'Bridgeman to Wass, "MPG: 12 May 1976"', 11 May 1976.

expected, which strengthened the focus on £M3. But the post-IMF deal honeymoon was partly illusory. Government would soon be working hard to get financial investors' cooperation again, with policy decisions significantly influenced by policymakers' anticipation of what they perceived as the likely expectations and behaviours of investors in relation to government policy. A preliminary of what was to come had place in the winter of 1977-1978, when despite Treasury worries about its effect on mortgage rates and economic activity, the BoE convinced the Chancellor and PM to raise interest rates to 7% in November to boost gilt sales. After Treasury insistence, MLR was lowered to 6.5% on January 1978. This was an episode of the classic conflicts between the Treasury and the BoE. Besides the control of the monetary aggregates, the BoE complained that 'actual or attempted substantial sales' of government debt spurred criticism that the public sector was 'again crowding the private sector out of the capital market'.[42]

The April 1978 budget was mildly reflationary. The better financial outlook achieved by four years of 'painful and difficult' decisions had not brought similar trends in output and employment (HC, 1978a, cols 1183–1184). Aiming to encourage economic activity and reduce unemployment, the government introduced a £2.5bn stimulus through tax cuts and slight spending increases. The Chancellor foresaw good prospects for high gilt sales in 1978/1979, particularly if the next round of incomes policy went as planned. As the budget would not distress financial markets too much, a 1% increase in short-term interest rates to 7.5% was deemed enough to validate market interpretations of the monetary implications of a higher PSBR. The authorities expected this to be a new stable level for interest rates.[43] Because of the sensitivity of financial markets to the government's attitude towards monetary growth, the government set a new fixed numerical target for £M3. There were effectively two options: either repeating the 9-13% range of 1977/1978 or going for 8-12%. Anything higher would be seen as 'totally inconsistent' with previous government anti-inflationary commitments and 'produce an immediate adverse reaction'.[44] As 9-13 would be interpreted as a sign of weakening in the government's resolve on monetary policy, policymakers thought 8-12 would require a less tight policy stance. The Chancellor presented an 8-12 range as appropriate for reducing inflation, increasing growth, and providing 'ample room for the likely increase in bank lending to industry' (HC, 1978a, col. 1192). Crucially, to lessen the financial constraint, this would be a rolling target, rebased every six months. This allowed for greater flexibility. The timing and form of monetary target reviews were consequential. Economically, non-adjustable annual targets limited the government's capacity to deal with unforeseen events. Operationally, the need to 'hit a particular number' on a specified date could induce unnecessary decisions and intensify investors' influence over policy (Richardson, 1978, p. 37).

While budget reception was significantly worse than expected, at first the authorities resisted market pressure for raising interest rates. The PSBR forecast (£8.5bn) was significantly larger than the 1977/1978 outturn (£5.5bn) and, more importantly, there were widespread

[42] TNA: T364/111, 'BoE, "The Problem of Exchange Inflows"', 16 September 1977.
[43] TNA: PREM16/1605, 'Healey to PM, "Monetary Targets and Prospects"', 31 March 1978; TNA: PREM16/1605, 'Stowe to PM', 13 April 1978.
[44] TNA: PREM16/1605, 'Healey to PM, "Monetary Targets and Prospects"'.

suspicions that the government cooked it (Atkinson, 1978a, 1978b; Dow et al., 2013, p. 99). Economic commentators deemed fiscal and monetary policy inconsistent. The prospective PSBR, 'a key component of the money supply' (Atkinson, 1978a), and a 12% ceiling for £M3 growth were seen as 'rather too high for comfort' (Financial Editor, 1978a). A Prime Ministerial seminar held on 20 April 1978 discussed the reasons behind recent capital outflows, brokers' criticisms of fiscal policy, and post-budget developments in the gilt market.[45] The BoE governor did not think interest rate changes were necessary to stimulate gilt sales for the time being. The PM stated that, considering the floating exchange rate and the relatively good figures for foreign exchange reserves, balance of payment, and inflation, he was not worried by events in the financial markets. Should the government encounter problems to sell gilts, he was inclined to 'sit it out and not increase interest rates'.[46] At stake was the government's ability to set its policies out of their own assessments. This was supported by soundings with City people suggesting that market instability did not respond to weakening confidence in the British economy. The government was 'nowhere near the 1976 situation'.[47]

A big and unexpected deficit in the current account of the balance of payments in the first quarter of 1978, and a greater than expected growth of £M3 were the first signs that 1978 would test the authorities' resolve. This unsettled financial confidence, 'which had been particularly, and perhaps excessively, strong during 1977' (BoE, 1978a, p. 166). Even before the budget, investors had called for increases in interest rates to counteract deviant money supply figures relative to the monetary targets (Whitmore, 1978a). Exchange rate developments and 'renewed anxieties about the money supply led to fears of rises in interest rates', thus further discouraging investors from buying gilts (BoE, 1978b, p. 174). While the authorities had hoped that 1% increase in short-term interest rates would be sufficient, financial investors thought differently. MLR was raised again on May 5 and May 9 to 8.75% and 9% respectively, a 2.5% aggregate rise instead of the 1% preferred by the authorities at budget time. This, however, did not achieve the desired outcome in terms of gilt sales.

The Prime Ministerial seminar came back to the topic in May 22. All attendees agreed that further action was needed 'before too long to steady the markets'.[48] Economic commentators and opposition MPs accused the government of losing control of the money supply. City stockbrokers called for reimposing the corset and more aggressive interest rates to sell gilts (Whitmore, 1978b). Even though most Treasury officials thought the money supply had no important effect on inflation besides the long term, short-term money supply movements played 'a large part in determining the inflationary expectations of the small opinion-forming group of City commentators and the like'.[49] Callaghan complained at the financial markets' obsession with the money supply and repeated that all the other economic indicators looked

[45] After the 1976 crisis, the PM, James Callaghan, became more involved with economic policy. He organised recurrent seminars with the Chancellor of the Exchequer, the governor of the BoE, Harold Lever (Chancellor of the Duchy Lancaster and financial expert), and senior officials. These seminars largely decided economic policy changes thereafter.
[46] TNA: PREM16/1605, 'Wicks to Battishill', 20 April 1978.
[47] TNA: PREM16/1605, 'Wicks to PM', 28 April 1978.
[48] TNA: PREM16/1605, 'Wicks, "Meeting, 22 May 1978"'.
[49] TNA: T364/112, 'Watts, "Note of a Meeting"', 11 October 1977.

reasonably good. The Chancellor of the Exchequer and Harold Lever, Chancellor of the Duchy Lancaster and close financial adviser to the PM, agreed there was no economic case for raising interest rates. Even £M3 expansion in recent months had not been exceedingly large. According to Lever, experience showed that hiking interest rates was the wrong strategy to increase gilt sales. The government needed 'to convince the market that interest rates were at a peak'.[50] If the government 'surrendered to market pressures yet again', financial investors 'would come back once more' pressing for 'yet another' hike.[51] According to the Chancellor, however, the only way to reduce the ensuing pressure on the pound was for the government to be 'seen to be in control of the money supply'.[52] This presented a problem in relation to the PSBR, which financial circles deemed incompatible with monetary targets. Given the fixation of financial markets with monthly money supply figures, the Chancellor asked the Treasury to revise the system of government borrowing to allow SDM more influence over monthly £M3 trends.

In the short run, the government needed to publicly reassert its monetary commitments and reactivate the corset, which, while mostly cosmetic by then, the markets expected. In May 25, the government 'launched a two-pronged attack on the growing signs' of financial market instability (Blake, 1978). On the one hand, the Chancellor sent what was interpreted as another IMF letter of intent reaffirming the £8.5bn PSBR and £6bn DCE targets agreed in December 1976 and restated in the 1978 budget speech. He stressed that the IMF supported government policies (HC, 1978b, cols 1723–1725; The Times, 1978). On the other hand, the government announced that the short-term rate of interest would now be determined by administrative decision and would remain at 9% 'until further notice' (BoE, 1978b, p. 173). This decision formalised what had been happening in practice for a while. In the context of CCC, the authorities had attempted to lessen the visibility of their role in setting interest rates by changing the name of the Bank Rate to Minimum Lending Rate (MLR) and arguing that MLR would be set by a formula related to Treasury bill rates. Presenting interest rate changes as market-determined was an attempt to govern through depoliticised channels (Burnham, 2011). In the words of a former BoE official, this 'charade' and the accompanying formula had been effectively put to an end in 1976 when 'the traditional practice of signalling rate changes was reintroduced' (Hotson, 2017, p. 133; The Economist, 1977). By highlighting that MLR was determined administratively, the authorities aimed to draw attention to the already high level of interest rates and the government's role in setting them (Hall, 1982, p. 599). This would make government intentions clearer to the markets, discourage gilt strikes, and improve government debt sales. Both measures aimed at steadying the financial markets without committing the government to impose yet stricter policies.

As gilt sales remained weak, the Prime Ministerial seminar discussed monetary policy again on 5 June. A column by *The Times*' financial editor that day argued that the authorities' inability to sell gilts was alarming not only because of its effects on £M3 but also because of the clear parallels with the autumn of 1976. Institutional investors were refusing to buy

[50] TNA: PREM16/1605, 'Wicks, "Meeting, 22 May 1978"'.
[51] TNA: PREM16/1605.
[52] TNA: PREM16/1605.

government debt ‘almost regardless’ of how high interest rates (prospective returns) were set; they were protesting against what they considered ‘damaging economic policies’ (Financial Editor, 1978b). The gilt strike was pointing, again, to the need to reduce public spending to prevent the inflationary consequences of a government-induced monetary expansion. Investors refused to buy gilts because they thought the PSBR was incompatible with what they already deemed excessive monetary targets. The Chancellor said that the column was not unhelpful and noted that it might have been stimulated by a conversation of his with the BoE governor: it implied that persistent refusal to buy gilts could push the government to have another serious look at the question of directing institutional investment, an insinuation that the City would take seriously.[53] Similarly, Lever thought the column rightly framed the issue as being about creating the conditions for debt sales ‘by deflation’ (i.e., higher interest rates), with which he strongly disagreed, or by introducing a new gilt strategy and making clear to the market that, should the institutions continue ‘to sit on their hands’, the system of marketing sales would collapse.[54] Attendees agreed that it was necessary to pass the message to the leading institutional investors and, particularly, to their close advisors and opinion formers, the stockbroking houses.

At this point, Healey, reminded the attendees that they all had being conscious at the time of the budget that a £2.5bn stimulus ‘was at the upper end of the limits of financial prudence’.[55] On top of that, market thinking had been conditioned by ‘too much bad news in the last three months’, such as unhelpful statistics on money supply, external trade, and the additional burden imposed by opposition tax cuts.[56] This rendered the Chancellor's objective of selling £2bn gilts before August even more important, as the government needed to ‘re-establish its reputation for keeping control of the monetary aggregates even if this brought unpopularity in the short term’.[57]

In the end, market pressure forced the government to introduce a package of deflationary policies on June 8. MLR was raised yet again to 10%, the corset reactivated, and national insurance surcharge increased by 2.5%. This was received with joy by the financial markets. Government resumed large gilt sales. Investors' reaction showed again that the monetary policy framework gave them the power to ‘get the Budget arithmetic to add up again’ (Financial Times, 1978a). The dynamic, however, did not end there. MLR was raised again in November to 12.5, and in February 1979 to 14%. What brokers Philips and Drew described as the stop-go cycles of the gilt market continued. Market pressures persuaded the authorities of introducing fiscal and/or monetary measures regardless of what ‘strict economic considerations initially dictated’ (quoted in Davies, 2012, p. 31). This led PM Callaghan to complain that ‘it was extraordinary that a dozen or so anonymous people in the City institutions were able, by their decisions not to purchase gilt edged, to enforce their own judgments on the Government's

[53] On the (failed) attempts at financial reform by the Labour Party in the 1970s, see Davies (2017, Chapter 3).
[54] TNA: PREM16/1605, ‘Wicks, “Meeting, Monday 5 June 1978”’.
[55] TNA: PREM16/1605.
[56] TNA: PREM16/1605.
[57] TNA: PREM16/1605.

economic policy'.[58]

6. Conclusion

This chapter traced why the pattern that resulted from the relational setting of sovereign debt diminished the authorities' relative autonomy to determine fiscal policy and interest rates both before and after the overt crisis year of 1976. Financing a PSBR deemed too large by financial investors left the government trapped between two impossible options: choosing between raising interest rates and a government-induced monetary expansion.[59] The connection between broad monetary indicators and the PSBR provided by the counterparts approach meant that SDM was at the centre of monetary policy operation (P. Middleton & Odling-Smee, 1984, p. 375). The fact that the main lever to control money—non-bank investors' purchases of government debt—was out of the authorities' control put government in an unequal relationship with the financial markets. There was a circular and incremental relation between SDM and monetary targeting. While government saw gilt sales to the non-bank sector as the main lever to control monetary growth, non-bank investors would only buy gilts if they thought government had monetary expansion under control (Britton, 1991, p. 41). On top of that, widespread allegations of crowding out limited the government's ability to deal with uncooperative financial markets. As a result, the only option seen as responsible was reducing the fiscal deficit. The institutional and cognitive environment subordinated fiscal and SDM policies to monetary policy. While the size of the PSBR mostly reflected the effect of automatic stabilisers, the fiscal deficit was discussed in terms of the need to curtail government intervention in the economy. In the words of the editors of the *Financial Times* (1978b), if a monetary policy framework's 'sole aim' was 'to discipline politicians', the British case was a remarkable 'success'. The fact that the control of the monetary system depended on non-bank investors' purchases of relatively long-term government debt meant that economic policy was continuously subject to the markets' verdict. Not intentionally, institutional investors acquired considerable political power. Indeed, 'at times' it seemed that there was 'government by brokers' circulars' (Financial Times, 1978b).

Figure 18 presents two stylised versions of the relational pattern. Market expectations on the likely course of interest rates were influenced by the actual and prospective size of the PSBR, the likelihood of the government's ability to fund it, monthly developments in the monetary aggregates, expectations about incomes policy, and the likely prospect of the balance of payments. The figure presents stylised versions starting from high PSBR estimates (left-hand side of the figure), and monthly monetary developments (right-hand side of the figure). A high prospective fiscal deficit led to monetisation fears within financial circles. Their main concern was that it was incompatible with the government's commitment to control monetary expansion. The government would try to reassure the markets by restating its commitment to fund the deficit without taking any additional measures. However, either because they expected

[58] TNA: PREM16/1605.
[59] TNA: T233/2971, 'Bridgeman, "Draft C(75). May 1975. The Significance of the Borrowing Requirement. Note by the Chancellor"', 23 April 1975.

it or because they thought interest rates should rise, financial investors withheld their purchases of government debt. Thereby, they produced a dramatic monetary expansion, which provided an ex-post justification for their decision not to purchase government debt in the first place. In this situation, the government would try to calm the markets by validating expectations and raising interest rates. If the hike was deemed sufficient, investors would resume gilt purchases and the arithmetic of economic policy would add up again. If, on the contrary, investors deemed it insufficient, they continued or intensified their gilt strike, thus producing additional monetary expansion to an extent that forced government to hike interest rates yet again to whatever level it thought necessary to convince investors of buying government debt. But in any case, financial and non-financial actors associated the resulting high levels of nominal interest rates with crowding out. On the right-hand side, there is another of these patterns starting with deviant monthly monetary statistics vis-à-vis monetary targets. Because investors knew that policymakers used the counterparts approach to forecast and guide the operation of monetary policy, they assumed that a government committed to monetary control would raise interest rates whenever monetary statistics were higher than expected. They assumed a mechanistic month-by-month use of the counterparts approach.

The relational setting of sovereign debt placed the economic role of the state at the centre of public economic argument. Monetarist and non-monetarist actors increasingly agreed that it was government and the philosophy of government that needed to change, not specific policies. Allegedly technical discussions regarding how and from whom government should borrow became pressures to curtail government borrowing, regardless of its causes or purposes. Creditors' concerns over the effects of government borrowing structured the strategic interactions between policymakers and financial markets.

