The Lib–Lab Pact

A Parliamentary Agreement, 1977–78

Jonathan Kirkup

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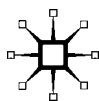
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Introduction

Since the Conservative–Liberal Democrat coalition of 2010, there has been renewed interest within British academia in the subject of coalitions and cross-Party agreements, although it remains only a small part of the wider literature of coalition bargaining.[1] In spite of this, the 'Lib–Lab Pact', with its unique status as the only formal cross-Party parliamentary agreement in national politics between 1945 and 2010, has been largely absent from the academic literature on the subject – thankfully, this absence has made this book possible. It is, however, necessary to establish why this topic has not been the subject of more rigorous academic study and what developments have occurred to make this in-depth academic analysis possible. Its relative neglect may be explained by the difficulty over classification. The Lib–Lab Pact, by definition, was not a formal coalition; nor indeed was it a 'confidence and supply' agreement. The Pact has been regarded as a 'grey area' in terms of analysis of coalition forming, party systems or political parties. For students of coalition theory it does not fit easily into the standard models and so has been largely overlooked.[2]

For those examining the British political system, the Pact is often viewed as little more than a rather annoying caveat or footnote, intersecting the broader narrative on the typology of the British party system. Sartori (1976) viewed Britain between 1945 and 1970 as the perfect two-party system. Meanwhile, the British party system between 1979 and 2010 has been characterised by long periods of single-party dominance, by the Conservative Party between 1979 and 1997 and the Labour Party between 1997 and 2010. This later historical narrative subsumed the intense speculation within the academic literature, concurrent with the Lib–Lab Pact, which speculated about whether British politics was in fact diverting to a multi-party system. A series of publications reassessed the British political system, often with an emphasis on minor parties,

hung parliaments and minority government.[3] The fact that the 1980s and 1990s, in contrast to the speculation noted above, were not characterised by periods of minority governments or hung parliaments meant that the Lib–Lab Pact, as an example of cross-party co-operation, had no substantive legacy. It did not achieve one of its primary aims, a realignment in British politics. Equally, it is important to note the Pact had no discernible impact on the formation of the SDP or the subsequent SDP–Liberal Alliance.[4] Consequently, the dominant narrative on the Pact, within the academic literature, has been that it was little more than a pragmatic response by a prostrate Labour Party governing without a parliamentary majority, facing an impending vote of confidence and a subsequent general election, which a beleaguered Liberal Party equally wished to avoid.[5]

Clearly, the mere fact that an event or issue does not fit within a model typology or a standard political narrative does not automatically preclude it from further academic study. Why then has the Lib–Lab Pact been overlooked? Perhaps the most important reason for the absence of any in-depth academic analysis undertaken in the last 30 years has been the existence of two books, published almost contemporaneous with the Lib–Lab Pact and written by two leading protagonists. The first is Michie and Hoggart (1978) *The Pact: The Inside Story of the Lib–Lab Government, 1977–78*. The second is David Steel's own publication on the Pact: *A House Divided: The Lib–Lab Pact and the Future of British Politics*, large sections of which were transposed in Steel's 1989 autobiography *Against Goliath*. In the absence of primary source material, these publications have largely acted as the 'core texts' for those researching the period.[6]

While both books are broadly historically accurate, there are clear problems with relying on these works as the definitive retelling of the Lib–Lab Pact. To address Michie and Hoggart first, their book was published before the conclusion of the Pact. The problems here are self-evident: retrospective analysis and the placing of the Lib–Lab Pact in a wider political context are clearly precluded. Second, the book was published not as an academic study but as a commercial endeavour. Simon Hoggart, the co-author, was a journalist for *The Guardian* newspaper. As such, as Michael Steed observes, the style and prose are not academic in tone and are at times sensationalist. While Alistair Michie, political aide to David Steel during much of the Lib–Lab Pact, did have access to most of the Liberal Party material relating to the Pact, Labour Party and official government documents were not at his disposal.[7] The reliance by academics on Michie and Hoggart (1978) and Steel (1980 and

