

REPORT

Working with others: the Lib-Lab Pact

Evening meeting, 14 July 2008 with David Steel, Tom

McNally and Michael Steed; Chair: Geoff Tordoff

Report by **Graham Lippiatt**

FROM MARCH 1977 to October 1978, the Liberal Party kept Jim Callaghan's Labour government in power through the Lib-Lab Pact, and ministers consulted systematically with Liberal MPs on policy. Thirty years on, key participants from both sides discussed the history of the Pact and its impact.

David Steel (Leader of the Liberal Party 1976–88) argued that the origins of the Pact were located as far back as September 1965 when the then Speaker of the House of Commons, Sir Harry Hylton-Foster,¹ died. As Harold Wilson's government was teetering on the verge of losing its majority, Wilson was keen for a Liberal to take Hylton-Foster's place. Peter Bessell² went on radio saying that Jo Grimond³ would make an excellent Speaker. This angered Grimond and the Parliamentary Liberal Party quickly decided to reject to Wilson's ploy. However this collective decision was undermined by a direct approach by the government to Roderic Bowen,⁴ who agreed to become Deputy Speaker, preserving the government's majority. Bowen had not disclosed to his Parliamentary colleagues that he intended to take the Deputy Speakership; if he had, they would have urged him to go for the Speaker's chair. Grimond's reaction to this episode was that, in a position where the government was in danger of losing its majority in Parliament, there should

either be an election or a long-term agreement between parties. This formula impressed itself on Steel and when similar Parliamentary arithmetic occurred in 1976 he adopted it.

Callaghan's government lost its majority in November 1976. The leader of the opposition, Mrs Thatcher, typically failed to consult with other parties about the new Parliamentary situation. At what she thought was an appropriate moment in March 1977 she tabled a motion of no confidence. Before the vote, Bill Rodgers,⁵ with whom David Steel had worked on the 1975 European referendum campaign, asked what the position of the Liberal Party would be. With the formative episode of 1965 in mind, Steel told Rodgers that either there would have to be a long-term arrangement between the Labour and Liberal parties to sustain the administration or that the Liberals, as members of the opposition, would be voting against the government. That led to conversations with Cledwyn Hughes⁶ and meetings with the Prime Minister. The Parliamentary Liberal Party agreed to enter an arrangement and this was endorsed by the Labour Cabinet (with four dissenting voices⁷). For Steel the issue at the heart of the agreement was the need to fight inflation and pursue economic recovery. Of course there were other, political, considerations. The government wished to remain in office and the Liberals did not particularly want a general election,

although the soundings taken by Geoff Tordoff (Chairman of the Liberal Party 1976–79) at David Steel's request indicated that the party in the country was prepared to fight one if no suitable arrangement could be reached.

Looking back over the Pact, Steel felt it had achieved its primary purpose of combatting inflation. At the start of the Pact inflation was at 20 per cent and by the end it has been reduced to about 8 per cent. As to enacting Liberal policy, there was only really one success, a tax incentive for firms which introduced schemes of profit-sharing – a modest scheme but one which was built on by future Chancellors. The great disappointment was the failure to achieve proportional representation for direct elections to the European Parliament. The party had its eyes on this prize and when it was not secured there was dissension among both MPs and in the party in the country. When Steel faced opposition in the Parliamentary party on the issue, it was Jo Grimond who came to his rescue, describing as 'bonkers' the idea that you could pull out and go to the country in a general election on the question of PR for Europe. However, Steel admitted that he had miscalculated on this issue, naively believing that it would gain the support of up to 100 Conservatives who had voted for PR in the Scotland and Wales Bills and against the background of strong campaigning by Conservative Action for Electoral Reform. In the end the Tories refused to back any measure being brought forward under the detested Lib-Lab agreement. The Pact also made the Liberal Party face up to political realities in a way which it had not been obliged to do for years, and to associate itself with the hard decisions which needed to be taken as part of political influence.

