The history of macroeconomic policy making in the Conservative Party during 1964–81 in many ways parallels the history of the party's making of microeconomic policies during the same period. Just as libertarian conservatism began to exert more influence than paternalist conservatism in microeconomic policy as the period progressed, so monetarism became the dominant intellectual force in Conservative macroeconomic policy making at the expense of neo-Keynesianism.

There are two significant differences, however. First, unlike interventionist ideas, which continued to impart some influence after 1981 in areas such as regional policy, the collapse of neo-Keynesianism in the Conservative Party was total and the idea that macroeconomic policy could not deliver a trade-off between inflation and unemployment in the long term became ingrained in the thinking of the party's economic policy makers. This leads on to the second difference, which was that the collapse of neo-Keynesianism did not settle the form which macroeconomic policy would take, as there remained a variety of possible policy frameworks which were compatible with the idea of a long-run vertical Phillips curve as discussed in Chapter 1.

The story of macroeconomic policy making under the Thatcher and Major governments was therefore one of trying various macroeconomic policy frameworks until a successful one was found. This trial-and-error process effectively ended with the introduction of inflation targeting in the autumn of 1992 and the subsequent opening up of the monetary policy-making process. For these reasons, the 1981–97 period is much more important to the story told in this
chapter than has been the case in the previous two chapters. It is therefore covered in much more detail. The lack of access to official papers has meant a consequent reliance on secondary sources, although the narrative of what took place is relatively uncontroversial and the conclusions should therefore be fairly robust.

Macroeconomic thinking under Edward Heath’s leadership

As we have already seen, a criticism frequently made of the Heath government is that it began with objectives and ideas that can be roughly described as proto-Thatcherite but abandoned them when the going got tough from 1971 onwards (Holmes, 1997: 147–9). In the arena of macroeconomic policy, this argument is difficult to sustain. Throughout 1964–74, the macroeconomic ideas which influenced Conservative policy making remained remarkably consistent. But changing economic circumstances after 1970 meant that implementing policies consistent with these ideas required drastic changes in policy.

As was outlined in Chapter 2, between the 1964 general election and the 1965 Conservative Party leadership contest, Edward Heath was Shadow Chancellor and established considerable authority over the party’s policy-making process. By the time Heath became leader, the party’s Future Economic Policy Group (EPG) had already been meeting under his chairmanship for six months (CRD, 1966c). The EPG was at the centre of Tory economic policy making during 1964–70, and despite Iain Macleod’s appointment as Shadow Chancellor, Heath chose to retain the chairmanship of the group.

The EPG continued to meet until November 1969, and what is clear from the minutes of the meetings (CRD, 1965) and the documents circulated (CRD, 1969d) is the complete lack of penetration of the idea that ‘money matters’, let alone the idea of full-blown monetarism. To a great extent this is unsurprising. During 1965–69, those who would go on to become leading advocates of monetarism in academia, the City, and the financial press were only beginning to develop their ideas (Pepper, 1998: 3–19). The seminal postulation of a vertical long-run Phillips curve would only be made by Phelps (1968) and Friedman (1968) during the later stages of this period, and the use of monetary targets by Roy Jenkins in 1968–69 was little