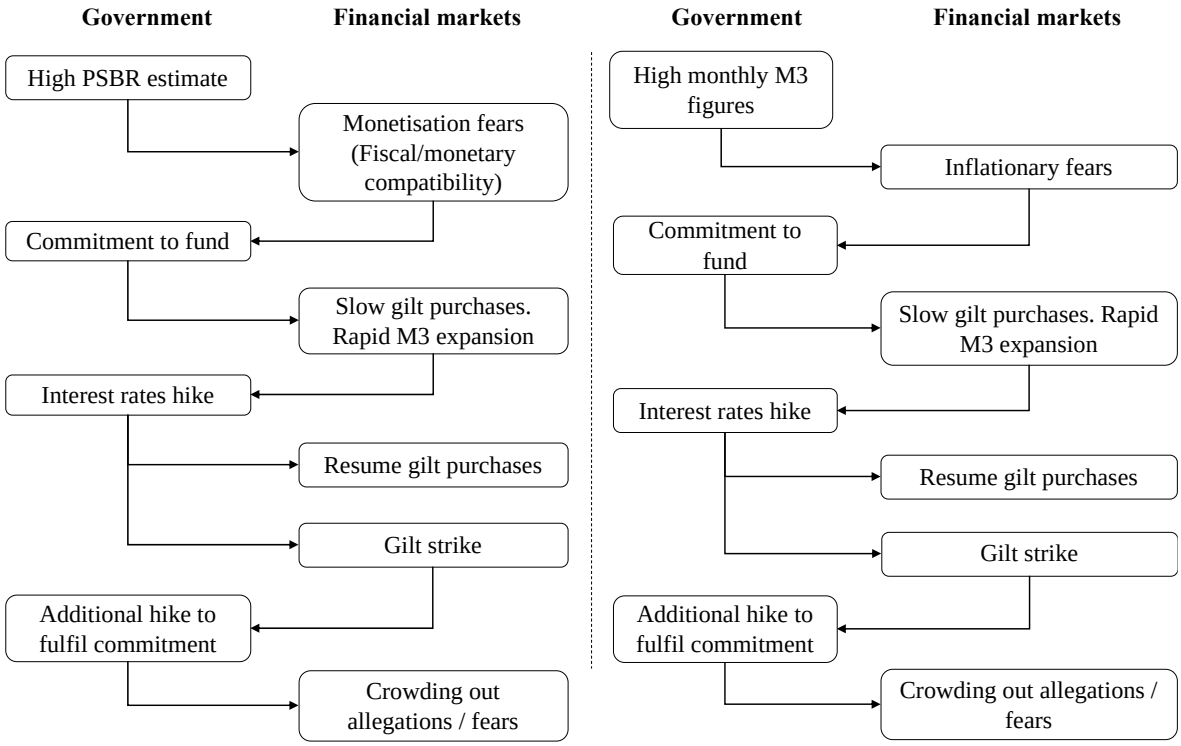

Figure 18. Two stylised versions of the relational pattern

Source: Author's elaboration

Several factors led to the emergence of the monetary fiscal constraint. First, public economic argument had internalised that there was a causal link between monetary expansion and inflation. This was monitored and discussed based on a policy device, the counterparts accounting identity, that emphasised fiscal policy as the key driver of monetary expansion. Second, the major international economic crisis that followed the first oil shock of 1973 made government to step in to counteract the effects on employment and economic activity. On top of that, the election of a Labour government meant that, once again, economic and budgetary policy would (ideally) be geared not only toward demand stabilisation but also medium-term structural policies. Third, the new institutional configuration of the gilt market meant that the likelihood of large gilt sales was higher when interest rates reached a high point and were expected to fall. This interacted with financial investors' increasing focus on the money supply as indicator of government discipline. Fourth, the crowding out hypothesis was already well established within financial circles, as well as within international financial organisations like the IMF. This partly resulted from the claims-making consequences of institutionalised categorical distinctions. The larger size of the PSBR relative to other countries, even if by design, spurred debates over whether the state was displacing private investment borrowing and lent legitimacy to domestic and international actors that accused Labour of statism.

The flow of funds approach that linked monetary phenomena to government borrowing had long been part of policymakers' repertoire of epistemic tools. Use of the counterparts approach to the money supply or bank liquidity should not be taken as a proof of monetarist beliefs. Different groups of people came to different conclusions using *the same analytical tool*, or to

similar conclusions for different reasons. For example, from the perspective of demand stabilisation, that did not see a causal link between monetary expansion and inflation and that did not consider the PSBR as the criterion of budgetary stimulus per se, it was conventional knowledge that the more the PSBR was financed through long-term borrowing the less expansionary it was likely to be (Cairncross, 1975).[60] Similarly, to render the liquidity ratio policy lever actionable, SDM needed to reduce government dependence on bank credit. Since the early post-war years, the monetary authorities used the counterparts approach to assess the liquidity impact of fiscal policy decisions and mediate it through SDM. At all times, however, particularly in the 1950s and then from the late 1960s onwards, there were those who thought that there was a causal relationship between broad money and inflation. Their interpretation of the counterparts data was far more radical: short-term borrowing from the banks was inflationary. Monetarism and the broader strategy of monetary targeting gave the counterparts approach a different rationale and changed the way in which policymakers used it.

The notion of an economic policy trilemma is useful to explain and theorise the way in which financial confidence became a binding constraint to government policy. Concerns with the monetary impacts of fiscal policy constrained the government's ability and willingness to pursue active fiscal policies. Fiscal policy came to be discussed first and foremost in terms of its interlinkages with monetary policy. The 'important interconnections' between the two meant that an expansionary fiscal policy seemed difficult to finance without either an excessive monetary expansion or unduly high interest rates (BoE, 1977, pp. 432–433). The government saw itself caught between simultaneous contradictory pressures to avoid unduly reliance on both short-term, mainly from the banking sector, *and* long-term borrowing, mainly from the non-bank financial sector. PSBR targets were designed to reduce monetary expansion and avoid higher interest rates. The direct link between gilt sales and money supply figures meant that sales of government debt became 'an indicator of how far monetary policy is succeeding in its quantitative objective' (BoE, 1979, p. 139). While during the 1970s the government was able to fund, or even overfund, the PSBR through sales to the non-bank sector, the BoE argued that the consequent high nominal interest rates in addition to economic uncertainty had 'largely excluded potential private borrowers on fixed-interest terms from the capital market' (BoE, 1979, p. 139). According to Treasury officials, funding—no matter how successful—was 'no substitute for a lower deficit' (P. Middleton & Odling-Smee, 1984, pp. 390–391).

Overall, amid a turn towards intensified market-based government finance, the relational setting of sovereign debt increased the infrastructural power of financial investors and constrained the government's policy space. This qualifies recent takes on SDM. Dutta (2018) argues that the 1986 deregulation of financial markets was caused by policymakers' concerns with the cost of government borrowing since the 1970s. The archival evidence analysed for this research points in a different direction. The main issues driving discussions about SDM and the system of monetary control more broadly were crowding out fears, government policy autonomy, and the conditions for effective macroeconomic governance, not the fiscal burden

[60] IMFA, 'SM/64/60, Staff Report, Part I', 22 June 1964, 14, https://archivescatalog.imf.org/Details/-ArchiveExecutive/125047707.

of borrowing costs. Indeed, less than two years after the 1976 IMF loan, the UK sought a sovereign credit rating for public sector foreign currency borrowing for the first time and received the best possible qualification, a triple-A rating (D. J. Gill, 2015).

CHAPTER 7. MID-1970S ECONOMIC POLICY AS CUMULATIVE POLYVALENT PERFORMANCES

1. Introduction

The 1970s saw the heyday of British social democracy and the welfare state (Edgerton, 2018; Sloman, 2022). The Labour Party returned to office as a minority government in February 1974 and won a majority of only 3 seats in October 1974. The party had moved to the left. Labour pledged to nationalise land for development, regenerate industry, introduce a wealth tax, extend and strengthen public ownership, promote industrial democracy, democratise social relations, and extend the welfare state. *Let us work together again*, the February 1974 manifesto, argued that interlocking economic, social, and political crises posed 'a crowning test' for British democracy (Labour Party, 1974a). Instead of the confrontational approach of the previous Conservative government, Labour proposed a social contract as the best way of processing the difficulties; an agreement between government and the unions that represented more than exchanging certain social policies for wage restraint. It represented the consensual, democratic approach to governing by collaboration between the government, trade unions, and industrialists that Labour tried to implement throughout the rest of the decade (Labour Party, 1974b). After the oil shock of 1973, the new government reacted to the ensuing international economic crisis by introducing significant counter-cyclical fiscal policies, coupled with pledges for social justice in the form of subsidies and price controls to offset the rise in the cost of living, and the elimination of NHS prescription charges, among others. These measures sustained economic activity in 1974 and represented a radicalised social democracy.

But policymaking had to operate within harsh economic and political turmoil. To the bitter political climate of the three-day working week of the Conservative government, the economic consequences of the policy errors of the 1972-1973 Barber boom and the impact of the oil shock of 1973 added significant strains on the economic camp. The government, the opposition, and expert opinion underestimated the severity of the economic crisis and the effects of the oil shock (Artis et al., 1992). The IMF alerted that inflation and the abrupt rise in the PSBR harmed industrial investment. Treasury and Bank of England (BoE) officials worried that uncertainties related to the power of trades unions and the perceived influence of the Labour left could frustrate any beneficial effects of government policy on industrial confidence and investment.[1] In the case of financial confidence, officials stressed that the prospects of sterling in the foreign exchange market were affected not only by interest rates, the current account of the balance of payments, and inflation, but also by 'apparently unlimited wages explosion', worsening industrial relations, prolonged political uncertainty, and developments elsewhere in the world.[2] Reducing the current account deficit, which had almost reached 4%

[1] IMFA, 'EBS/75/482, European Department Report', 19 December 1975, https://archivescatalog.imf.org/-Details/ArchiveExecutive/125007835; TNA: T364/60, 'HMT, "Company Finance"', 15 July 1974.
[2] TNA: T364/61, 'Mitchell, "Managing the Exchange Rate"', 17 September 1974.

of GDP, and curbing inflation, which was at a rate of 16% and rising, became the overriding policy priorities in September 1974 (Labour Party, 1974b).[3] Of course, this is not to say that they had been previously disregarded. Since early 1974 monetary policy aimed at reducing monetary expansion, which was perceived as a necessary condition to deal with inflation and the balance of payments (Cmnd 6151, 1975, para. 46).[4]

The application by the government for an IMF loan in late 1976 worth $3.9bn—the largest given by the IMF at the time—structures most accounts of Labour's 1970s economic policy.[5] There are several first-person accounts, journalistic accounts (Fay & Young, 1978), and academic analyses (Artis et al., 1992; Burk & Cairncross, 1992; Davies, 2017; Green, 2020; Panitch & Leys, 2001). The event is variously seen as a watershed marking the first stage of a transition from Keynesianism to monetarism in economic policymaking, Labour's abdication of its social and ideological commitments, or the government's capitulation to the power of financial markets (Hall, 1986, 1992, 1993; Harmon, 1997a, 1997b; Hay, 2001). First, academic debates tend to stress a domestic/international divide. International interests and pressures displaced domestic actors and interests in 1976 (Harmon, 1997b). American and German policymakers encouraged 'a crisis in Britain in order to force the country's government to change how it managed the national economy' (Burk, 1994, p. 352). Second, scholars argue that the government neglected the financial markets. Cabinet disregarded financial investors' requirements for lending the money to pay for public spending decisions (Burk & Cairncross, 1992, p. 21). By the same but opposite token, other scholars argue that, since 1976, the government gave the financial markets and the IMF too much attention in detriment of its partnership with the trade unions and its own ideological commitments (Rogers, 2011, 2012). Third, the IMF negotiation is seen as a process in which agonising British policymakers tried by all available means to ease the IMF pressure. Prime Minister (PM) Callaghan, who had himself gone through a balance of payments and IMF crisis in the 1960s, 'fully realised' that the power lay in the IMF's political masters (Burk & Cairncross, 1992, p. 9). He led intense but inefficacious efforts to persuade German and US governments of influencing the IMF 'to lessen the pressure on Britain' (Burk & Cairncross, 1992, p. 21; Green, 2020, p. 187). Fourth, the literature interprets government efforts to arrange a safety net for the sterling balances as a subterfuge to substitute harsh IMF conditionality (e.g., Burk & Cairncross, 1992, p. 113).[6] This implies that Callaghan thought an agreement on the balances was enough to change market sentiment, but Burk and Cairncross provide little evidence to support such argument.

Archival evidence casts doubt about some critical aspects of this traditional narrative. First,

[3] TNA: T364/61.
[4] IMFA, 'Letter of Intent', 18 December 1975, 12, https://archivescatalog.imf.org/Details/ArchiveExecutive/-125007835.
[5] On the post-war relationship between the British government and the IMF, see (Clift & Tomlinson, 2008, 2012).
[6] Sterling balances refer to short-term wartime external debts. By the end of the war sterling balances were equivalent to several times the level of foreign exchange reserves and, therefore, could not be liquidated. The return to currency convertibility entailed a constant threat of sterling balances withdrawal. This threat interacted with instabilities in the exchange rate or the balance of payments. Whenever currency devaluation seemed likely, the sterling balances threat magnified the pressure on the exchange rate. For an account of the impact of sterling balances in the 1970s, see Schenk (2010, Chapter 10).

the dichotomy between domestic and international policy goals and interests is simplistic. Economic policymakers were consciously and purposefully in the business of trying to satisfy both domestic and international imperatives, not one or the other. Similarly, archival records show that the 'macroeconomic executive' (Fforde, 1982) composed by the Treasury, the BoE, and the PM did pay attention to the markets. Third, the charge that Callaghan intended to substitute the safety net for the IMF conditions is misleading. He meant it as a complement that would be particularly welcomed by his union allies. While the literature correctly interprets Callaghan's political and management skills as crucial to hold government and party unity, it misses his awareness of the position in which government found itself. Callaghan was aware that government was being pressured by (at least) two different constituencies with different interests and perceptions, financial investors and government supporters and allies. He thought that satisfying (or at least not infuriating) one but not the other would amount to failure.

This chapter provides a different interpretation. It argues that mid-1970s economic policy resulted from evolving interwoven relations and opposite matching games. It situates the so-called IMF crisis within a larger relational process and presents the story of how polyvalent performances, relational pondering, and opposite matching games influenced negotiations between the government and relevant counterparties during 1975 and 1976. Chapter 2 provides a formal definition of relational pondering in the context of interwoven relations. For example, government actions and commitments with the IMF interacted with its relations toward the trade unions, on the one hand, and the financial markets, on the other. From the IMF's side, the procedures, contents, and significance of its dealings with the UK interacted with its dealings, at that moment or later, with other governments and had potential consequences for the international monetary system and 'western' economic institutions. US attitudes towards the UK, bilaterally or multilaterally, where significantly influenced by US policymakers' anticipation of how different results would impact not only the UK but also the global economy in general, and the 'western' mixed economy model in particular. For research focusing on government elites, this means that, instead of aiming to test Labour's commitment to full employment, Keynesianism, or the so-called post-war settlement, we ought to study mid-1970s economic policy conflicts as 'riding two horses at once'. The concept of relational pondering captures within-government divisions and external (to government) interests and goals.

Whenever an actor is aware of being involved in interwoven relations, their frame of mind or political sense-making when engaging in direct negotiations with one counterparty can be described as relational pondering. Relational pondering governs their process of political sense-making. They do not only think of their interests, goals, and strategy in the narrow field of the direct negotiations but also take into consideration their parallel or future relations with other counterparties. Take the example of financial markets. Relationships between government and financial investors occurred via several communication channels. The traditional and most brutal of these was financial investors' behaviour in the exchange and government debt markets. Second, institutions like the BoE, IMF or the Treasury's Overseas and Home Finance divisions turned financial market developments intelligible; they acted as spokespersons, mediators or translators between government and investors. Third, the Treasury regularly asked certain investors directly what policy steps would improve financial confidence and gathered

information to feed the process of devising a strategy to deal with confidence. Fourth, government relations with the unions and industrialists, which were at the core of Labour's ideal of democratic economic governance, were a at the same time a form of indirect interaction with financial markets. Investors were deeply sensible to government's commitments and actions vis-à-vis unions and bosses, and the government was aware of it.

Interwoven relations structured policymakers' strategies and goals. As government needed to strike a balance between the requirements of its different counterparties, and as each pair of relationships was part of a broader complex of interwoven relations, Callaghan's goal as PM was to make each major economic policy event a polyvalent performance. According to Tilly (1999b, p. 345), polyvalent performances involve the 'presentation of gestures simultaneously to two or more audiences in ways that code differently within the audiences'. This chapter shows that government elites conceived each government action, statement or interaction as having various audiences or counterparties with potentially diverging interests and expectations. This meant that the IMF loan and conditionality could not be the only element of a policy package. If government was to remain in power, if the partnership with the trades unions was to endure, if the Labour Party was not to split, and if the moderate or right wing was to preserve its control over the party, the package had to be broader. With one policy package, the government needed to achieve these objectives at the same time as enticing financial markets. One major act, a much-publicised and debated policy package, needed to be interpreted slightly differently by different audiences.

Opposite matching games are a kind of qualitative forecasting or prognosis mechanism. Actors engaged in opposite matching games to determine which projected situation was worse and, therefore, less desirable for policymakers. Reasoning by contrast was a way to justify the actor's preferred policy by way of contrasting it with the worse possible consequences of choosing the alternative option. Among other reasons, economic policymaking is deeply social because it entails a constant anticipation of policy outcomes which, in turn, involves anticipating the actions and behaviour of economic and political agents. To use Merton's words, many such economic and political predictions end up being incorrect not necessarily because of any fundamental mistake in their elaboration but precisely because predictions become 'a new element in the concrete situation, thus tending to change the initial course of developments' (Merton, 1936, pp. 903–904).

The chapter is structured as follows. Sections 2-3 trace the road to the announcement of a new incomes policy, the keystone of the government's anti-inflation strategy, and the subsequent interactions between government relations with the IMF, the left of the Labour Party, and the unions. Sections 4-5 analyse the currency crisis that preceded the 1976 IMF loan and the negotiations between the government and the Fund.

2. The Road to *The Attack on Inflation*

In 1975 the government adopted a policy of demand restriction. Officials rationalised this policy stance by arguing that reducing the PSBR was important for both confidence reasons

and because large PSBRs indicated imbalance in the economy. Experience in the US, Germany, and Italy showed that anti-inflation policy succeeded only after 'a prolonged period of higher unemployment'.[7] In his April 15th budget speech, the Chancellor stated that an uncompromising prioritisation of unemployment missed that external creditors' patience would exhaust. From the government's perspective, rapid inflation and a large balance of payments deficit made it impossible to succeed in all three goals—unemployment, inflation, balance of payments—at the same time. The short-term priority, and the only way to protect government sovereignty over domestic economic policy, was closing the external deficit and controlling inflation. Unduly reliance on foreign borrowing risked 'an absolute and unequivocal loss of sovereignty' to lenders (HC, 1975a, col. 284). Healey increased taxes in £1.2bn to check domestic consumption and reduce the 1975/1976 PSBR, and announced £1bn cuts in planned 1976/1977 public spending. The measures and the way in which they were presented sent a message to government supporters: reducing wage-induced inflation was a precondition for macroeconomic policies to reduce unemployment. This 'deflationary strategy'[8] of combining higher taxation and restrictive financial policies was based on a critical qualitative prognosis shared by civil servants, economists, and international financial institutions: a strong recovery in world trade would take place in 1975/1976. Restrictive measures were crucial to make the most of it, as they would 'allow the recession to create more spare capacity' and free resources for exports, a stance 'strongly supported' by the IMF.[9] The goal was to engineer a sustainable return to full employment in the medium-term.

