The question is whether we are prepared to move out of the nineteenth century *laissez-faire* into an era of liberal socialism, by which I mean a system where we can act as an organised community for common purposes ... while respecting and protecting the individual – his freedom of choice, his faith, his mind and its expression, his enterprise and his property.

J. M. Keynes

When we came in we were told that there weren’t sufficient inducements to invest. So we provided the inducements. Then we were told people were scared of balance of payments difficulties leading to stop–go. So we floated the pound. Then we were told of fears of inflation: and now we’re dealing with that. And still you aren’t investing enough!

Edward Heath (speech to the Institute of Directors, 1973)

The history of external expansion and internal compromise examined in Chapters 2 and 3 left important legacies and allowed the accumulation of specific internal weaknesses. The legacies were the patterns of external dependence of the British economy and the international orientation of the British state and British business. The weaknesses were the institutional organisation of the principal classes and
interests, and their relations to the state. In the social democratic era that opened in 1940 the interaction of these two elements established the constraints within which government operated.

Britain’s dilemmas in the post-war world stemmed from an inability of its leaders to make clear strategic choices about the relative importance of the traditional world role, as against the modernisation of the society and the economy. The fatal persistence in the belief that no choice was necessary gravely undermined the modernisation strategy of the 1960s and wrecked many of the reforms which it launched. This chapter considers the background to that modernisation strategy and outlines its main features.

4.1 The triumph of social democracy

1940 was a major watershed in British politics. It also opened a new phase in the hundred years’ decline. The war emergency meant not only the organisation of a war economy but the establishment of a national coalition between the Conservative government, now led by Churchill, and the Labour party. Participation in the National government completed the incorporation of the parliamentary and trade-union leadership of the Labour party into the service of the state. As a result the second war against Germany was fought, to a greater extent than in 1914–18, in the name of goals that commanded popular support: the defeat of Fascism, the defence of democracy, and the promise of reforms after the war that would eliminate unemployment and create a more egalitarian society. The military struggle and the plans for reconstruction were closely related in the overall war effort.

The war established social democracy in Britain. The patient strategy of containment of the Labour movement pursued by the Conservatives finally broke down as German tanks poured into France. Labour’s leaders henceforward were to be generally accepted into the policy-making élites, and major concessions were made to the long-standing demands and interests of the Labour movement. But