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Callaghan's decision not to call an election in October 1978 led to the Winter of Discontent. The electorate apportioned some blame to the Liberal Party for this, even though the Pact was over long before the 1979 general election. Some years later Steel asked Callaghan why he had refused to call an autumn election in 1978. Callaghan replied that he had received advice that he might not win an overall majority and Steel responded by asking 'What was wrong with that? We were doing quite well with our agreement.'

Tom McNally (Head of the Prime Minister's Office, 1976–79) opened by quoting Jim Callaghan from his memoirs: 'Beneath his quiet exterior, David Steel is a determined man and one whom I found scrupulous in his dealings with me.' This characterisation was not a creation of Callaghan's for the history books; it was a genuine feeling of the Prime Minister's which he made clear in public and private at the time. This was important because at the heart of the agreement was the relationship between Callaghan and Steel and the Pact stood or fell by it.

Britain was undergoing massive change in the 1970s, a transformation from the great industrial and manufacturing base of previous centuries into the service-based economy which exists today; the decline of heavy industry and the social consequences it created had to be managed against the background of a massive oil shock. Labour felt it had failed on the economy during its 1964–70 government, but both Conservative and Labour governments in the 1970s found the economic situation immensely difficult. Progressive change was also in the air, particularly the social reforms of the 1964–70 Labour government in areas such as homosexual and abortion law reform, race relations

and the lifting of censorship regulations, so it was time of great social, political and economic turmoil.

In opposition between 1970 and 1974, Labour had pieced together a fragile unity based on the 'social contract' designed to repair the damage to the relations between the party and the trade unions caused by Barbara Castle's⁸ *In Place of Strife* plans which, ironically, Callaghan had done so much to destroy, and on the promise to renegotiate the terms of entry to the Common Market. The February 1974 election was a fluke. Heath mistimed calling it. Had he gone a couple of weeks earlier he might have won, but by delaying he looked indecisive, unable to deal with the industrial crisis. The combination of an unpopular government and a mistrusted opposition, together with a slick campaign by Jeremy Thorpe, gave the Liberals their best election result for years, in terms of votes if not seats.

Labour confidently expected the slim plurality they obtained in February 1974 to increase at the October general election but in fact their majority was only three seats. The European referendum campaign in 1975 was important because for the first time there was cross-party cooperation; politicians got used to working with each other where they shared beliefs, losing some of their party tribalism. However, by 1977 the general political atmosphere was bleak. There was a real sense, certainly on the right and in elements of the press, that Britain was becoming ungovernable. The ability of the Parliamentary system to meet the social and economic challenges of the day, especially hyper-inflation, was seriously questioned and there were even preparations by some for a coup d'état. So it is right to judge the success of the Lib-Lab Pact against that

background. During the period of the Pact every economic indicator – inflation, unemployment, productivity, and exports – improved. This restored confidence in the ability of the democratic political system to work; talk about Britain being 'ungovernable' receded.

In terms of party advantage McNally thought it possible that the Liberals could have pressed the case for individual policies harder, using the threat of a general election, but it had to be remembered that a significant cadre of left-wing Labour MPs, led by Tony Benn,⁹ actually believed that it would be better to fight and lose an election in order to capture the party in opposition and impose more extreme policies – the alternative economic strategy. They believed that Labour failed because it was not socialist enough, so a Liberal threat to bring down the government might not have had as much force as it appeared.

McNally identified a number of barriers to the effective operation of the Pact. There was the lack of experience of parties in Parliament in working together in such an arrangement; there was no equivalent of the Cook-Maclennan collaborations of the late 1990s, or of working together on local authorities (and devolved administrations) which is today commonplace. There was also the imbalance between the Labour Party – the party of government, with 300 seats in Parliament, backed by the civil service – and the Liberals, with just 14 MPs and two research assistants. There were opponents of the Pact in both parties destabilising from within. However, one constant supporter of the Pact, whose role has perhaps been overlooked, was Michael Foot,¹⁰ 'that old Plymouth Liberal' who used to justify staying in office with the phrase: 'We must be there when the North