Since early 1975, economic policymaking was influenced by another qualitative prognosis, the prospects of an IMF loan. The Chancellor discussed his budget plans with the Managing Director of the IMF, Johan Witteveen, with that in mind. As the IMF deemed wage increases and the public expenditure/PSBR situation the two danger areas of the UK economy, Witteveen approved government policies with the qualification that a firm start in reducing the PSBR and public expenditure was needed in 1975/1976. In patronising tone, Witteveen stated that without an adequate incomes policy, the deflationary 1975 budget 'could induce a dangerous acceleration of wage-induced inflation', and that the unions 'should be confronted with the consequences of excessive wage settlements'.[10] Healey agreed that an effective incomes policy was necessary but emphasised that maintaining good working relations with the trade unions was a government priority. If world trade did not recover, the government would consider complementing the general deflationary stance with union-supported measures like import restrictions. Witteveen rejected the idea. It would damage the confidence that government had hitherto managed to sustain 'remarkably well' and could 'induce expectations about a major depreciation of sterling'.[11] From this, it does not follow that the IMF was against depreciation. The IMF saw depreciation as the best way of boosting industrial competitiveness, which in turn could partly compensate the UK's higher relative inflation. But Witteveen, and the government,

[7] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 1 April 1975"'.
[8] TNA: T364/14.
[9] IMFA, 'Whittome to Karlstroem, Part of File 97063', 29 August 1975, https://archivescatalog.imf.org/Details/-ArchiveDescriptions/110085319.
[10] TNA: T364/50, 'France, "Witteveen's Visit"', 3 April 1975; TNA: T364/50, 'Folger, "Meeting, 18 April 1975"'.
[11] TNA: T364/50, 'France, "Witteveen's Visit"'.

preferred a gradual move in the exchange rate rather than a step change. The latter would have an immediate (negative) impact on prices and wages and disturb confidence.

While civil servants welcomed the 1975 shift in emphasis of macroeconomic policy, they were sceptical that it was sufficient to convince the markets and avoid the need for an IMF loan. The budget was 'politically courageous' but the Treasury-BoE monetary policy group thought it had not gone 'far enough to give us any assurance of avoiding inflationary monetary conditions'.[12] A prospective IMF loan had contradictory implications. On the one hand, conditionality in the form of a quantified Domestic Credit Expansion (DCE) target would confront government with politically difficult choices. The asset-counterparts setting in which a target would be designed and monitored pointed to further fiscal restriction. On the other hand, however, a monetary target could be 'a useful discipline' to counteract expansionary or heterodox political pressures, and to allow more room for going as far as necessary to forestall inflationary expectations.[13] Most Treasury officials deemed the main cause of rapid inflation at the time to be wage earner's efforts to get pay increases equal to or higher than inflation, i.e., to defend real incomes. But financial investors tended to be 'heavily monetarist in approach and focussed a great deal on' the money supply.[14] That was a key reason behind the aim of reducing monetary expansion.

Difficulties to fund the PSBR and continuing downward pressures on sterling proved that the budget did not foster financial confidence. According to the BoE governor, the fall in the parity could not continue unchecked. On top of rumours that government would freeze sterling balances and that Middle Eastern countries would diversify from sterling, there was 'strong foreign opinion' pushing for decisive action against inflation.[15] Besides fiscal and monetary action, the main way of supporting sterling was pay policy. The Treasury's Overseas Finance Division argued that 'a direct attack on our economic weaknesses', the level of wage settlements and public spending, was 'urgently needed for its own sake, and on the shortest possible time-scale in order to avert economic and social disaster'.[16] If the economy was to be stabilised, there was 'a paramount need to bring public expenditure under control'.[17] Officials worried that other Cabinet members seemed unaware of the difficult economic situation and suggested using the confidence factor and argument to convince them. The referendum on the UK's membership in the European Economic Community (EEC), held June 5th, would no longer provide an excuse in the market's eyes for not changing policy. Furthermore, most external observers' and investors' policy appraisal was quite superficial. Financial circles deemed wages and unions out of control, interpreted the PSBR as an indicator of profligacy, and expected reassuring determination from the government. Otherwise, they would 'be unwilling to go on suspending disbelief in our will and capacity to pull our socks up'.[18]

[12] TNA: T364/60, 'Downey to Airey, "Treasury/Bank Monetary Policy Group"', 30 April 1975.
[13] TNA: T364/60; TNA: T364/50, 'HMT, "Note for the Record"', 17 April 1975.
[14] TNA: T364/50, 'Folger, "Note for the Record: Conversation between Wass and Woodley, 9 May 1975"'.
[15] TNA: T364/61, 'France, "Note for the Record"', 12 June 1975.
[16] TNA: T364/30, 'Mitchell to Wass', 6 June 1975.
[17] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 15 July 1975"'.
[18] TNA: T364/30, 'Mitchell to Wass'.

Government relationships with unions and financial investors were interdependent. The prospects and results of incomes policy interacted with exchange rate policy and developments. For example, according to officials, intense downward pressure on sterling could only be checked by anti-inflation policy of a kind and degree regarded as adequate by foreign exchange investors.[19] Failure to do so would probably result in a sterling crisis which in turn would destroy any pay policy.[20] The government needed to balance conflicting goals: depreciation was consistent with maintaining medium-term export competitiveness and was favoured by industrialists. But because of its short-term impact on prices, it needed to be smooth and controlled.[21] If the policy of tenuous but steady fall in the parity became publicly known, it would undoubtedly trigger a full-blooded currency crisis with critical inflationary consequences and make it impossible for any pay policy to hold. There were different potential triggers of a run on the pound: failure to show determination in anti-inflation, failure to show determination in defending a preferred rate, failure to restrict fiscal policy, and the leakage of devaluation policy. After soundings with financial investors, Treasury officials warned that convincing announcements about pay policy would not be enough. The 'markets would reserve their judgment until they saw how well the policy was observed'.[22] The BoE agreed. Until a firm and effective pay policy was in place there was no point in intense exchange market intervention to defend a determined parity.

In July, the government launched a new anti-inflation policy agreed with the Trades Union Congress (TUC) and the Confederation of British Industry (CBI). A sharp reduction in the inflation rate was an overriding priority for government and citizens and a prerequisite for the lower unemployment and higher investment aimed by the government, the TUC, and the CBI (HC, 1975b, col. 1189). The strategy was presented in a white paper, *The attack on inflation*, published July 11th. It outlined two alternative anti-inflation strategies. First, self-inflicted mass unemployment and deliberate under-utilisation of the economy's productive capacity, a strategy that was wasteful, socially harmful, and contrary to the nation's long-term economic interests. The alternative was reducing the rate of increase in wages and salaries. To that end, the government agreed a new incomes policy with the TUC and the CBI. The goal was to get inflation down from around 25% to near 10%, the inflation rate of other industrial countries. This consensual approach between government, union leaders, and industrialists was presented as the best way to reduce inflation without sacrificing the nation's long-term economic goals and inflicting mass unemployment. Just a couple of weeks before the (unadjusted) unemployment figure exceeded one million for the first time since 1940, the measures were presented as 'a plan to save our country' from 'a general economic catastrophe of incalculable proportions' (Cmnd 6151, 1975, para. 48). Medium-term economic growth depended on redirecting resources towards productive investment in detriment of consumption. Public spending and the PSBR had to be further reduced, and a new system of cash control would help

[19] TNA: T364/61, 'Mitchell, "Exchange Rate Management"', 18 June 1975.
[20] TNA: T364/30, 'Donoghue to PM', June 1975.
[21] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 23 September 1975"'.
[22] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 24 June 1975"'.; TNA: T364/61, 'Mitchell to PPS, "Management of the Exchange Rate"', 2 July 1975.

to avoid unforeseen increases in public spending. To convince their TUC, CBI, and other partners of cooperating, the government stated that success in reducing inflation would both improve the employment situation, by 'restoring confidence, promoting investment and increasing export competitiveness', and make it possible for government to step in and reduce the 'unacceptable level of unemployment' (Cmnd 6151, 1975, paras 40, 42). A successful anti-inflation policy was the best way to avoid massive and indiscriminate cuts in public expenditure and social services. The government also pledged to employ the new policy tools acquired through the 1975 Industry Act—e.g., the National Enterprise Board and the Scottish and Welsh Development Agencies—to help promoting economic development.

3. A Fragile Equilibrium

This section traces subsequent interactions between government relations with the IMF, the left of the party, and the unions. It shows that the equilibrium sustaining deflationary policy, incomes policy, and satisfactory relations with international organisations and other countries was fragile.

The government was fully aware of being enmeshed in interwoven relations. Their key goal was to strike the right balance in their dealings with each counterparty to avoid its dealings with one having undesired effects on its dealings with others. In several moments of 1975 they undertook informal soundings about a potential IMF application. A September application seemed the logical step following the April budget and the July measures, particularly once officials concluded that other financing sources would be insufficient to cover the external financing gap. Timing was critical. The Treasury expected renewed pressures from the left and the unions for reflationary action and/or import controls to emerge in October but any such measures would be 'ill-advised in advance of an IMF drawing and perhaps impossible thereafter'.[23] After informal soundings made it clear that the IMF would impose stricter conditions than previously thought, the Chancellor used his early September speech at the IMF Conference to rule out reflation (Jay, 1975).[24] This was explicitly directed at domestic audiences like the National Institute of Economic and Social Research, the Labour left, and the unions. While unemployment would go near 2 million in 1976, lower inflation was a precondition of recovery. World demand and growing exports needed to be the main trigger of economic recovery, not domestic demand stimulus.

External and domestic policy goals clashed. To secure TUC support for a second round of pay policy, the government had to take their policy proposals seriously.[25] Healey's public hints, in the context of the Labour Party Conference, that some general reflation could be implemented in the new year worried officials.[26] The results of the medium-term balance of payments forecast in mid-October reinforced these fears. The policy implications of this gloomy forecast conflicted with the worrying unemployment prospects and consequent

[23] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 19 August 1975"'.
[24] TNA: T364/14; TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 16 September 1975"'.
[25] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 16 September 1975"'.
[26] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 30 September 1975"'.

reflation pressures. The Treasury's main goal was to ensure that any measures were 'one-shot in nature' to avoid increases in permanent public spending or standard of living expectations.[27] Worsened external and unemployment prospects also heightened the attractiveness of unorthodox measures on international trade which, in principle, could improve both at the same time. Officials saw themselves in a dilemma: any policy of additional devaluation to compensate the trade deficit needed fiscal support to offset its prices effects. But the prospects of an IMF application made measures increasing the PSBR undesirable. At the same time, the more they stressed the impossibility of offsetting the inflationary consequences of further devaluation, the more momentum the argument for import restriction gained.[28] To counteract 'considerable political momentum behind import restrictions', the Treasury argued that generalised import restrictions could jeopardise an IMF borrowing and antagonise the US government.[29] Furthermore, import controls needed a minimum of two years to show positive results but both the IMF and the EEC 'would find great difficulty in agreeing to anything over a year—if that'.[30] The potential consequences of failing to get the necessary external finance were more serious.

The Chancellor needed to constantly nurture the good will and support of the Cabinet, the Party, and the unions. After the July 1975 measures, Cabinet colleagues called for employment creating measures. Treasury officials complained that any such action was reflation 'by another name' and 'inconsistent' with the overall economic strategy.[31] Cabinet did not realise that demand restriction caused higher unemployment. Any measures to deal substantively with the unemployment 'symptom' was contradictory. Medium-term instruments, such as selective assistance to industry and resources for industrial training and retraining, were a different story. They were presentationally useful vis-à-vis Cabinet and the unions and had very minor short-term effects on unemployment. Provided it was carefully presented to overseas audiences, a limited package of such micro measures was an acceptable 'price for avoiding full scale reflation'.[32] Using the IMF 'as a threat' to reinforce pay policy and forestall reflation pressures, the Chancellor managed to postpone Cabinet discussions on reflation and the balance of payments until early 1976.[33] At the same time, the government used political tensions to show the IMF the political difficulties of spending cuts.[34] In November, the National Economic Development Council (NEDC), the main tripartite institutional platform of the consensual approach, comprising government ministers, industrial, and union representatives, published a new industrial approach. In the short term, priority would be given 'to industrial development over consumption or even our social objectives' (Cmnd 6315, 1975, para. 8). The TUC agreed that the circumstances made impossible any attempt at general reflation. The first product of

[27] TNA: T364/40, 'Edwards to Barrat, "Response to Balance of Payments Forecast"', 16 October 1975.
[28] TNA: T364/40, 'Posner to Wass, "Balance of Payments Policy"', 6 November 1975.
[29] TNA: T364/40, 'Barrat to PPS, "Financing the Deficit in 1976"', 14 November 1975; TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 11 November 1975"'.
[30] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 25 November 1975"'.
[31] TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 19 August 1975"'.
[32] TNA: T364/14.
[33] TNA: CAB128/57/16, 'Conclusions of a Cabinet Meeting, CC(75)46', 6 November 1975; TNA: T364/50, 'Rawlinson, "Possible IMF Drawing: Meeting with Witteveen"', 31 August 1975.
[34] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 11 November 1975"'.

the agreement had been a package of micro measures launched in late September, totalling £175mn for job creation. To manage financial investors' worries about the size of the pro-employment package, government argued they were consistent with commitments to control the fiscal deficit, improve the balance of payments, and lower inflation (HL, 1975, col. 302).[35]

Negotiations with the IMF in late 1975 were not terribly difficult. By their previous actions, policymakers' succeeded to secure IMF support to present policies. The government resisted calls for immediate (1975/1976) reductions in public expenditure by referring to the already restrictive stance of policy amid worsening economic conditions. They also ruled out real spending increases until 1979 to secure the consistency of the fiscal-monetary policy mix with anti-inflation policy and international competitiveness. The authorities promised to reduce the PSBR 'as and when this is appropriate' to release resources for exports and private investment.[36] The government also introduced selective temporary import controls in textiles as a gesture to the unions and the Labour left, but resisted restricting car imports because of likely retaliation and restated its commitment against generalised trade restrictions.[37] The IMF congratulated the 1975 policy change and the progress in pay policy and the balance of payments. They expressed 'understanding' of the decision not to cut further the prospective 1976/1977 PSBR but deemed it 'essential' for the authorities to deliver on their commitment to avoid further increases even if the economic recession worsened.[38]

Discussion on reflationary action took place in early 1976 with occasion of the public expenditure white paper and the budget. Healey stressed the need to avoid reproducing the Barber boom, in which a large general reflation in 1972 caused an economic recession in 1973. He also rejected generalised trade restrictions in pragmatic terms. The prospects of retaliation and likely inability to access external credit, in a context of continued external financing problems, ruled them out. The only viable strategy was anti-inflation policy and industrial regeneration, which would provide the 'springboard' for higher growth.[39] Financing the balance of payments was the main constraint of policy over the medium-term (2-3 years). Not even the full IMF facilities sufficed to cover the medium-term external gap. Despite substantial improvement in 1975, the balance of payments was forecast to deteriorate once demand recovery got under way. Domestic economic policy needed to command support from the IMF and other overseas creditors. This constrained the scope of any pro-employment policy. Success in incomes policy, major reductions in public spending, and IMF endorsement of economic policy were critical to access external finance.[40] The TUC would accept low pay limit if satisfied that it helped maximise medium-term employment, if government was

[35] TNA: T364/14, 'HMT, "Meeting of Second Secretaries, 23 September 1975"'.
[36] IMFA, 'EBS/75/482, European Department Report', 8.
[37] Generalised trade restrictions are those directed to x% of manufactured imports. Selective restrictions are directed to specific products (e.g., textiles). The IMF suggested in May that, if politically helpful, the Chancellor could consider some specific and temporary import controls. See: TNA: T364/14, 'Folger, "Meeting of Second Secretaries, 7 May 1975"'.
[38] IMFA, 'EBS/75/482, European Department Report', 18–19.
[39] TNA: T364/40, 'Wood, "Draft Chancellor Paper to the MES"', 21 January 1976; TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 27 January 1976"'; TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 23 March 1976"'; TNA: T364/40, 'Healey, "Outline of MES Paper"', 26 January 1976.
[40] TNA: T364/40, 'Barrat to PPS, "Financing the Deficit in 1976"'.

perceived to be committed to reducing short-term unemployment by introducing measures of 'incalculable psychological importance for the TUC' such as employment subsidies and industrial modernisation, and if lower money earnings were compensated with tax reliefs.[41] The unions agreed and restated their approval to reallocate resources from the public sector to manufacturing industry. But the package of micro-measures was larger than recommended by Treasury officials, who feared that any increase in public expenditure would damage the Chancellor's financial credibility. Considering that it was necessary to get support from the unions and Cabinet, however, officials worked on making the presentation of the package as harmless as possible.[42]

The government succeeded in forestalling reflation, but not without difficulties. The public expenditure white paper, published February 19th, cut £3bn in planned public spending and froze it to 1979 (Cmnd 6393, 1976). This was a success for Treasury officials (Burk & Cairncross, 1992, p. 18). However, the left of the Parliamentary Labour Party rejected it, and the government lost the March 10th vote on the white paper. While the government won a vote of confidence on its economic and financial policies the next day, this episode served as a reminder of existing political constraints. Even the fact that the white paper had been cleared with the unions had not convinced the left to support it. A month later, after Callaghan replaced Wilson as PM, Healey introduced a two-legged budget. First, he increased age and child tax allowances, offset by higher VAT rates on luxury goods, and increased employment subsidies. This unconditional part was 'neutral both in financial and demand terms' (HC, 1976a, col. 280). Second, he announced income tax reliefs conditional on the unions' agreement on a pay limit around 3%. At first, TUC leaders rejected the 3% figure but agreed to continue negotiations. Given the consequent instability in financial markets, union leaders publicly confirmed their intention to reach an agreement. On May 5, the Chancellor announced agreement on a 4.5% pay limit for the year beginning in August (HC, 1976b, cols 1304–1307). The TUC General Council, which endorsed the measures, would submit them to approval to a TUC special conference in June 16.