1989) can in part be explained by the fact that until relatively recently primary source material was inaccessible. The Lib–Lab Pact is not discussed in any detail in any of the major academic works on Labour Party history; furthermore, when it is referenced, it is viewed as a simply a pragmatic necessity, largely disregarded on the grounds, as noted above, that it generated little political legacy.[8] Meanwhile the literature on the Pact within the Liberal Party or Liberal Democrats history might also be described as perfunctory.[9]

Documents relating to the Pact held at the Public Record Office (PRO) were made available in 2008 under the '30-year rule'. Crucially, this gave access for the first time to material such as Prime Ministerial papers, Cabinet conclusions, inter-departmental meetings and civil servants' briefings to Ministers. Adding important detail to the broader narrative, and complementing the PRO documents, are: material in the Liberal Party Archive (LLP) and Labour Party Archive (LPA), held at the London School of Economics (LSE) and Manchester respectively; the Callaghan Papers, held at the Bodleian Library, Oxford; the David Steel Papers, again held at the LSE; the Hooson Papers, held at the National Library of Wales (NLW); and the Thatcher Papers, and those of Sir Kenneth Stowe, both held at Churchill College, Cambridge. These sources each give new perspectives on intra-party attitudes to the Pact. I have also been fortunate to be able to utilise the privately held papers of Michael Steed and Andrew Phillips.

The absence of a detailed analysis of the Pact is all the more surprising given that there are a number of issues which were central to the structure and functioning of the Pact, and thus discussed in this book, which are pertinent to other cross-party understandings and coalition bargaining more widely. The book therefore addresses the importance of intra-party preparation before cross-party discussions take place; the significance of leadership and intra-party consultation at all stages of negotiating an agreement and its implementation; and how to deal with dissent. The mechanics and structure of any agreement are critical to its success, and in this regard, perhaps the most important lesson to be learnt from the Pact is the importance of the interplay between long-term strategic objectives and short-term policy fulfilment. It is the hope of the author that this book fills a gap in the historical narrative of late 1970s' British politics, and that it illustrates that, far from being a footnote in history, the Lib–Lab Pact shows both the difficulties of conducting a cross-party agreements which fall short of a full coalition and also the possibilities.

1
Cross-Party Co-operation in British Politics, 1945–1977

The formation of the Lib–Lab Agreement in 1977 followed over 30 years of unambiguous single-party Government, the longest such period since the Whig supremacy.[1] This was a consequence of the bi-polar nature of the two-party system inherent in British politics between 1945 and 1970.[2] The eight general elections in this period saw executive power shared (albeit unequally) between the Labour and Conservative parties, both achieving office with working majorities; there was thus no requirement for formal cross-party arrangements through this period. Between 1945 and 1964, the Labour and Conservative parties consistently gained over 85% of the popular vote and over 95% of the seats in the House of Commons. The Liberal Party, greatly diminished since its erstwhile prominent position in British politics, were the next largest block of MPs unaffiliated to either of the two larger parties but they enjoyed neither the parliamentary representation nor the political mandate to form a functioning coalition with either of the larger political parties, even if it had been required.

As well as there being no necessity for coalition, there was also an institutional distrust of coalition politics. This was in part a historical legacy, encapsulated in the (often misquoted) maxim of Benjamin Disraeli that 'England does not love coalition', and in an assumption derived from the perception of continental politics that coalitions lead to unstable Government, undermining decision-making. While this perception was prevalent in British politics, it was especially apparent in the Labour Party in the post-war era. This in turn derived from two principal factors: first, a belief that coalition-forming would undermine the pursuit of socialism; and second, its own political legacy – specifically the decision of Ramsay MacDonald in 1931 to split the Labour Party and join the National Government. MacDonald's decision resulted in

a schism within the Labour movement, keeping the Labour Party from office for over 15 years, and fostering an inherent dislike of cross-party co-operation.