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Lib-Lab Pact chronology and election analysis (Michael Steed)		
Date	Event	Commentary
1974		
October 1974	Overall Labour majority of three in the Commons	13 Liberal MPs
1975		
May 1975	Very limited (Met DCs) local elections	Modest Liberal losses
5/6/75	67% vote in favour of British membership of EEC	
26/6/75	Conservatives gain West Woolwich, only 1975 by-election	Lib % –9.0
1976		
January–May 1976	Jeremy Thorpe's leadership increasingly under challenge	
March 1976	Three by-elections	Lib % –3.1
5/4/76	James Callaghan becomes Prime Minister	
May 1976	Comprehensive district elections	Substantial Liberal losses
10/5/76	Jeremy Thorpe resigns	
Summer 1976	Two by-elections	Lib % –6.6
7/7/76	David Steel elected Liberal leader (indirect membership ballot)	
4/11/76	Walsall and Workington by-elections	Labour's overall majority wiped out
1977		
Autumn 1976/Feb 1977	Newcastle Central and three other by-elections	Lib % +17.3 in Newcastle Central but –5.9 in other three Pre-pact by-election % loss-rate 5.5, excluding Newcastle; 3.2 including.
22/2/77	Government defeated on guillotine motion	
Thursday 17/3/77	<i>Government loses adjournment vote by not contesting it</i>	
Friday 18/3/77	<i>Margaret Thatcher announces motion of no confidence</i>	
Weekend 19–20/3	<i>Consultation–speculation–WW TV interview</i>	
Wednesday 23/3/77	Lib-Lab Pact announced	Government wins confidence vote
31/3/77	Birmingham Stechford by-election	Fourth-place Lib % –6.6
April 1977	Two by-elections	Lib % –9.9
5/5/77	Comprehensive county council elections	Disastrous (three-quarters) loss of Liberal seats
7/7/77	Saffron Walden by-election	Second place held but Lib % –5.1
July 1977	<i>David Steel extends Pact with agreement of most Liberal MPs</i>	
18/8/77	Birmingham Ladywood by-election	Lib % –8.5
24/11/77	Bournemouth East by-election	Lib % –11.8
13/12/77	Commons rejects PR for European Parliament	
1978		
21/1/78	<i>Special Liberal assembly in Blackpool</i>	<i>Conditionally endorses Lib-Lab Pact</i>
March–April 1978	Four by-elections	Epsom second place lost; Lib % –11.2
May 1978	Limited district elections	Further Liberal losses but votes better than in May 1977
25/5/78	<i>David Steel announces forthcoming termination of the Pact</i>	Pact by-election % loss-rate 10.1.
Summer 1978	Three by-elections	Lib % –3.3
4/8/78	Jeremy Thorpe accused of conspiracy to murder; Minehead hearings follow	
October 1978/March 1979	Four by-elections	Lib % –8.0
1979		
1/3/79	Devolution referendums in Scotland and Wales	Scotland fails to meet turnout hurdle, Wales badly lost
28/3/79	Government loses confidence vote 311–310	
29/3/79	Liberal gain Liverpool Edgehill by-election	Lib % +36.8 Post-pact by-election % loss-rate 6.0, excluding Liverpool
3/5/79	General election	Liberal seats reduced to 11: Margaret Thatcher in power – Liberal general election loss-rate 4.4%

Note: Lib % figures are means of the change in % vote in the group or period concerned.

Sea oil comes'. In fact not a drop of North Sea oil did come ashore under the Labour government, and not a penny of revenue was received from it. Whether hanging on for the oil would have saved the government is questionable; like Attlee's government in 1951, the Labour party in 1978–79 was burnt out, lacking in flexibility, internally divided and out of ideas.

In conclusion, McNally thought the success of the Pact was undoubtedly the stability it gave to bring about an economic turn-around, and the groundwork it lay in loosening the cement of the old two-party system and improving the prospects for cross-party cooperation. It gave the social democrat wing of the Labour Party a place to go when this was later needed.