4. Currency Crisis and Struggles Over Public Sense-Making

This section traces the 1976 currency crisis and the negotiations that led to the 1976 IMF loan. It shows how polyvalent performances, relational pondering, and opposite matching games intensified within government elite's attempts at navigating the economic crisis successfully.

4.1.The Road Toward the June 1976 Swaps

March 4th, 1976, saw the start of a period of strong pressure on the pound. In a much-debated episode, the market interpreted that the BoE wanted to engineer devaluation. There is

[41] TNA: T364/40, 'Healey, "Outline of MES Paper"'; TNA: T364/40, 'Wood, "Draft Chancellor Paper to the MES"'.
[42] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 3 February 1976"'.

still debate on whether market interpretation was correct. The archival evidence analysed for this research allows me to say that policymakers were pursuing a policy of gradual, stable, and controlled devaluation, and that the Chancellor and the PM did not think a step change in the exchange rate was a desirable option. In any case, the episode triggered massive selling forces and a currency crisis that would last seven months. Internal fears around exchange rate policy were confirmed. Government had been unofficially pursuing a gradual devaluation policy aimed, as defined around the 1975 budget, to achieve a 30% depreciation of the effective exchange rate over a year. In public, the authorities had explained the gradual depreciation as the outcome of the government's incapacity to resist downward pressures and intervened to smooth or check the process and avoid giving the impression that devaluation was a policy goal. The risk had always been acknowledged internally that 'action intended to nudge the rate down could well precipitate a break in confidence and a larger depreciation than desired'.[43]

The fall in the parity triggered a protracted public sense-making process about what happened, why, and what it augured for the future. The government launched an intense campaign to make it clear that the early March devaluation had not been an (intentional) outcome of policy. The authorities argued that the March depreciation was the 'inevitable response' to high relative inflation (HC, 1976a, col. 244). A month later the fall in the parity had fully compensated higher relative inflation and, therefore, the Chancellor hoped that 'the exchange rate markets will now come to recognise that enough is enough', and that there was no economic justification for further pressure.[44] The Treasury instructed the economic minister at the Washington Embassy and the British IMF executive director, William Ryrie, to get in touch with New York bankers, including the Fed and large private banks, and assert that while some devaluation was inevitable because of the high relative inflation, the continuing pressure was economically unjustified. The rate had fallen enough.[45]

New York bankers were 'unhappy and jittery about sterling' and worried that there could be an 'Italian-type situation' in which investors acted on sterling based more on 'pessimistic view of political and social developments' than on economic grounds.[46] Investors deemed the 1976 budget bold but thought the unions would not accept a 3% pay limit or anything similar. While the general appraisal was that the exchange rate was now more than competitive, there would be substantial further depreciation if incomes policy failed. Moreover, persuading investors that the depreciation of the first half of March had not been engineered was impossible. While the later devaluation was less interpreted as following official intentions, most investors thought the government had shown little determination in resisting it and wondered anxiously what the exchange rate policy was. Reports by the Cambridge Economic Policy Group and the NIESR encouraged the view that government was pursuing devaluation. Overall, Ryrie 'strongly' suggested the need to improve confidence 'soon and sharply'.[47] But

[43] TNA: T364/61, 'HMT, "Meeting, 11 October 1974"'; TNA: T364/61, 'Mitchell, "Exchange Rate Management"'.
[44] TNA: T364/50, 'Healey to PM', 9 April 1976.
[45] TNA: T364/30, 'Headley-Miller to Barrat, "Sterling: New York Views: Call from Mr Ryrie"', 9 April 1976.
[46] TNA: T364/30; TNA: T364/30, 'Telegram 1270, Ryrie to Mitchell and McMahon', 9 April 1976.
[47] TNA: T364/30, 'Telegram 1270, Ryrie to Mitchell and McMahon'.

until (and if) agreement was reached with the TUC, it was difficult to think of strategies to check the erosion of confidence.[48] If anything, the fragile situation of sterling called for further spending cuts which would have negative employment effects and harm the chances of agreement with the TUC. It was best to wait.

There were several factors working against sterling. First, the credibility of the Treasury and the BoE was severely undermined. Financial investors were uncertain as to the government's attitude to exchange rates. Efforts to check the slide had been unconvincing despite the large amounts of reserves involved. Second, even if an agreement with the TUC was achieved, the markets would 'remain uncertain' until the TUC special congress ratified it and doubtful about whether it would stick.[49] Third, the economic situation was a continuing source of uncertainty. Besides market sensitivity to industrial relations, there was a gloom balance of payments prospect and doubts about the government's ability to finance it. Similarly, there were doubts about the government's ability to fund the PSBR, which was taken as an indicator of excessive public spending and 'a sign that the private sector is being starved of resources'.[50] The government faced a very unpleasant dilemma: it could restore external confidence by introducing further fiscal retrenchment, or it could borrow from a multilateral source (e.g., the IMF) on conditions that would, most likely, involve a change of policies. The government would have to face up to the dilemma in no more than 18 months. It had to be a central consideration for policymaking, with a direct impact on the range of policy options available.[51]

When dealing with the TUC, the government was not only dealing with the unions. Its attitudes, offers, and the interim outcomes of the negotiation had significant indirect effects on government relations with financial markets. Even after announcing an agreement on the next round of wage bargaining, sales of government debt could remain depressed if confidence in the government's capacity to sustain incomes policy for much longer was weak. Similarly, the sterling parity was the main barometer of overseas confidence in government.[52]

This interaction between parallel relations not only constrained policymakers. It also enabled them. Government used it in their interactions with the IMF. On mid-May the IMF suggested that the best response to the confidence situation was a £3bn cut in the 1976/1977 PSBR. The new incomes policy agreement was a remarkable achievement, but the PSBR was excessively high. In response, the government referred to the potential consequences. There were strong objections, both political—a likely breakdown of incomes policy and/or of Cabinet and party unity—and economic—international trade would not recover until 1977. The differences were mainly related to the degree of urgency for actions to correct the PSBR: according to the IMF, the likely economic recovery made it necessary to reduce it in 1976/1977.

[48] TNA: T364/30, 'Barrat to Wass', 12 April 1976.
[49] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 May 1976"'.
[50] TNA: CAB197/56, 'Mitchell to PPS, "External Financing Assessment"', 29 April 1976.
[51] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 May 1976"'.
[52] TNA: T364/60, 'Bridgeman to Wass, "MPG: 12 May 1976"', 11 May 1976; TNA: CAB197/56, 'Lever to Chancellor, "External Financing Assessment"', 21 May 1976.

The government thought economic recovery would not start before 1977 and hoped to avoid reducing the 1976/1977 PSBR. Doing so would damage incomes policy. By contrast, reducing the 1977/1978 PSBR might be necessary, ideally by cutting expenditure rather than raising taxes. The fact remained, however, that the government's ability to continue funding the 1976/1977 PSBR was not guaranteed and that large PSBRs triggered negative reactions by domestic and overseas creditors. The government might have to reduce the PSBR anyway.[53]

The government could not compartmentalise its several parallel relations. Financial investors assessed government actions and non-actions in terms of whether they showed sufficient determination and were consistent with the government's commitment to a mixed economy. This led Harold Lever, Chancellor of the Duchy Lancaster and close financial advisor to the PM, to suggest the need for directing intense efforts not only at achieving a successful incomes policy but also at moulding business opinion. So far government had failed 'to dispel widespread misconceptions, very damaging to confidence'.[54]

When the pound saw another round of downward pressure in late May and early June, officials deemed it an intractable problem.[55] Witteveen was deeply concerned that it 'might spiral down still further', undermining domestic economic policy and destabilising international markets.[56] The government should announce new fiscal and monetary measures urgently. Soundings with New York banks suggested that the market was demoralised and unable to foresee the stabilisation of the parity. Investors suspected the BoE had run out of reserves and gave no hints that any one specific policy could transform market sentiment. While the markets' grasp of the economic situation was 'certainly limited', there was 'little prospect of shifting their firm belief' that the overall policy mix was inadequate.[57] Early action of a convincing nature was needed. An insufficient package would deteriorate confidence further. The Chancellor, however, deemed it a 'a grave mistake to take panic measures which might undermine the pay policy settlement on which the TUC would be voting' in mid-June.[58] Instead, he made public statements to reassure the public and financial markets that government was following the right policies, i.e., that there was no need to change them.

Again, there was a two-way relationship between incomes and exchange rate policy. On the one hand, further depreciation would 'jeopardise' incomes policy, the government's 'biggest economic achievement' and the 'prerequisite of any further progress in mastering our economic difficulties'.[59] Holding the parity ($1.78-1.81 at the time) was critical and required strengthening confidence. As fiscal action could also impair stage 2 of incomes policy, the most desirable avenue was to defend the parity fiercely in the market. But the reserves were at

[53] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 May 1976"'; TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 18 May 1976"'; TNA: T364/50, 'Monck, "Meeting"', 25 May 1976.
[54] TNA: T364/31, 'Lever to Chancellor', 11 June 1976; TNA: CAB197/56, 'Lever to Chancellor, "External Financing Assessment"'.
[55] TNA: T364/30, 'Walker to PPS, "Pressure on Sterling"', 25 May 1976.
[56] TNA: T364/31, 'Telegram 1881, Ryrie to Monck, Mitchell and McMahon', 2 June 1976.
[57] TNA: T364/31, 'Telegram 1882, Ryrie to Monck, Mitchell and McMahon', 2 June 1976.
[58] TNA: T364/31, 'Telegram 1881, Ryrie to Monck, Mitchell and McMahon'.
[59] TNA: T364/30, 'Lever to Chancellor, "The Future Policy on the Sterling Parity"', 24 May 1976.

critically low levels, which limited any chance of significant market intervention. The best option, according to Lever, was to borrow at least $3bn from sources other than the IMF, most obviously in the form of central bank swaps, to bolster the reserves. This would allow to defend the parity without changing the fiscal-monetary policy mix.

In a meeting held on Thursday, June 3, the Chancellor approved Lever's proposal. The exchange rate had to be defended 'by means which would not break the relationship with the unions', which ruled out large changes in the policy mix or applying for an IMF standby.[60] His main concern was two-fold. On the one hand, the unions were inclined to feel fooled. They had delivered their part of the bargain, but unemployment had kept rising and the pound falling. Should sterling keep falling, the relationship would probably break and become irreparable. The same concerns ruled out immediate 1976/1977 spending cuts. On the other hand, if no action was taken soon, there was the danger of sterling holders opting out. As the Chancellor could not see risks in borrowing, because 'if that didn't work, nor would not borrowing', he decided to assemble a loan to be announced on Monday, June 7th.[61] While some officials and the BoE governor suggested that it should be combined with cuts in 1977/1978 spending, Healey decided against. Such cuts might become more palatable to government allies and supporters in a couple of months' time. After intense negotiations over the weekend, the Chancellor announced the swap. The financial authorities from the Group of Ten and Switzerland, together with the Bank for International Settlements (BIS), extended a $5.3bn swap to the BoE. In case the government could not repay the funds in 6 months, by December 9, it would apply for an IMF loan. He stated that the government, overseas finance ministers, and central bankers agreed that there was no economic justification for continuing pressure on the pound. There were good signs about industrial production, unemployment, growth, the balance of payments, and the money supply, which showed that it was not responsible for the government to allow itself 'to be pushed into hasty and ill-considered changes of policy on public expenditure' (HC, 1976c, col. 913). The swaps were an 'an impressive demonstration of international banking co-operation in support of sterling against unjustified market pressure' (HC, 1976c, col. 915).

Much research emphasises that the 6-month limit was devised 'to hook Britain into the arms of the IMF' (Burk, 1994, p. 359). Partly this resulted from US policymakers' characterisation of the swap as a 'bait' to 'hook the UK economy into IMF control' (Fay & Young, 1978, p. 14; Harmon, 1997b, p. 10). But this hypothesis is misleading. Archival evidence suggests that there was little deception in the government's decision to go for the swap instead of applying to the IMF right away. First, the length of any such short-term financial support, up to two three-month periods, was a normal procedure. Any suggestion that this condition was part of a conspiracy to deceive the government into the IMF's hands depends on the quite debatable notion that, because it was the UK, such condition should not have applied. Second, the deception hypothesis downplays borrower agency, as if the Labour authorities were unaware of the implications. Archival evidence suggests they were aware and decided to

[60] TNA: T364/31, 'Monck, "Meeting, 3 June 1976"'.
[61] TNA: T364/31.

go for the swap based on a reasoned strategy. From their perspective, announcing an IMF application would put unnecessary pressure on the mid-June TUC special conference, which was the Chancellor's main concern. Moreover, it would not necessarily reassure confidence automatically. With conditionality likely to be stiffer than in December 1975, the negotiation with the IMF would likely be 'a period of difficulty and uncertainty, especially in relation to public expenditure and the concordat between the government and the TUC'.[62] More importantly, even if the swap proved to be only a way of buying some additional time, it was worth it. On the one hand, it might well work. On the other, even if not, it would make it easier for the government to make sure that any public spending cuts imposed by the IMF would apply for 1977/1978 instead of 1976/1977. At no point were policymakers and advisers unaware that the swap entailed a danger of being interpreted as 'only a temporary expedient and likely to force us into the IMF on unfavourable terms very shortly'.[63]

4.2. The July Package

Policymakers did not reach a firm agreement on what were the $5.3bn for (Dow et al., 2013, p. 56). Some, including Lever, the PM, and the Chancellor, conceived the swap as a factor transforming the structural weakness of the government from its previous situation of publicly known lack of sufficient reserves to defend sterling. This is different from entering into a fixed exchange rate policy involving commitment to spend whatever amount necessary to defend a determined parity. Others, including the BoE governor, thought it necessary to defend the pound fiercely either because they deemed it possible to achieve a step change in confidence, or because that was the most efficacious way of forcing the government into the IMF. Be that as it may, the BoE defended the pound aggressively, triggering protests from the PM. Healey favoured persisting with intervention, with a $1bn ceiling, until the TUC special congress.[64] Some days later, on June 14th, the Permanent Secretary to the Treasury 'strongly' advised the Chancellor 'against committing more' resources, on top of the $1bn, until he concluded to be 'prepared to take the IMF medicine'.[65] On the assumption that letting the exchange rate find its own level was not an option, additional reserve spending made it almost certain that an IMF loan would be necessary. Moreover, the IMF funds would be fully exhausted by repaying the swaps and the government need to borrow from other creditors to finance the 1977/1978 external deficit, which 'might have more stringent requirements than the IMF'.[66]

According to the Treasury, financial markets had already discounted a favourable vote in the TUC special conference. Market sentiment was now increasingly influenced by investors' perception that 'major and early acting [1976/1977] reductions both in public expenditure and' the PSBR were necessary.[67] Investors' view was based on anxiety that fiscal demands would

[62] TNA: T364/31, 'Dixon to PPS, "Confidence in Sterling"', 3 June 1976.
[63] TNA: T364/31.
[64] TNA: T364/31, 'Monck, "Meeting, 10 June 1976"'.
[65] TNA: T364/31, 'Wass to PPS', 14 June 1976.
[66] TNA: T364/31, 'Monck, "Meeting, 14 June 1976"'.
[67] TNA: T364/31, 'Wass to PPS'.

not be removed timely to allow economic recovery, and 'a less rigorously argued attitude' that interpreted immediate 1976/1977 spending cuts in 'symbolic terms, as an outward and visible sign of the government's intention to pursue what our creditors regard as responsible fiscal policies'.[68] If no convincing budgetary package was devised, the Treasury could not see a bottom floor for the parity. Monetary measures alone would be insufficient. A sharp interest rate hike would have little effect on the foreign exchange position but significant unfavourable impact on industrial investment. Controls of bank lending, unaccompanied by lower government bank borrowing, would be of little effect and would tend towards crowding out private investment bank borrowing. Setting a low quantified monetary target 'would be, and would be seen to be, meaningless, unless accompanied by substantive decisions to reduce the PSBR'.[69] Spending cuts were crucial to convince creditors. At the same time, as officials did not expect excess demand for 1976/1977 and were certain of the likely political difficulties with Cabinet, the Labour Party, and the unions, they suggested cutting planned spending starting in 1977/1978.

Nicholas Kaldor, the famous post-Keynesian economist and economic advisor that would resign in August out of differences with the Treasury, warned the Chancellor that the government's credit was under direct attack from domestic and overseas financial circles. The aim was to weaken the exchange position and force the introduction of economically unjustified crisis measures leading to government collapse. There was also a 'well-orchestrated clamour' for large spending cuts to keep 'a tight grasp on' money even in the absence of any abnormal monetary expansion.[70] A BIS report and *Financial Times* article deemed the tax burden, economic efficiency, and the sheer size of the public sector the main problems. Fiscal restraint needed to involve tax and spending cuts. However, Kaldor argued that they missed the fact that at least five other prominent industrial countries, Sweden, the Netherlands, France, and Germany, had higher tax burdens that did not damage their economic efficiency. These warnings, however, were not listened to, partly because it was not easy to find an alternative.

The Chancellor worked on how to make any package more attractive to creditors. He anticipated that £1bn cuts of 1977/1978 spending was the maximum Cabinet would accept, but worried it was insufficient for financial markets.[71] Treasury officials thought larger cuts were feasible. The Overseas Finance Division alerted that £1bn cuts would not 'give a decisive and sustained lift to confidence' and, therefore, would not be sufficient to avoid an IMF application.[72] Lever protested that the policy measures suggested by the Overseas Finance Division amounted to severe deflation by another name. He recommended the Chancellor to avoid justifying the package by reference to overseas confidence because doing so implied a promise that if the cuts were insufficient to restore confidence, the government would make

[68] TNA: T364/31.
[69] TNA: T364/31.
[70] TNA: T364/31, 'Kaldor to Chancellor, "International Attack on the Government and Sterling"', 15 June 1976.
[71] TNA: T364/50, 'Monck, "Note for the Record"', 1 July 1976.
[72] TNA: CAB197/56, 'Mitchell to PPS, "Public Expenditure and the PSBR"', 12 July 1976; TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 13 July 1976"'.

yet larger cuts, a road that 'must be closed'.[73] Healey hoped £1bn cuts of 1977/1978 spending would be enough if combined with a £9bn PSBR target (compared to the £12bn forecast for 1976/1977). Treasury economists rejected the inclusion of a PSBR target. They deemed it 'particularly unfortunate to set a public target in an area where [government] control is less precise than the general public' expected.[74] They also rejected the notion that a higher than target PSBR indicated that fiscal contraction was necessary or vice versa. Any PSBR target would have to be conditional to the economic situation to an extent that it would lose any appeal to creditors as a policy constraint. A money supply target made 'a good deal more sense' than a PSBR target.[75] However, the BoE governor and Christopher Dow, a renown Keynesian economist and executive director of the BoE, argued that combining both targets 'would do much to strengthen confidence'.[76] Healey agreed. The key thing that made a money supply target attractive to him was that it gave him more freedom of manoeuvre than additional spending cuts: he did not need Cabinet approval in monetary policy.

In the end, on July 22, 1976, the Chancellor presented a package comprising £1bn 1977/1978 spending cuts, a £9bn PSBR target, and a 12% monetary growth guideline that quickly became a target.

4.3. The Road to the IMF

Once the July package failed to reassure the markets, there was no alternative to an IMF application. A tight DCE target could force a reduction of the PSBR or yet higher interest rates which would affect industrial borrowing. At the same time, the consequences of a failure of IMF negotiations would be as unwelcome to creditors as to the government.[77] The G-10 countries wanted to avoid a collapse of sterling. Negotiation failure, if it led the UK to introduce generalised import controls, could have 'widespread repercussions on the trade and payments practices of other countries and thus on economic stability generally'.[78] This meant that government should and could 'exploit to the full the Fund's readiness to understand our domestic political constraints'.[79] Strategically, it was critical to anticipate the strains that an IMF application would put upon government relations with the TUC and political supporters. It was 'inevitable' for the government to consider negotiations with the TUC and the IMF 'in close relationship to each other'.[80] The Chancellor scheduled preliminary discussions with the Cabinet and the TUC with the goal of reaching a collective decision to go to the IMF.

Nurturing union support was a constant preoccupation. Mere rumours of TUC calls for employment-creating measures or unorthodox trade restrictions harmed financial confidence. In a series of meetings, the Chancellor explained that most international governments agreed

[73] TNA: CAB197/56, 'Lever to Chancellor, "Our Financing Problem and Our Policies"', 19 July 1976.
[74] TNA: T378/10, 'Britton, "Economic Strategy and the PSBR"', 19 July 1976.
[75] TNA: T378/10, 'Hopkin to Wass, "A PSBR Target"', 19 July 1976.
[76] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 13 July 1976"'.
[77] TNA: T364/50, 'Isaac to Wass', 6 September 1976.
[78] TNA: CAB197/56, 'HMT, IMF Stand-By', September 1976.
[79] TNA: CAB197/56.
[80] TNA: CAB197/56.

that sterling was undervalued but the markets took a different view, particularly triggered by fears of monetary expansion.[81] The TUC emphasised that continuing high unemployment and inflation brought them 'tremendous political problems'.[82] Any government policy seen as unhelpful for employment, inflation, and investment, like historically high interest rates or further fiscal retrenchment, could jeopardise pay restraint. The goal of getting inflation to single figures had been crucial for pay restraint compliance, and the unions had delivered their part in full. But the lack of results was producing discontent. While 'trade unions were constantly told that they could do great damage', the 'successive solutions they [TUC and government] had come up with seemed to have done the economy no good'.[83] Wage restraint was 'insignificant compared with the damage that financial manipulation could do'.[84] The TUC could not support going to the IMF if it involved further cuts in living standards. Additional policies of symbolic significance on import controls or prices needed to be introduced within months, not years. The Chancellor sympathised but reiterated, in different meetings, that alternative policies were not an option: they would bring more difficulties.

To keep the TUC open to collaboration, the Chancellor adopted a stance based on transparency and honesty. He had learned that promises could become a liability. Healey stated that a successful IMF loan was only '*likely* to be a major calming influence on the market'.[85] The government could not responsibly promise that a specific policy package would put a definite end to downward pressure on the pound because sterling was 'in a market situation'.[86] He also sought to combine the prospects of going to the IMF with more reassuring measures for the unions, like a complementary arrangement (safety net) to deal with the sterling balances. Official sterling holders were not the main cause of the currency crisis, but investors feared they were a main component of outflows. An arrangement dealing with that threat could help.[87] While not easy, the relationship with the unions seemed to be going well. It conditioned the pace of IMF negotiations, but also allowed discussion on the situation and options and propitiated a close relationship between the Chancellor and union leaders.

The Treasury launched a parallel process for 'educating' Cabinet members 'in advance' of any deflationary package.[88] The Chancellor asked his paper for the Ministerial Committee on Economic Strategy to be drafted in 'forthright and dogmatic terms' to counteract 'increasingly strong pressures' for protectionist measures.[89] It was crucial to avoid overkill, i.e., more deflationary proposals than was strictly necessary. Every 'new bout of deflation made the alternative strategy of import controls look that much less unattractive in comparison with the existing policies'.[90] At the same time, political continuity was a necessary condition for import

[81] TNA: T364/32, 'Monck, "Discussion, 11 October 1976"', 12 October 1976.
[82] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 October 1976"'.
[83] TNA: T364/32, 'Monck, "Discussion, 11 October 1976"'.
[84] TNA: T364/32.
[85] TNA: T364/32, 'Walker to Barrat, "Discussions with the TUC on Sterling"', 22 October 1976 My italics.
[86] TNA: T364/32.
[87] TNA: T364/31, 'BoE, "Coping with the Sterling Balances"', 4 June 1976.
[88] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 October 1976"'.
[89] TNA: T364/15.
[90] TNA: T364/15.

controls to succeed. Healey estimated that industrial restructuring would take around seven years. On October 26th, the Cabinet agreed that the Treasury should undertake exploratory (noncommittal) work on 1977/1978 public spending reductions.

Developments in the foreign exchange markets precipitated the announcement of an IMF application. While Healey hoped to announce it after the Labour Party Conference in late September, intense selling forces in the foreign exchange market made him change his mind. According to historical agent's perceptions, the run on the pound had been intensified by rumours and fears that the left and the unions might succeed in their calls for protectionist measures and further nationalisation in general, and of the City in particular. In September 28, the Chancellor, heading to take a flight to the IMF/World Bank Annual Meetings, turned back and announced the application.

Striking a balance between satisfying the markets, avoiding the collapse of incomes policy, and preventing a breakdown of government was bound to be difficult. US policymakers suggested against an IMF loan. It was best to simply satisfy the markets. The US Treasury deemed it nonsense to keep arguing that the markets were wrong. If policies conformed to market views, any official loan was unnecessary.[91] In the words of the US Federal Reserve governor, Arthur Burns, there was no hope until government 'satisfied the world's financiers—awful, stupid, ugly though they were'.[92] Pleasing financial investors was easy enough: the government needed to abandon 'all this nationalisation nonsense', improve economic incentives, and reduce 'these awful public deficits'.[93] Politically, Burns also stressed that the UK could not carry on being 'run by the trade unions'.[94] This was not too different from what other central and private bankers conveyed.[95] Soundings with domestic financial investors delivered similar results. While there was little novelty in the stance that spending cuts were the key to restore financial confidence, officials were 'impressed with the strength with which' investors expressed it.[96] Financial people saw the scale and pattern of public expenditure as the 'expression and symbol' of the damaging values and attitudes of the Labour Party and its allies.[97] Not all spending cuts were equally confidence effective. Financial circles preferred politically difficult cuts affecting redistributionist and welfarist policies. The IMF took a similar position. There was 'no escape' from cutting the PSBR, as there was a 'real risk' that even if government convinced the IMF that they had 'done enough', the Fund could not 'promise to deliver'.[98] The mere IMF seal of approval could prove insufficient to bring forth a financial and economic turning point. In addition, the IMF had its own political constraints, as it too had a constituency, the creditor governments at the IMF Board, pressing hard for tough measures.

[91] TNA: CAB197/56, 'Monck, "Note for the Record"', 29 September 1976; TNA: T364/31, 'Mitchell to PPS', 21 June 1976.
[92] TNA: T364/32, 'McMahon to Wass, "Comments on the UK and Sterling"', 3 October 1976.
[93] TNA: T364/32.
[94] TNA: T364/32.
[95] TNA: T364/33, 'Wright to Palliser, "Sterling"', 3 November 1976.
[96] TNA: T364/32, 'Hopkin to Wass', 14 October 1976.
[97] TNA: T364/32.
[98] TNA: T364/32, 'Kent, "Note for the Record. Talk with Whittome and Finch"', 7 October 1976.

At this stage, direct or indirect remarks by IMF representatives or their political masters were not definitive. The Chancellor's preference for a neutral package that offset any spending cuts with tax reductions vis-à-vis the IMF's preference for further deflation were shakily grounded. From the Treasury's perspective, fresh economic forecasts were necessary to think 'what was needed in the UK's own interest before relations with the Fund clouded the issues'.[99] To be based on updated forecasts, any package would have to be introduced in early December.

5. The IMF Negotiations

With the results of a new forecasting round, the macroeconomic executive worked on devising an appropriate policy package. The BoE governor stressed the need for it 'to be on a scale likely to satisfy lenders'.[100] Healey agreed that confidence was the key issue. A large fiscal adjustment was needed. However, too deflationary a package 'would destroy the government'.[101] Treasury officials disliked the underlying analysis, not necessarily the specific proposals, and deemed it Leverism out of Lever's tendency to frame the situation as one concerned with confidence only. Confidence was crucial but, for example, the Treasury's Public Expenditure Division thought that 'there was a real problem that called for changes on their own merits'.[102] It was not simply out of confidence problems that action was necessary. Moreover, taking a hard stance was the best strategy to handle Cabinet.

The sense that winning IMF support could be insufficient permeated the whole process. The IMF's seal of approval could be insufficient to 'secure the virtuous circle' of falling interest rates, rising gilt sales, controlled monetary expansion, and a stable exchange rate.[103] The government depended on market sentiment to successfully implement its policies. If the 1977/1978 PSBR was deemed excessive by the markets, it would be almost impossible to contain monetary expansion. The 'climate of confidence' would worsen and holding the parity would depend significantly on overseas financial assistance, and external creditors like the IMF had the PSBR and monetary developments as their main preoccupation.[104] According to the Treasury, entering the virtuous circle was necessary for the medium-term interests of the country. It was a precondition for encouraging industrial investment, a policy goal shared by government, the TUC, and the CBI. At the same time, the Treasury Permanent Secretary asked his Treasury colleagues to take into consideration the potential political consequences of pushing the government too hard. Officials should consider 'whether the best outcome for the country would be achieved by Treasury officials demanding a deflationary package of at least £3 billion'.[105]

[99] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 12 October 1976"'.
[100] TNA: T364/66, 'Monck, "Meeting, 25 October 1976"'.
[101] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 25 October 1976"'.
[102] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 28 October 1976"'.
[103] TNA: T364/15.
[104] TNA: T364/33, 'Wass to Chancellor, "Six-Thirty Meeting"', 1 November 1976.
[105] TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 28 October 1976"'.

When the IMF team arrived in London on November 1st, the Treasury had a narrow negotiation mandate. It was unauthorised to discuss fiscal adjustments that could worsen unemployment. The Cabinet would only broaden the negotiating mandate if the IMF conveyed 'some idea of the changes in policy which they thought desirable'.[106] The first two weeks were spent reviewing current policy and forecasts. Government agreed that a policy adjustment was necessary, but sluggish forecast domestic demand and the prospect of a balanced balance of payments by mid-1978 suggested that it should be moderate. An immoderate adjustment would cause the collapse of incomes policy, the fall of the government, or both. The strategy of giving the Treasury a narrow mandate (1) delayed the negotiation process, thereby allowing government more room for manoeuvre in their interwoven relations, and (2) put the focus on the IMF staff's assessment of what they thought necessary to persuade the Board and main creditors. The IMF team was deeply concerned about the gloomy forecasts and thought they were too pessimistic. Non-action was not an option. Finding a bridge between what the IMF would require and what government would be able to offer seemed difficult. But the IMF resisted giving policy prescriptions. They rejected the concept of negotiation, as it was 'no part of the Fund's role to impose policies on member countries'.[107] They understood government had various 'constituencies' but stressed that the IMF's 'own constituency' would press for policy changes.[108] In the end, the IMF acceded to make more concrete prescriptions the week of November 15-19.

From the outset, the PM made it clear that the package needed to be broader than IMF conditionality. Besides some further selective import controls, a key additional component was a safety net to deal with the sterling balances overhang. These additional measures were critical to get union and party support.[109] The government launched a parallel negotiation process and a public campaign to convince industrial countries to participate in the safety net (Cross & Hornsby, 1976; Stephenson, 1976; Vogl, 1976). The PM explained to his US, German, and French counterparts that the UK had the tighter incomes policy of all western industrial countries. In February and July 1976, the government had introduced measures, including spending cuts, to reduce the prospective PSBR in three and two billion pounds respectively.[110] On top of this, the industrial strategy, warmly endorsed by the IMF, unions, and industrialists, was taking shape. But despite evident progress, continued pressure on sterling threatened the whole economic policy. Devaluation fed inflation and endangered incomes and industrial policies. To convince its supporters that further harsh measures were necessary, the government needed to offer 'some light at the end of the tunnel' by putting an end to the perennial threat of withdrawal of sterling balances.[111] Otherwise, the government would be

[106] TNA: T364/50, 'Monck, "Meeting, 11 November"'.
[107] TNA: T364/50.
[108] TNA: T364/50.
[109] TNA: T364/33, 'Stowe, "Note for the Record"', 5 November 1976; TNA: T364/15, 'HMT, "Meeting of Second Secretaries, 9 November 1976"'.
[110] OH, 'Callaghan to President Ford', 12 November 1976, https://history.state.gov/historicaldocuments/frus1969-76ve15p2/d245.
[111] OH; TNA: CAB197/56, 'Hunt to Lever, "Draft Speaking Note for the Emissaries"', 5 October 1976; TNA: PREM16/801, 'PM's Office, "Telephone Conversation"', 16 November 1976; TNA: T364/33, 'Stowe to Monck, "PM's Talk with Chancellor Schmidt"', 3 November 1976.

unable to resist the Cabinet's and unions' protectionist pressures. To US authorities, the government also said that pure deflation would push the UK towards a siege economy and force severe cuts on defence spending. To the Germans, it stressed that such a left-ward shift in British economic policy could have significant consequences for other European countries experiencing similar problems, like France and Italy. A safety net could thus be helpful to avoid the extremes represented by Eurosceptics and those opposed to the western defence system. The safety net was an economically and politically necessary supplement to the IMF loan.[112]

The US Treasury and the Fed were unconvinced that the safety net was economically necessary and feared it would substitute IMF conditionality. This called for a careful approach to the US, targeted at the more collaborative Secretary of State Kissinger and President Ford. Of course, the safety net would allow the IMF deal not to bear all the burden of satisfying the markets. But the main goal did not relate to softening up conditionality but to political coalition building with reference to the Labour Party and the unions.[113] The government sent Lever to the US to present the economic position and policies to the US Government between November 14-16.[114] The visit's goals were (1) to present the British case that no harsh conditionality should be imposed through the IMF, and (2) to get US support for the safety net.