Michael Steed (President of the Liberal Party 1978–79 and an academic psephologist) produced a chronology and psephological analysis of the Pact and referred to sources including David Steel's books, *Against Goliath* (Weidenfeld and Nicolson, 1989) and *A House Divided: The Lib-Lab Pact and the Future of British Politics* (Weidenfeld and Nicolson, 1980), together with *The Pact: The Inside Story of the Lib-Lab Government, 1977–78* (Quartet Books, 1978) by Simon Hoggart and Alistair Michie. This last account contains what Steed and David Steel described as 'purple passages' and the authors' style is, unsurprisingly, journalistic, but Steed felt it was broadly accurate, although other speakers disagreed.

Turning to his own role, Steed said that he was not much involved in the early stages, being involved in work to draft the manifesto for the European election campaign. The first politician with whom he had a discussion about the Pact was Sir Geoffrey Rippon,¹¹ when they met in Rome. Rippon

was outraged, regarding the Pact as a dreadful conspiracy to deprive the Conservatives of their rightful place in office, an attitude typical of Conservative politicians and the Conservative press which consistently and systematically attacked the Pact.

The psephological story of the Pact is very clear. The county council elections of May 1975, soon after the announcement of the Pact, were unequivocally the worst nationwide electoral performance by the Liberal Party in the last thirty-five years, apart from the Euro elections of 1989 (when the Liberal Democrats came fourth behind the Greens). Three-quarters of the seats being defended were lost. The parliamentary by-election record confirms the Pact's unpopularity. In the first part of the Parliament the party was losing about one in four of the voters who had supported it in October 1974. During the period of the Pact this rose to one in two, and after it ended the decline reverted to a rate of one in four. This series of electoral hammer blows explains the difficulties David Steel experienced inside the party in relation to the Pact. Lots of excellent councillors lost their seats for no other reason than what David Steel was doing at Westminster – and how the Tory press was presenting it. In the medium term, the Pact could be identified as a factor in the slow increase in the concept of tactical voting, but this was happening anyway. There was little tactical voting in the 1979 general election; it was particularly frustrating that so few Labour voters could be persuaded to vote tactically, except in a couple of constituencies. In the long term, tactical voting has become the basis of Liberal Democrat strength in Parliament and there is an arguable case that the Pact laid the foundation for this position.

Why was it so bad? The press was appalling, with political cartoonists hammering away at two immensely damaging themes: first, that Liberal MPs were scared of a general election and looking after their own skins; second, that David Steel was weak compared to Jim Callaghan. These themes embedded themselves in the public mind. Probably the only way to have deflected these attacks was to have prepared the ground for a cross-party arrangement with public debate and explanation for six months or so before agreeing a Pact. The Parliamentary arithmetic made it likely that the government would lose its overall majority in the House of Commons at some point in 1976, but there was no public debate or even any serious discussion within the Liberal Party about what would then happen. Nor was there much debate after November 1976 until the agreement was concluded in March 1977. The Liberal Party as a whole was therefore to blame in wasting that crucial four months, failing to mount a national debate about the reality of a hung Parliament, unable to educate the public and the media about what the options were and so avoiding the accusation that the party's MPs were running for cover, scared of losing their seats.

Responding to the point made by David Steel and Tom McNally that the Pact provided stable government, Steed argued there was an alternative route to stability – a general election resulting in a government with a working majority. There was economic improvement during the period of the Pact but is there reason to believe this would not have happened under a newly elected majority administration? The Pact did, however, give stability in the last six months of the Parliament when the Callaghan government carried on in a minority and there was uncertainty about the date

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of the next election and about the continuation of policy.

On 22 February 1977 the government lost a guillotine motion on devolution. Before then Callaghan could count on the support of the Scottish and Welsh Nationalists; afterwards the government could not be sure of a majority. Had the Parliamentary Liberal Party indicated that they would vote against the government in Mrs Thatcher's motion of no confidence it is possible that Callaghan could have cobbled together a deal with the Ulster Unionists. There was what Steed called a hidden arrangement, even as early as the time of the Lib-Lab Pact, and since revealed by Bernard Donoghue,¹² whereby the UUP would support the government in return for a Speaker's Conference on the number of Westminster seats for Northern Ireland. Even if David Steel had been a tougher negotiator on issues like PR for Europe it is unlikely that he would have achieved more.