The literature interprets Lever's mission as an attempt by the PM to substitute the safety net for the IMF loan (Burk & Cairncross, 1992, p. 113) or at least to soften the US stance towards the IMF negotiations as much as possible (Burk, 1994, p. 364; Harmon, 1997a, p. 177, 1997b, p. 11), and concludes it was unproductive to that end (Wass, 2008, p. 252). However, softening up the IMF terms was a generic remit. The IMF team had not yet disclosed any concrete loan conditionality. They gave their first hints of policy prescriptions the same Tuesday, November 16th that Lever saw President Ford. Archival evidence does not support Burk's (1994, p. 364) claim that 'drastic' IMF conditions in the form of spending cuts triggered Lever's trip. When Callaghan telephoned President Ford, less than an hour before the latter met Lever on November 16th, he was still unaware of what conditions the IMF would propose. Moreover, the PM stated clearly that his main concern was the safety net.[115]

Archival evidence shows the PM's awareness of being immersed in a process of interwoven relations. When Lever telephoned the PM on November 17th, he reported that US reception had been very friendly but uncommitted. His visit might have had sufficient impact for the IMF's demands to be lower than otherwise and, for that reason, he advised the PM not to authorise the Chancellor to include any public expenditure cuts in his initial offer to the IMF. But the PM asked: if, because of British efforts in general and Lever's mission in particular, IMF

[112] OH, 'Note from the Government of the United Kingdom to the White House', 17 November 1976, https://history.state.gov/historicaldocuments/frus1969-76ve15p2/d248; OH, 'Memorandum from the President's Assistant for National Security Affairs (Scowcroft) to President Ford', 2 December 1976, https://history.state.gov/historicaldocuments/frus1969-76ve15p2/d253; TNA: T364/32, 'McMahon, "Note for the Record. Emminger and the Sterling Balances"', 28 October 1976; TNA: T364/33, 'Stowe, "Note for the Record"', 1 November 1976.
[113] TNA: T364/33, 'Monck, "Meeting, 9 November 1976"'.
[114] TNA: T364/50, 'Monck, "Meeting, 11 November"'.
[115] TNA: PREM16/801, 'PM's Office, "Telephone Conversation"'.

conditionality was ‘lower than they would otherwise have dared to put forward, how will the market take it when they hear it?’.[116] Callaghan was hesitant that the mere IMF seal of approval sufficed for the policy package to satisfy financial investors. In his words, ‘we've got two constituencies here. We've got our own people, and selling it to them, but we've also got to make sure that whatever we sell to them is regarded as adequate by our other constituency’, the markets.[117] Callaghan was more concerned with finding a suitable complement to whatever fiscal retrenchment was necessary to satisfy the markets than with fighting conditionality at all costs. That's why the IMF loan and the safety net could not be ‘taken in succession’ but needed to ‘be part of the whole scene’; ‘there has got to be something to be sold to our people’.[118] Of course, the PM opposed excessive fiscal retrenchment. But his main worry was that any deflationary action had to be sufficient to satisfy financial investors and appropriately complemented with additional measures to make the package more palatable for government supporters and partners.[119]

The IMF team gave the first hints on their prescription in the afternoon of November 16. It did so by using an opposite matching game between the situation that would result if the deal did (or not) convince financial markets and represent a turning point for financial and industrial confidence. Financial policy, i.e., the PSBR and monetary policy, would determine which of these two counterfactual situations emerged because it interacted directly with other policies and ‘because determination and credibility are judged at home and abroad in relation to the stance of financial policy’.[120] The IMF said that it did not favour deflation per se. Without a policy change, there would be a worse recession later, risking all progress achieved since 1975. They acknowledged that some ‘faith’ was necessary to expect financial orthodoxy to have rapid desirable effects on private spending and investment but, otherwise, there would be excessive monetary expansion and the whole economic strategy could collapse.[121] The IMF ‘genuinely’ believed the overall economic strategy to be ‘right’, and commended the progress achieved regarding inflation, industrial relations, and investment.[122] Cooperation between government, unions, and management on pay policy and productivity was crucial. But the government needed to take measures of a convincing nature and scale to increase the pace of progress. The IMF proposed a two-year standby programme with quarterly numerical targets. A substantial reduction of the nominal PSBR in the following years was necessary, mainly through spending cuts. In view of the political situation, it might be possible to combine the policy package with measures to restrain imports selectively and the safety net. The PM was satisfied with the general shape of IMF proposals. He could accept a package that considered PSBR reduction, some form of import restraint, and a safety net. ‘We could sell this’.[123]

[116] TNA: PREM16/801, ‘PM's Office, “Transcript of a Telephone Conversation”’, 17 November 1976.
[117] TNA: PREM16/801.
[118] TNA: PREM16/801.
[119] TNA: T364/50, ‘Monck, “Meeting, 11 November”’.
[120] TNA: CAB197/56, ‘IMF, “Memorandum Prepared by the IMF Staff Team in London”’, 16 November 1976.
[121] TNA: T364/50, ‘Stowe, “Meeting”’, 23 November 1976.
[122] TNA: CAB197/56, ‘IMF, “Memorandum Prepared by the IMF Staff Team in London”’; TNA: T364/50, ‘Watts, “Note for the Record”’, 16 November 1976.
[123] TNA: PREM16/1605, ‘Stowe, “Meeting”’, 16 November 1976.

The IMF proposed an £8.5bn PSBR target for 1977/1978, and a £5bn DCE target coupled with a £6.5bn PSBR target for 1978/1979. Public spending cuts of £1.5bn in 1977/1978 and £2.5-3bn in 1978/1979 had to provide the main means of achieving the targets. The Treasury questioned the scale of IMF proposals and suggested a £9.5bn 1977/1978 PSBR target instead. According to officials, most economic experts outside government thought economic circumstances warranted only a moderate adjustment. The Fund overstated the relevance of meeting financial targets. The markets were perfectly capable of understanding if the PSBR resulted higher than expected because of lower than forecast economic activity. Moreover, there was not one uniquely consistent relationship between monetary aggregates (be it DCE or £M3) and the PSBR. 'Heroic' assumptions were needed to work out consistent targets for the PSBR, £M3, and DCE.[124] The relationship between the PSBR and the monetary targets depended on the propensity to save, economic activity, and confidence (see chapter 6). Politically, substantial progress since 1975 had been possible because of consensus with unions and industrialists, neither of which favoured further significant restriction of demand. Officials agreed that spending needed to be reduced to remedy what they deemed a structural imbalance on that side. The problem was that the government had to make those adjustments at a time of cyclical disequilibrium, and at incalculable social and political cost. This required cautiousness.[125] IMF representatives acknowledged the relevance of consensus but pointed to the need to convince the IMF board, the creditor countries, and the financial markets. A £9.5bn 1977/1978 PSBR target was insufficient. The key was to get a downward medium-term trend in spending, with cuts in both years. A package focused on 1978/1979 with a 'credible lead' in 1977/1978 could both convince the markets and avert too strict short-term deflation.[126] To make the 1978/1979 target credible it was critical to go further than the July £9bn target.

The PM and the Chancellor used the IMF's opposite counterfactual scenarios to convince the Cabinet that fiscal retrenchment was necessary and get the negotiation mandate broadened. While much of IMF thinking was 'woolly', their proposals were not unreasonable.[127] Some reduction in the PSBR was essential. With unchanged expenditure and tax policies government would 'face very severe financing problems over the next year or two, both at home [PSBR] and abroad [balance of payments]'.[128] The scale of action suggested by the IMF was 'about right', provided it was conditional on the improvement of economic activity.[129] Cabinet should judge the proposals against the alternative of a collapse in the economic strategy caused by further slide in the sterling parity and uncontrolled monetary expansion. While involving difficult decisions, the IMF agreement represented 'an opportunity to establish a viable path to recovery'.[130] If it carried the support of creditor countries and financial markets, there would

[124] TNA: T364/50, 'Watts, "Note for the Record"', 8 November 1976.
[125] TNA: T364/50, 'Watts, "Meeting, 18 November 1976"'; TNA: CAB197/56, 'Watts, "Note for the Record"', 26 November 1976; TNA: T364/51, 'Pliatzky to Wass, "IMF Consultations"', 1 December 1976.
[126] TNA: CAB197/56, 'Watts, "Note for the Record"', 25 November 1976; TNA: T364/50, 'Watts, "Note for the Record"', 26 November 1976; TNA: T364/50, 'Whittome to Wass', 28 November 1976; TNA: CAB197/56, 'Wass to PPS', 19 November 1976.
[127] TNA: T364/50, 'Watts, "Draft Speaking Note"', 12 November 1976.
[128] TNA: CAB129/193/1, 'Memorandum by the Chancellor, "IMF Negotiations", CP(76)111', 22 November 1976, para. 2.
[129] TNA: CAB129/193/1, para. 10.
[130] TNA: CAB129/193/1, para. 19.

be a complete transformation of the economic and confidence situation. Moreover, it would be possible to announce a safety net along with IMF conditionality.

The Cabinet resisted IMF proposals strongly on the grounds that their scale was politically intolerable. They would cause more unemployment to the already unbearable forecast of 1.75 million unemployed. They would break the partnership with the unions and could lead to the split of the Labour Party. At the same time, most Cabinet members agreed that getting the IMF loan was necessary and mandated the Treasury to negotiate better terms. Cabinet also mandated the PM to meet directly with the IMF and approach other heads of government. While he accepted, Callaghan concluded the discussion by stressing the need for government to keep in mind 'both domestic opinion', on which government policies depended, 'and overseas opinion' and financial confidence, which were 'also of cardinal importance'.[131] Softening up IMF conditionality terms too far via political pressure could mean that the package would not satisfy the markets.

The PM presented the position of the Cabinet to his German and US counterparts on November 23. The Cabinet deemed the scale of IMF proposals economically unjustified. Politically, they would break the partnership with the unions and would fail to get Parliament support.[132] Callaghan referred, again, to the likely consequences for defence spending and asked for President Ford's and Chancellor Schmidt's support in convincing the IMF to devise politically acceptable conditions. Schmidt agreed with the political arguments but was unconvinced by the economic reasoning. The real economic problem was inflation, which made him concerned with monetary control and, consequently, the PSBR.[133] Privately, Ford and Schmidt agreed that it was 'in the economic interest that we impose strong conditions on the British' but that 'we should not go so far as to overthrow this government'.[134] Such situation could lead to internationally harmful political instability. Callaghan's efforts and public pressure had some effects in relation to the safety net in the US. While the economic case for it was still considered weak, 'the political argument in favour' was 'now strong', partly because expectations of a safety net were already 'too widely held to make disappointment of them safe'.[135] It could prove possible to synthesise US insistence on the need for harsh conditionality and the PM's argument that the safety net complement would allow him to convince Cabinet.[136] When reporting his efforts to Cabinet, Callaghan stated that neither the US nor the German governments would interfere with the IMF, but stressed that 'the loan negotiations were only one element in the situation' and that others, such as the safety net, would be on the table conditional to reaching a successful agreement with the IMF.[137]

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[131] TNA: CAB128/60/11, 'Conclusions of Cabinet Meeting, CM(76)33', 23 November 1976.
[132] OH, 'Callaghan to President Ford', 23 November 1976, https://history.state.gov/historicaldocuments/frus1969-76ve15p2/d250.
[133] TNA: T364/33, 'Telegram, Wright to Crosland', 24 November 1976.
[134] OH, 'Memorandum of Conversation', 24 November 1976, https://history.state.gov/historicaldocuments/-frus1969-76ve15p2/d251.
[135] TNA: T364/33, 'Telegram 3959, Kent to Littler', 23 November 1976.
[136] TNA: T364/33, 'Telegram 3962, Ramsbotham to Crosland', 23 November 1976.
[137] TNA: CAB128/60/13, 'Conclusions of Cabinet Meeting, CM(76)35', 1 December 1976; TNA: CAB128/60/14, 'Conclusions of Cabinet Meeting, CM(76)36', 2 December 1976.

Callaghan said to the Fund team that he was aware that financial markets would find unsatisfactory an IMF deal with too little action on the PSBR. The PSBR was now 'a kind of talisman'.[138] But too large an adjustment could make the TUC partnership collapse. The TUC General Secretary had hinted that the IMF proposals endangered pay restraint. The same logic applied vis-à-vis the Cabinet. The government could fall. In response, the leader of the IMF team stated that 'it would be a defeat for the IMF if their advice led to a government failing'.[139] It was out of awareness of the political constraints that they put the focus on 1978/1979. The expected economic recovery meant that little policy adjustment would be needed that year. If the government went below £9bn in 1977/1978, it would have to do little more in 1978/1979. The confidence effects of a low PSBR would mean that any short-term increase in unemployment would be minimal. This 'step change' in policy 'would create a wholly new climate in the country, leading to higher investment, higher exports and a better all-round economic performance'.[140] While the IMF could not estimate the potential growth effects of the package, they argued that 'government must have faith in this effect if it was to go forward'.[141]

The main difference between the government and the IMF concerned the timing and pace of the adjustment. They agreed on the need to satisfy financial investors. Policymakers thought that not doing so would either force them to go once again through the 'agony' of yet another policy review, or to the 'fatal' outcome of having to adopt a 'siege economy'.[142] But the government took a more cautious stance intending to 'steer a middle course between the dangers of... monetary explosion and... the collapse of incomes policy'.[143] Treasury officials discussed how to deal with creditor optimism regarding prospective economic activity. There was great risk in accepting unrealistic financial targets based on unjustified optimism regarding prospective economic growth. It was impossible to be certain about any qualitative or quantitative forecasts. The terms of the IMF loan could be a critical factor in proving the government or the IMF wrong. All forecasts or simulations assumed a successful restoration of confidence, i.e., that the domestic and external deficits were successfully financed. Estimates of the likely effects of different policy packages had internal contradictions and would be falsified in practice. The Treasury and the Chancellor agreed that 'the smaller the package, the greater this risk must be'.[144]

At this point, the Chancellor adopted an offensive strategy when presenting the available options to the Cabinet. First, he stated that there was a genuine case for fiscal adjustment,

[138] TNA: T364/50, 'Stowe, "Meeting"'.
[139] TNA: T364/50.
[140] TNA: CAB129/193/12, 'Note by the Chancellor, "IMF Negotiations: Alternative Packages", CP(76)122', 30 November 1976, para. 17.
[141] TNA: T364/50, 'Stowe, "Meeting"'.
[142] TNA: T364/50, 'Watts, "Note for the Record"', 26 November 1976; TNA: T364/50, 'Healey to PM, "IMF Negotiations"', 25 November 1976; TNA: T364/50, 'Stowe, "Meeting"'.
[143] TNA: T364/50, 'Watts, "Note for the Record"', 29 November 1976.
[144] TNA: CAB129/193/12, 'Note by the Chancellor, "IMF Negotiations: Alternative Packages", CP(76)122', para. 4; TNA: T364/50, 'Healey to PM, "IMF Negotiations"'; TNA: T364/50, 'Monck, "Meeting, 11 November"'.

regardless the need to repay short-term external debt. There was no viable alternative. Alternative policies would have disastrous consequences leading to excessive interest rates, monetary explosion, devaluation and, in the end, fiscal retrenchment anyway. Second, the government depended on its capacity to mobilise external credit. Failure to reach agreement with the IMF would prevent the UK from accessing external credit and could result in 'continuous and probably accelerating depreciation, leading to South American-style inflation, with higher import prices feeding through to wages and vice versa'.[145] Cutting the PSBR was necessary because, given monetary control commitments, financing it would need a sharp deflationary tax increase or an interest rate hike that would 'cripple British industry'.[146] The Chancellor presented PSBR cuts as necessary to sustain the economic strategy, not externally imposed. In contrast, severe import and exchange controls constituted a total reversal of the government's economic policy. It amounted to withdrawing from the EEC, would cause harmful international retaliation, and spur emulation by other countries. In the end, Cabinet rejected adopting the protectionist alternative.

In parallel negotiations with the IMF, the Chancellor resorted to opposite matching games. He used political constraints in his favour and stated that only a Cabinet minority supported him. A protectionist breakthrough was a real danger. Witteveen was aware that the government might use internal divisions or incomes policy as negotiation sticks. He argued that as the alternative was the fall of the government, the Chancellor's view 'could and should prevail'.[147] He did not think the TUC would bring government down either. Politically, failing to reach agreement with the IMF was not an option. The most important goal was to satisfy the markets, and the sole IMF seal of approval was insufficient.[148] The Chancellor and PM counterargued using a different counterfactual. The IMF misjudged the political situation of a Labour government that was cutting spending for the third time in a single year. Failing to get the loan would bring government down, but so would failing to get conditionality accepted by Parliament and Party. The Conservatives would likely win the subsequent general election and the PM would lose control of the Labour Party to the left. 'Rather than go down fighting the Labour Party' Callaghan preferred government to fall 'because it was fighting the IMF'.[149] It might be possible to win a general election with a protectionist economic strategy and, in case not, at least the moderates would keep control of the party. 'It was easier to ask for sacrifices which would enable the country to stand on its own feet than to do so in order to get a foreign loan'.[150] Too soft a package was undesirable. But this had to be balanced with other considerations. Losing control of the party was not an acceptable price for staying in government, and all sides agreed that there was no advantage to the IMF in causing the government to fall. These arguments were taken seriously by the IMF team. In their view, avoiding a failure of the negotiations with the UK was important 'in view of the world

[145] TNA: CAB129/193/13, 'Memorandum by the Chancellor, "Economic Policy and the IMF Credit", CP(76)123', 30 November 1976, para. 4.
[146] TNA: CAB128/60/14, 'Conclusions of Cabinet Meeting, CM(76)36'.
[147] TNA: T364/51, 'Monck, "Discussion, 1 December"', 1 December 1976.
[148] TNA: T364/51, 'Watts, "Note for the Record"', 2 December 1976.
[149] TNA: T364/51, 'Monck, "Meeting, 3 December"'.
[150] TNA: T364/51.

situation'.[151]

The solution was to condition any PSBR and DCE targets to the level of economic activity. This settled the issue of diverging economic prognosis—the IMF expected a more buoyant economy in 1978/1979 than the Treasury. As targets would be contingent on the IMF's qualitative forecast, the Treasury thought the contingent additional fiscal adjustment for 1978/1979 was unlikely to be required. Provided there was a 1977/1978 PSBR of about £8.7bn, achieved mainly by spending cuts, the package was likely to be well received by financial investors. On these lines, the package was unlikely to put too much strain on the partnership with the TUC. To Cabinet, the formula made it possible to promise to offset 'any excess deflation' by tax reductions, assistance to industry or anti-unemployment measures.[152] Witteveen agreed, 'albeit very reluctantly'.[153] The IMF had made substantial concessions, and there was increasing questioning about the Fund's status as an impartial international institution. Similar concerns led the Fund to resist British requests to modify standard procedures and allow the government to get at least $1.5bn in their first drawing instead of quarterly drawings of about $500mn each. Concessions made to the UK regarding loan conditionality or procedure would impair the IMF's capacity to impose harsh terms on other creditors. For example, Italy and perhaps France were likely to apply for their upper credit tranches and would surely ask similar treatment.[154]

When agreement within Cabinet and with the IMF was in sight but not set in stone, the PM insisted on the necessity of complementing the IMF deal with other measures. Besides the safety net, he considered an import deposits scheme and additional spending for industrial investment. Callaghan told the Cabinet that he sounded the import deposits idea with other heads of government. It would have positive PSBR effects and 'could make the whole package more acceptable' to the TUC.[155] It would be seen as a way of strengthening national industry. In the end, however, while some members deemed it politically beneficial, Cabinet decided that it was best not to include import deposits because of their likely negative initial effect on unemployment and because they could endanger the safety net.[156] On immediate industrial assistance and employment creation, close advisers to the PM recommended against.[157] It could damage confidence and have deflationary effects. But the Cabinet agreed to announce such measures for 1977/1978. Callaghan argued that it was 'important that the package of measures we announced should not be wholly negative but should have a component which deliberately supports the industrial strategy, which is at the centre of our economic policy' and political coalition-building.[158] This became even more important after including the safety net in detail

[151] TNA: T364/51.
[152] TNA: CAB128/60/14, 'Conclusions of Cabinet Meeting, CM(76)36'.
[153] TNA: T364/51, 'Wass to PPS, "IMF Standby"', 5 December 1976.
[154] TNA: CAB197/56, 'Ryrie to Mitchell, "IMF Negotiations: Trigger Clauses and Front-Loading"', 22 November 1976.
[155] TNA: CAB128/60/14, 'Conclusions of Cabinet Meeting, CM(76)36'.
[156] TNA: CAB128/60/17, 'Conclusions of Cabinet Meeting, CM(76)39', 7 December 1976.
[157] TNA: CAB197/56, 'Lever to PM', 7 December 1976.
[158] TNA: CAB129/193/13, 'Memorandum by the Chancellor, "Economic Policy and the IMF Credit", CP(76)123', para. 15.

proved impossible, mainly because of US resistance. The government could only say, with international approval, that an agreement was imminent and that it would be presented in detail very soon.[159]

The last week and a half of negotiations were spent mainly on presentational aspects. Contrary to the Treasury's initial desires, the IMF considered it crucial that both DCE and PSBR should have the status of performance criteria. Treasury officials worried that combined quantified monetary and fiscal targets intensified financial investors' infrastructural power and constrained debt management. Similarly, the fact that DCE was to be the main monetary performance criterion does not mean that £M3 was ignored. At first, the Treasury wanted to include only £M3 ranges in the letter of intent to support the credibility of the policy mix and avoid having three fixed numeric targets for £M3, DCE, and PSBR. In the end, they agreed with the fund that no reference to £M3 figures would be made to make it plain that DCE was the performance criteria. The Chancellor would instead refer to the £M3 range in his speech, and it would be part of the IMF staff paper for the Fund's executive board. The figures for the three indicators (PSBR, DCE, £M3) had been derived and made compatible through the counterparts identities, with £M3 figures being consistent with the chosen DCE path.[160]

Following the PM's lead, the Treasury stressed that the tone and framing of the letter of intent, which would be published, were very important. The letter was a policy device with potentially significant effects on the reception of its different publics, e.g., the markets, the party, the unions, and the British people more generally. Some senior officials criticised the general tone of the first draft version. It was too negative and focused exclusively on the cuts, restrictions, and conditions without paying sufficient attention to 'the positive aims and hopes of the government's strategy'.[161] The official version made greater efforts to put the restrictive policy measures into a context that made it 'easier for people to understand their purpose'.[162] Presentational work aimed to frame the package as a reassertion of the government's medium-term strategy and its key aspects of a return to full employment through export-led and investment-led economic growth. The Chancellor described the whole package as a 'medium-term programme for national recovery' (HC, 1976e, col. 1525).

6. Conclusion

This chapter presented the story of how relational pondering, polyvalent performances, and opposite matching games influenced negotiations between the British government and relevant

[159] TNA: CAB128/60/19, 'Conclusions of Cabinet Meeting, CM(76)41', 14 December 1976.
[160] TNA: T364/51, 'Littler to PPS, "Nature of Commitments in IMF Letter of Intent"', 6 December 1976; TNA: T364/51, 'Littler to Wass, "IMF: Performance Criteria"', 8 December 1976; TNA: T364/51, 'Bridgeman to Littler, "Letter of Intent"', 7 December 1976; TNA: T364/51, 'Bridgeman to Couzens', 7 December 1976; TNA: T364/52, 'Monck to Stowe, "Figures for IMF Letter of Intent"', 13 December 1976; TNA: T364/52, 'Middleton, "Note for the Record. Letter of Intent and Memorandum of Understanding: PSBR and DCE"', 15 December 1976; IMFA, 'EBS/76/519, European Department Report', 16 December 1976, 10–13, https://archivescatalog.imf.org/-Details/ArchiveExecutive/125005219.
[161] TNA: T364/51, 'Ryrie to Lord', 7 December 1976.
[162] TNA: T364/51.

counterparties during 1975 and 1976. The 1976 IMF negotiations represent a case in which these dynamics were particularly intense. Spending cuts for the third time in a sole year were a difficult swallow for a Labour government. The challenge was to strike a balance between the need to entice financial markets and satisfy foreign governments and the IMF, while holding government to power, maintaining party unity, and the partnership with the TUC.

What have we learned from taking a relational approach to study a much-debated economic policy episode like the 1976 IMF loan? By situating the December letter of intent in a larger relational process, we are better equipped to make sense of its timing, contents, and connotations. If we study the 1976 IMF loan by analytically isolating it from other processes and relations, we end up taking it as an episode in which what was at stake was Labour's commitment to full employment, Keynesianism, and/or the climax of a creditor strategy to deceit the Labour government into the IMF and humiliate the UK. By placing the event in a larger process and taking a relational approach, this chapter shows that full employment as a short-term economic policy goal had been considered unfeasible in the circumstances of the mid-1970s before the IMF loan, and that the authorities had an active role in determining the timing and sequence of events. More than naively deceived into a swap arrangement that forced them to go to the IMF, the government decided to put off an IMF application in early June because it would have undesirable effects on the vote of the TUC special conference. It would endanger incomes policy in particular and the alliance with the unions in general and force the government to introduce public spending cuts operational from 1976/1977 onwards instead of 1977/1978 onwards.

Polyvalent performances, relational pondering, and opposite matching games were critical for mid-1970s economic policy outcomes. At all times, the PM, with Healey's support, aimed at polyvalent performances. It was not the possibility of IMF conditionality being *too high* that concerned Callaghan the most but the chance that it could be *too little* to convince what he deemed the government's financial market constituency. Callaghan did realise the system of power in which he was playing. He did it, however, in a more nuanced way than the literature portrays. Thinking of the domestic/international, industrial/financial, fiscal/monetary dimensions separately was not possible. He aimed to craft a policy package that contained saleable aspects vis-à-vis government supporters and partners as well as vis-à-vis financial markets and international governments. The package needed to be interpreted slightly differently by different audiences. Similarly, relational pondering constrained government policy options, but it also enabled policymakers' negotiation strategies. The government used its relations with the Labour left and the unions to negotiate with the IMF. In the end, despite the drama made at the time of the IMF deal and the later mythology about it (Clift & Tomlinson, 2008; Ludlam, 1992), the government was able to get relatively soft terms.

CHAPTER 8. CONCLUSION

1. A Relational Sociology of Debt

This thesis proposed a relational approach to sovereign debt. It offered a complement to social science research focused on the problems of indebtedness and enforcement, which provides a limited understanding of the political, economic, and sociological significance of government borrowing. Building on the relational frameworks developed by economic and political sociologists, the thesis argued that we must look beneath the quantity of debt and the problem of enforcement to study how government elites distinguish or debate the wisdom of distinguishing borrowing according to who the creditor is and what the government borrows for. To do so, it focused on three broad relational fiscal practices, symbolic fiscal practices, classification struggles, and interwoven relations. The empirical findings show that these relational fiscal practices shaped government elites (and non-government actors) understandings of economic policy options, contoured policymakers' communication of these options to relevant stakeholders like Parliament, voters, and financial investors, and structured political debates over the size of the state and the allocation of resources to different purposes.

The thesis makes three general original contributions to sociological knowledge. First, it deploys the theoretical and conceptual toolbox of relational sociology to propose a relational theory of public finance. Most scholars within the new economic sociology tradition study market institutions and participants, social networks, and the performativity of economic knowledge and socio-technical devices in market contexts. Sovereign credit, national budgets, and the budgetary process have been largely neglected and, as a result, much less theorised. From an economic sociology perspective, we know much more today than five decades ago about, e.g., money, household debt, financialisation, and accounting practices at the individual and private corporate levels. But we still know little about sovereign debt. This thesis contributes to remedy this by focusing on credit relations at the sovereign level. To do so, it defined relational as comprising inter-organisational relations, intra-organisational relations, and semantic relations, and studied them by looking at symbolic fiscal practices, classification struggles, and interwoven relations. Second, the thesis offers a catalogue of relational causal mechanisms and articulates these with existing theories. The catalogue helps to explain how relational fiscal practices shape government elites' understandings of available policy options, contour policymakers' communication of these options to relevant stakeholders, and structure political debates over the size of the state and the allocation of resources to different purposes. At the same time, the mechanisms may be useful beyond the British case and public finances.

Third, the relational approach to public finance brings together two fields of sociological research that have generally been apart from each other, namely economic sociology and historical sociology. For reasons mostly related to boundary work delineating the edges between the professional jurisdictions of sociology and economics, most famously represented by ‘Parson's pact’, until recently economists had an exclusive claim for studying the economy,

while sociologists studied the 'the social relations in which economies are embedded' (Stark, 2011, p. 7). Probably because they were attempting to question this traditional boundary, economic sociologists have devoted most of their recent work to the study of market behaviour, (private) economic organisations, and performativity, without showing much interest in the state or public finances. At the same time, historical sociologists have largely focused on macro processes like state-building, social revolutions, and capitalism, paying much more attention to political than economic phenomena. They have long studied large-scale phenomena like state formation, social revolution, and the origins of capitalism. These parallel trends resulted in a contrast between a much more micro-oriented economic sociology and the tendency of historical sociology to focus on macro social and political outcomes. This thesis brings them together by focusing on the state and the public finances from a historical and relational perspective.

By focusing on relational fiscal practices and bringing together these two subfields of sociological research, this thesis qualifies some critical foundational remarks of fiscal sociology. While fiscal sociology has frequently been called to reconnect economic, historical, and political sociology, it has been 'largely stillborn' (Padgett, 1981, p. 75). The last such attempt, denominated 'new fiscal sociology', has helpfully contributed to a contractual conception of taxation. From this perspective, modern taxation systems and social contracts constitute each other (Martin et al., 2009). But the new fiscal sociology has largely neglected sovereign debt and the budgetary process. Key foundational ideas have thereby gone unquestioned. Let me give two examples. First, take Goldscheid's classic statement that 'the budget is the skeleton of the state stripped of all misleading ideologies' (quoted in Schumpeter, 1918/1991, p. 11). Goldscheid's argument that an adequate sociological understanding and theorisation of public finances entails looking at the interconnections between its different components, e.g., revenue and spending, is consistent with a relational theory of public finance (Goldscheid, 1958). Studying revenue and spending separately amounts to overlooking the sociological foundations of the national budgetary process. But we need to bear in mind that the reality those numbers represent is eminently contested. The relation between the different components and stages of the budgetary process, as represented by the national budget, is the outcome of protracted processes of representational labour in which diverse forces and interests participate. Public finance statistics are not neutral depictions of the state, the economy, and/or economic policy. While it is correct that only an expansive sociological analysis of the public finances can find out who, or whose interest is putting the state machinery in motion and 'speaking' through it (Schumpeter, 1918/1991, p. 138), it is crucial to remember that budgets are far from being a skeleton deprived of misleading ideologies. Symbolic fiscal practices represent one possible, contested skeleton of the state and commonly embody different interests, ideologies, and necessities that shape their trajectory over time. They are, no doubt, ideologically charged. Ideology is constitutive of any such classificatory schema.

Something similar happens with the Schumpeterian preoccupation with a more or less imminent collapse of the state. From this perspective, modern governments deal with simultaneous contradictory pressures to increase public spending and avoid interfering with the economy (Swedberg, 1991; but Ebner, 2006). Of course, fiscal crises understood as chronic

and uncontrolled mismatches between government revenues and spending, coupled with widely held crisis perceptions, are a real possibility. They may have significant impacts on the political process and economic development of a country (e.g., Labarca & Biehl, 2021). But we should be wary of theorisations of modern capitalism that explicitly or implicitly rely on a notion of markets and the economy as independent from and commonly victims of state intervention. One way to avoid such zero-sum conception of the state and the economy is to systematically analyse the purposes, sources, context, and structure of the public finances. To do so, we must place the analytical gaze upon the policymaking process and, especially, the politics of official knowledge. The processes of representational labour that underlie the official knowledge infrastructures make possible the assessment of the economic situation and policy options and convey relatively consistent fiscal schemas of the appropriate role of the state.

Symbolic fiscal practices are tools for fact-establishing and meaning-making. They establish, highlight, or play down the sources, purposes, and boundaries of government actions in general and of borrowing in particular. At the same time, they are the outcome of complex multi-dimensional social processes such as bureaucratic politics, economic policymaking, and fiscal politics. At the intra-state level, they are partly the product of bureaucratic conflicts of oversight, power, and control. At the policymaking level, they partly respond to policymakers' and their closest advisers' efforts to legitimise and establish, both within and outside the state, not only specific policy measures but also broader ways of knowing and thinking about the economy, the state, and economic policy. At the national political level, they partly result from competing interests and contests between different fiscal schemas or notions about what the state ought to be and do. Because none of these forces dominate over the others and national budgeting is an open-ended process, symbolic fiscal practices are not necessarily consistent and, moreover, are open to reinterpretation.

Overall, a relational perspective substitutes a focus on the sources, users, and purposes of public money for the traditional concern with the overall level of public spending and/or the quantity of debt. This is, I argue, a more realistic approach to modern political economies: modern capitalist markets are not pre-existing natural institutions but the product of constant state intervention to create, regulate, and support market mechanisms for structuring social and economic behaviour. If markets are, to a significant extent, the result of state intervention, it follows that we should dispose with the traditional dichotomy between state and markets that purports state intervention as anti-market or even anti-economic. The question relates to the types and scope of state action involved, and the specific combinations that configure a national economy at a given moment. For example, from a relational perspective, it is easy to see that the British Conservative Party has different notions of the role of the state in different policy domains. Historically, their anti-state economic ideology regarding social welfare and economic development turns into statism in the cases of defence policy and law and order. By situating the different stances vis-à-vis state intervention in relation to the different purposes, a relational perspective allows us to avoid totalising explanations based on descriptions of a determined government, party, or period, as interventionist or anti-intervention.

Empirically, each chapter contributed to different scholarly debates on post-war economic policy among historians, political scientists, economists, and sociologists. By paying attention to relational fiscal practices, the thesis focused on the structure of the debt in terms of creditors and instruments and placed its analytical gaze on the perspective of government elites vis-à-vis the economic and political situation, the tools of knowledge employed to make sense of the economic situation and formulate economic policy, conflicting ideas and interests within the state, and the influence of third-party interests, ideas, and behaviours. The next section discusses some general implications of these findings.

2. Chronological Arguments and Epochal Thinking

In the early 1930s, there were protracted debates worldwide about how to get national economies out of the recession that followed the 1929 crash. In a piece written at the invitation of *Redbook*, a popular American magazine, John Maynard Keynes wrote that America could spend its way into prosperity (Keynes, 1934/1978). For Keynes, the challenges confronted by the US and other national economies were broader than the need to promote economic recovery from the Great Depression. As he put it in a 1933 open letter to the US President, Franklin Delano Roosevelt, the task ahead was twofold. It comprised short-term economic recovery and more long-range economic and social reforms. Recovery was mainly concerned with the short term. Without being any less urgent, reform should be guided by more long-range and long-term concerns than immediate results. Although recovery and reform were related tasks, they were not to be conflated. Otherwise, one could hamper the other. If Roosevelt succeeded, 'new and bolder methods will be tried everywhere, and we may date the first chapter of a new economic era from your accession to office' (Keynes, 1933/1978, p. 289). Against traditional 'sound finance' arguments of orthodox classical economics, which considered deficit spending profligate or extravagant, Keynes stressed that the only profligacy and irresponsibility at the government level was 'to refrain from spending at a time of depression', for doing so caused unnecessary human misery and undesirable waste of human and non-human economic resources (Keynes, 1934/1978, p. 335). Public debt should not be mistaken by the debt of a household or corporation. 'It is the conception of the Minister of Finance as the Chairman of a sort of joint-stock company which has to be discarded' (Keynes, 1933, p. 188). Public debt is the inevitable outcome of a situation in which private expenditure is inadequate for the economy to function at capacity. Whenever the obstacle to recovery and reform was inadequate private expenditure, 'America can spend itself into prosperity' (Keynes, 1934/1978, p. 337).