The next important period was July 1977, when the Pact was extended with the support of most Liberal MPs. The unpopularity of the Pact was now beginning to hit home, and dissent was growing. Steed believed that here was the opportunity to renegotiate the terms of the Pact, demonstrate greater toughness and get more from the government, perhaps extending the process into the autumn and using the Liberal Assembly as leverage. This would have given the lie to the cartoonists' and other critics' version of events that David Steel was always weak in relation to Callaghan. Even if no more could have been extracted from the government and the Liberal Party had withdrawn from the Pact, there was little danger of the government's falling because devolution was back on track and it could have

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survived with Nationalist and UUP support.

In response David Steel agreed there was not enough discussion about what to do in the event of a hung Parliament. After the February 1974 general election there was no real prospect of a Conservative-Liberal coalition, because the two parties combined would not have had a majority; in any case the mood of the party and the country was against keeping in office a Prime Minister who had just been rejected by the electorate. But there was also a general mood of hostility to the very idea of coalition. There could have been an opportunity to use an autumn election in 1978 to talk up the Pact and the positive outcomes associated with it for the economy to try and persuade the public that the Liberal Party had acted responsibly in providing stability to the government at a difficult time. Unfortunately Callaghan chose to postpone the election and that opportunity disappeared in the very different circumstances of May 1979. On a possible renegotiation, David Steel said this was simply not on the Parliamentary Party's radar. They took the view that the question was merely whether the arrangement should continue. Perhaps they were too close to the day-to-day business of the Pact in Parliament to have the necessary perspective to re-think the whole basis of the agreement.

While each speaker found some positive outcomes for the Pact and agreed that it had laid the foundation for more cooperative forms of politics in the years ahead, the meeting was left with some fascinating 'might-have-beens' – perhaps meriting a chapter in a future volume of political counterfactuals.

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- 1 Sir Harry Hylton-Foster (1905–65), Conservative MP for the City of York, 1950–59 and Cities of London & Westminster, 1959–65; Speaker of the House of Commons, 1959–65.
- 2 Peter Bessel (1921–85), Liberal MP for Bodmin 1964–70.
- 3 Jo Grimond (1913–93), Liberal MP for Orkney & Shetland 1950–83, Leader of the Liberal Party 1956–67; created Baron Grimond, 1983.
- 4 Roderic Bowen (1913–2001), Liberal MP for Cardiganshire 1945–66.
- 5 Bill Rodgers (b.1928), Labour MP for Stockton on Tees, 1962–83, member of the Gang of Four and founder member of the SDP; created Baron Rodgers of Quarry Bank, 1992; Leader of the Liberal Democrats in the House of Lords 1997–2001.
- 6 Cledwyn Hughes, Labour MP for Anglesey 1951–79 and Cabinet Minister 1966–70, Chair of Parliamentary Labour Party at the time of the Pact; created Baron Cledwyn of Penrhos, 1979.
- 7 Peter Shore, Tony Benn, Stan Orme and Bruce Millan.
- 8 Barbara Castle (1910–2002), Labour MP for Blackburn 1945–79; Secretary of State for Employment and Productivity 1968–70; British Labour MEP 1979–89; created Baroness Castle of Blackburn 1990.
- 9 Tony Benn (b.1925) Labour MP for Bristol South East 1950–61 and 1963–83, MP for Chesterfield 1984–2001; Secretary of State for Energy 1975–79.
- 10 Michael Foot (b.1913) son of Isaac Foot, Liberal MP for Bodmin; Labour MP for Plymouth Devonport 1945–55 and Ebbw Vale 1960–92; Leader of the Labour Party 1980–83, Lord President of the Council and Leader of the House of Commons 1976–79.
- 11 Geoffrey Rippon (1924–97), Conservative MP for Norwich South, 1955–64 and Hexham 1966–87; Cabinet Minister 1970–74; created Baron Rippon of Hexham 1987.
- 12 Bernard Donoghue (b.1934), economist, academic, senior policy adviser to the prime minister 1974–79; created Baron Donoghue, 1985.