Almost forty years later, in the middle of an international and domestic economic crisis, the Prime Minister of the United Kingdom, James Callaghan, addressed the annual Labour Party Conference of September 1976. The statement is worth quoting in detail:

> 'We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since

> the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step' (Callaghan, 1976).

The old 'cosy world' in which deficit spending could guarantee full employment was 'gone' (Callaghan, 1976). The traditional path to economic recovery was, at best, an illusion. 'For too long, perhaps ever since the war, we postponed facing up to fundamental choices and fundamental changes in our society and in our economy... we have been living on borrowed time' (Callaghan, 1976). Once again, as many times before in the UK and elsewhere, recovery and reform were seen as contradictory economic policy goals. Reform should precede recovery. Deficit spending was not to be considered inevitable during a recession anymore, for it had been just another way of kicking the can, of wining time before the ticking bomb exploded. Borrowing should stop being considered the representation of the government's national economic obligation, and instead should be conceived, once again, as the epitome of profligacy. Years later, Callaghan disclosed that Peter Jay, his son-in-law and a renowned monetarist journalist, helped him write the speech's most polemic passages (Callaghan, 1987, p. 425). He also stated that his claims were not theoretical or philosophical but historical. In the specific circumstance of 1976 UK, fiscal stimulus could not be the main tool towards economic recovery.

Callaghan's speech, the series of unprecedented in magnitude public spending cuts enacted by a Labour government, and the 1976 IMF loan, were particularly emblematic economic policy events at the time. The Conservative Chancellor of the Exchequer, Geoffrey Howe, quoted Callaghan's speech approvingly in his 1980 budget speech. The higher levels of government borrowing in the 1970s, relative to the 1950s and 1960s, were not explained by the stringencies of the oil shock and international economic crisis but by policymaker's 'impatience' and increasing addiction to deficit spending (HC, 1980, col. 1439). Callaghan's speech was a 'breakthrough' in the process of slowly coming to terms with the fact that public spending and the fiscal deficit should not increase during an economic recession (HC, 1980, col. 1440). A crucial aspect of the Thatcher governments was their performative efforts at presenting themselves as a radical break with what they deemed post-war socialism. They used Callaghan's speech as a confirmatory proof to that end. It was not about specific policies, but about radical change in the philosophy of government, social attitudes, and economic strategy. The Conservative governments of the 1980s exploited the prevailing mood of national crisis and offered specific interpretations of the political situation and challenges at hand (Saunders, 2012). The Thatcherite catastrophist narrative posed the need for a radical break with the recent past and justified it by reference to economic and moral decline, political ungovernability and union power, the advance of socialism, and state interventionism (Grimley, 2012). Economic problems were 'symptoms of a profound, long-term malaise in the British economy and British society' (Tomlinson, 2012, p. 62).

These contemporary interpretations became hegemonic beyond Conservative circles and are profoundly influential in academic scholarship. Most scholarship stresses the coherency, consistency, and success of the Thatcher governments in introducing a radical break from *the* post-war philosophy of government and policies. In the case of economic policy, a strongly

influential literature interprets the 1976 episode as a revolution in economic policymaking, marking a paradigm shift from Keynesianism to monetarism, or the first step to that end (e.g., Chick, 2020; Clark & Dilnot, 2004; Crouch, 2011; Davies, 2017; Green, 2020; Hall, 1986, 1992, 1993; Hay, 2001; Moran, 1987; Panitch & Leys, 2001; Prasad, 2006). This dominant account traditionally divides the history of post-war British economic policymaking into a Keynesian era conceived as a cross-party agreement and professional economics' consensus on full employment as the overriding policy goal, and a monetarist or neoliberal era defined by the rise of inflation as predominant goal and consequent abandonment of full employment. A slightly different version stresses that the shift from a social democratic settlement and Keynesian policy paradigm to a neoliberal paradigm seeking state retrenchment and the unleashing of free markets is best represented by privatisation rather than monetarism (Prasad, 2006, pp. 120–121). The following paragraphs join recent research that questions the accurateness and usefulness of these chronology arguments (Best, 2020; Clift, 2020; Edgerton, 2018, 2021b; Tomlinson, 2017).

Interpreting 1945-1970s and 1980s-2000s as static economic policy epochs is at odds with empirical reality. Without claiming exhaustiveness, I discuss three weaknesses of the argument. First, its punctuated-equilibrium notion of institutional change (Campbell, 2010; Capoccia & Kelemen, 2007; Streeck & Thelen, 2005) attributes more coherency than warranted to each policy epoch, overlooks heterogeneity or discontinuity within them, and discards less dramatic evolutionary changes that occurred before or after the critical juncture. Seen from the relational approach to debt, interpreting the 1945-1970s as one economic policy epoch is not possible. There are considerable discontinuities. Moreover, post-war economic policy cannot be defined as a single-goal policy regime. Economic policy had multiple goals—e.g., full employment, the balance of payments, inflation, economic growth, the exchange rate. Policymakers attempted at achieving the right balance between them, not at achieving one and disregarding the others. While no doubt a useful heuristic tool to guide research on the policy process, as an explanation the paradigm shift model risks reifying the past and delivering an a-historical and excessively epochalist account.

There is less continuity in 1945-1970s and 1979-1997 economic policy than this traditional argument concedes. If we take counter-cyclical policy in the form of deficit spending for economic and social reasons, as opposed to defence purposes, to be a central indicator of a Keynesian fiscal policy, the post-war decades are not particularly a case in point. On the one hand, government borrowing for, e.g., developmental or counter-cyclical purposes, was not seen as a legitimate tool. Governments confronted continuing resistance and boundary policing not only from the IMF and financial markets, but also from domestic economic commentators and, particularly but not only, Conservative politicians (see chapter 3). True, budgetary policymaking was geared towards aggregate demand management. But fiscal deficits were not a legitimate policy tool in that regard. Budgetary policy was mostly used for counter-cyclical purposes to *constrain* not *stimulate* aggregate demand—i.e., by cutting public spending and/or, increasing consumption taxes. As research on the early post-war years shows, the willingness to use a budget surplus to manage aggregate demand does not, in itself, imply a similar attitude toward using deficit spending for counter-cyclical purposes (Rollings, 1988). This is why

Richard Kahn's uneasiness about the debudgetisation of Local Authority borrowing, and his calls for having as encompassing budgetary conventions as possible, are telling. Because they kept thinking of budgetary policy in relation to the budget accounts instead of the national economic situation, politicians, and particularly Conservative governments, would take advantage of any apparent surplus in the budgetary accounts to cut taxation. Whatever conversion to Keynesianism and consensus around Keynesian notions of economic policymaking there was, it was less consistent than commonly acknowledged. On the other hand, when there was a deep economic crisis in the 1970s, fiscal policy was discussed in terms of profligacy, comparing the large PSBR with the relatively low deficits of the previous decades, and ignoring the fundamentally different economic contexts in which those deficits occurred (see chapters 5, 6, and 7). Something similar occurs with the following monetarist or neoliberal epoch. While much research focuses on the rise of inflation as central policy goal and the accompanying monetary targeting, the fact that the Conservatives' anti-inflation policy failed and was rapidly abandoned seems to be disregarded (see chapter 5).

Second, the paradigm shift narrative tends to assume a direct causal relation between the ideas and aims of policy and economic outcomes. This is similar to what Bulpitt once called ‘ideologism’, the tendency to draw direct causal arrows between economic theory and policy practice (Bulpitt, 1986, p. 31). Paradigm shift accounts tend to associate post-war full employment with the triumph of the so-called Keynesian revolution, and the increasing unemployment of the 1970s onward with the defeat of the Keynesian policy paradigm at the hands of the so-called neoliberal revolution in economic policy. But the implicit assumption that full employment reflected the triumph of Keynesianism and consequent establishment of a Keynesian economic policy consensus overlooks that there is no evidence suggesting that domestic economic policy and deficit financing caused full employment. Already in the late 1960s economists started arguing that the main cause of full employment was related to the post-war international economic boom and the significantly higher domestic investment, both private and public, relative to pre-war decades (Matthews, 1968). It is more accurate to say that domestic economic policy did not prevent full employment from happening than to argue that it caused it. As we saw in chapter 5, there is a similar argument to make in the case of monetarism, the Thatcher governments, and inflation. While historical agents argue that the Thatcher governments succeeded in their anti-inflation strategy and much research takes the argument at face value, the limited control over inflation that the government achieved in the 1980s had little to do with its vocal theory of inflation and the policy strategy it enacted to that end. Scholars of the 1970s and 1980s have tended to naturalise the triumphalist accounts of ‘neoliberal’ reformers in Britain and elsewhere, overlooking that those stories and memories of total rupture are political acts themselves (cf. Offner, 2019, pp. 17–18, 280–285). Whatever success the Conservative governments had regarding inflation, and it was only limited, it was much more related to the classic Keynesian strategy of managing aggregate demand, in this case in the form of deepening the economic recession and unemployment, than monetarism.

Third, the paradigm shift account tends to conflate or collapse professional identities linked to theoretical paradigms and policy programmes comprising concrete causal claims and policy prescription in a particular context (Van Gunten, 2015). Agreeing on what is the ultimate

Keynesian policy repertoire, either in theory or practice, is to say the least a difficult and contested task (Tomlinson, 1985, p. 104). As we saw, economic advisers with different professional identities agreed on the need to reduce the fiscal deficit in the mid-1970s. The crux of the matter is that they differed on the reasons to conclude that fiscal retrenchment was necessary and the appropriate timing for doing so (see chapters 5 and 7). Something similar occurs with public monetary targeting. While today we associate it with a theory of inflation that asserts that inflation is always the result of excessive monetary expansion, anti-inflation was not the only reason for civil servants to welcome public monetary targets. Take the case of the famous Keynesian economist and senior Bank of England official, Christopher Dow. He favoured the idea of public monetary targeting not because 'it would be counter-inflationary' but because it would make it impossible for the monetary authorities to keep avoiding the elaboration of a purposeful policy (Dow & Saville, 1990, p. xix). In his opinion, the BoE had gone too long with a mostly ad hoc and accommodative policy strategy, and monetary targets could be instrumental to put that to an end. Just as in the case of Richard Kahn, the example is telling. Dow, widely known at the time as a representative of Keynesianism, former director of the National Institute—arguably *the* Keynesian institution—and author of the classic book on Keynesian economic policy (Dow, 1964), favoured public monetary targets for non-monetarist reasons. In brief, there are many potential reasons why an adviser could advocate a particular policy. The relation between professional identities and policy programmes is, at best, loose.

Overall, the main problem with paradigm shift explanations is that they start the analysis assuming the existence of an outcome, a monetarist counter-revolution that punctuated the post-war Keynesian consensus and led to a monetarist consensus, and then attempt to offer explanations for such revolutionary change in economic policymaking. The existence of such outcome is more debatable than commonly acknowledged. This thesis shows that there was no seamless overarching Keynesian economic policy epoch. Monetary policy debates are a case in point (see chapter 6). The extent to which monetary policy was designed and implemented along Keynesian lines in post-war decades is debatable. There was no *consensus* on the purposes and instruments of monetary policy. While it is sometimes stressed that the relative disconnection between monetary and anti-inflation policy in post-war decades reflected the dominance of Keynesianism, it is worth preventing the reader from following that suggestion too easily. Monetary policy took a secondary role in relation to inflation and vis-à-vis fiscal policy not because of too strong anti-monetary policy theoretical reasons, but because knowledge and current circumstances were perceived to show that it was less able to do it in the post-war context. For example, already in 1958, the Keynesian economist James Meade lamented that monetary policy could not possibly be geared towards inflation, i.e., that interest rates could not be raised to the extent necessary to that aim, because of the debt burden (Meade, 1958, p. 268). In these decades monetary policy *was* sovereign debt management policy. The fall of the public sector net debt from 259% of GDP in 1946/1947 to just 65% in 1970/1971 paved the way, or at least made it possible, for monetary policy to become more directly concerned with inflation.[1]

[1] In a welcomed contribution to the literature on post-war monetary policy, Cristiano and Paesani (2018a, 2018b) qualify traditional interpretations of the Radcliffe Report as a Keynesian document and associated explanations

This is not to say that Keynesianism, new Keynesianism, monetarism, etc., and conflicts between them, did not exist or were not influential. Rather, the point relates to the need of avoiding their use as all-encompassing descriptive labels for post-war economic policy. For example, a narrower, and historically more accurate, definition of British post-war Keynesian economic policy is that it aimed at determining aggregate demand, 'not what was produced, how it was produced, who produced it and to whom it went', and that it did so through 'indirect means… altering market choices not through direct controls' (Skidelsky, 1979, p. 57). Such definition grasps the liberal leanings of Keynes and Beveridge (see Sloman, 2015), their idea of economic policy governance at-a-distance by the manipulation of key macroeconomic variables, and their politics regarding the need for enlightened public servants to perform their task insulated from political pressures. The 1950s Conservative governments are the closest to this definition. The 1945-1951 Labour government was far more interventionist, supported much more state economic planning, and was much more in favour of public ownership than the Keynesian label conveys. By the same token, since economic growth, planning, and developmental policies became an issue in the 1960s, Keynesianism was considered insufficient as an inspiration for policy. Political and policy circles devoted significant efforts to search alternatives. As stop-go cycles were deemed a consequence of budgetary fine tuning, there was increasing agreement on the need to go beyond traditional Keynesianism. Of course, the mid-1960s drive for a civilian developmental state did not aim at burying Keynesianism but to complement it with more active developmentalist supply-side policies. The Labour government explicitly justified its approach to policy in contrast to the previous decade. Overall, labelling 1945-1970s as a Keynesian epoch misses too much of how government elites dealt with the economic and political challenges at hand.

What, then, changed in the 1970s? The preceding paragraphs argued that we should not reify the past by delivering an a-historical account that has much less to say about what actually happened and why than about what would have happened in a partly-imagined world in which its assumptions conformed to reality. What did change in the 1970s was the belief, by politicians and significant parts of the civil service and of general and expert opinion, that an integral approach aiming synergically and consistently at a group of key macroeconomic goals was possible in a context of crisis. From different fronts—party politics, bureaucratic politics, professional economics, trade unions, international relations, etc.—the charge was advanced that such an ambitious approach was doomed to fail. The government needed to choose among the different economic policy goals, now seen as mutually inconsistent and contradictory (see chapter 7). But even in this context, thinking that unemployment should not be left to rise unchecked did not mean disregarding the control of inflation as a relevant and desirable economic goal. That is why incomes policy was the main anti-inflation tool: if successful, it promised the chance of dealing with inflation without resorting to aggregate demand deflation. Only the most radical wing of the Conservative party, incidentally the one most vocally

that describe the post-war as decades of Keynesian monetary governance (e.g., Dutta, 2020). Cristiano and Paesani show that the different fronts, in terms of professional identities, did not necessarily agree about their explanations of inflation and consequent policy prescriptions. There was no post-war monetary policy consensus (Richardson, 1978).

committed to monetarism, was ready to let unemployment rise indiscriminately in the name of controlling inflation. They, however, did not draw support from a majority of civil servants and the economics profession.

From this perspective, more than a decade of decline, national humiliation, or the breakdown of the post-war consensus and the Keynesian state and paradigm, the 1970s was a decade of intense, if unsuccessful, creativity amid structural changes in the world economy. It saw the extension of 1960s attempts at complementing traditional Keynesian policies. At the same time, it was a decade of political-economic turmoil which, indeed, saw a crisis of some conventional wisdoms in economic policymaking. But that does not turn it into an epochal turning point between two seamless eras. The depth of the economic crisis—which is less dramatic than commonly implied—and the short durability of the alleged new dominant monetarist economic policy paradigm vindicate this more conjunctural analysis (cf. Tomlinson, 2007b, see chapter 5 above).

The 1980s saw consistent and increasingly successful efforts to dismantle the notion of the *national* economy as the key factor structuring fiscal schemas and economic policy making and debate (cf. Tooze, 2020b; Edgerton, 2018, 2021a, 2021b). As we saw in part II, the idea of a national economy, that preceded but emerged strengthened from World War II, worked as the key point of reference for the attempts at establishing a developmental state schema. If government was in charge of medium-term national economic development, the correct way of assessing public finances was not by reference to budgetary accounts but, instead, by reference to the strategic deployment of national resources for national purposes. Because budgetary policy was imagined as a key lever within a nationally bounded economy, the sources, users, and purposes of budgetary items were more easily related to their effect on the national economy rather than on the government accounts. This made fiscal politics more explicit, as it was easier to identify who got what and how, as well as who spent, and who had a say in defining the purposes of spending in the economy. The denationalisation of economic policy meant that the only remaining point of reference left for budgetary policy, concepts, statistics, and documentation were the budgetary accounts themselves.

National budgets, debts, and deficits are eminently political arenas. The way in which they are constructed, regarding accounting conventions, scope, and presentation, for example, is consequential for specific policy debates and broader schemas of what the state ought to be and do. Starting from this theorisation of symbolic fiscal practices, this thesis calls for social science research to look beneath the quantity of government debt and/or debt repayment per se. To grasp the political, economic, and sociological significance of public borrowing we must study how actors distinguish the sources, users, purposes, and connotations of borrowing.

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