This perception was manifest in the actions and attitudes of Clement Attlee in his decision to break the wartime consensus on 23 May 1945, when he rejected the prospect of a peacetime transitional coalition and instead insisted that a general election be held. Attlee was a vehement opponent of coalition politics, describing MacDonald's action as 'the greatest betrayal in the political history of this country'.[3] The subsequent Labour landslide ended any notion that a coalition Government might be formed. The general election of 1950, however, reduced the Labour Party's erstwhile majority of 146 seats to a mere five. Faced with the almost certain prospect of losing this majority over the ensuing months (there had been 52 by-elections in the previous parliament), Attlee called a second general election in 1951, in which an exhausted Labour Party was defeated, heralding 13 years of Conservative Government. It should be noted that a Lib–Lab coalition in 1950 would have secured a comfortable working majority for the Labour Party of 23 seats. However, while Clement Davies, the Liberal Party leader, had warmly welcomed the reforming policies of the incoming Labour Government in 1945 (not least because Labour's economic and social reforms were framed around the ideas of two leading Liberal thinkers, Keynes and Beveridge), by 1950 he had positioned the Liberal Party in opposition to Labour's policies of centralisation, epitomised by the drive for nationalisation, on the premise that they were not consistent with Liberal values.

The only significant moves towards cross-party co-operation in the decade after the Second World War were advances made by the Conservative Party and, more specifically, by Winston Churchill. In 1946 and again in 1950 Churchill held talks with Clement Davies, in an attempt to construct an anti-socialist alliance. He offered the Liberals a clear run in 60 parliamentary seats in the next general election, but the offer came to nothing. The Conservatives were not prepared to concede to the Liberal demand that any deal must include the introduction of proportional representation (PR), while Liberal activists were concerned that they would be consumed by the Conservative Party.[4] Subsequently Lord Woolton, Chairman of the Conservative Party, reached an agreement with Lord Teviot of the National Liberals (those Liberals who had split from the official Liberal Party after 1931), which fused the National Liberals permanently with the Conservative Party at constituency level. The Woolton–Teviot agreement had the unintended consequence of

galvanising the official Liberal Party into issuing their 'declaration of independence' and reasserting their desire, in the face of 'Conservative overtures . . . to maintain an independent Liberal Party'. Thus for the remainder of Davies's leadership, the Liberal Party set its face against coalition as a strategy.[5]

The Conservatives secured an overall majority of 17 in the general election in 1951 and retained a working majority for the remainder of the parliament. He nevertheless continued his strategy of attempting to form an anti-socialist alliance with the Liberal Party, going so far as to offer Clement Davies a Cabinet position. Davies, in an act which has been acknowledged as critical to the maintenance of an independent Liberal Party, rejected Churchill's advances.[6] Churchill's retirement in 1955, and the return of a Conservative Government with a significantly increased majority at the subsequent general election in the same year, eradicated the necessity for any Con–Lib alliance 'against socialism'.

There were, through this period, examples of local agreements between Liberal and Conservative constituencies. Informal 'electoral pacts' were established in Bolton and Huddersfield in 1950 and 1951 respectively. Whilst never formally endorsed by either the Conservative or Liberal parties nationally, they were nonetheless pivotal in maintaining the representation of the Liberal Party at Westminster. Meanwhile, again at local level, a large proportion of the Liberal municipal representation, particularly in the North of England, was achieved through alliance with another party.[7] The Liberal Party faced its nadir at the 1951 general election, when only six Liberal MPs were elected, five of whom were in seats uncontested by the Conservatives. Only Jo Grimond's Shetland and Orkney seat was won against a Conservative challenge. Roy Douglas argues that, had the Conservatives stood against Liberals in every seat, only three Liberals would have been elected.[8] Following the failure to achieve any significant political advancement in 1955, Clement Davies resigned the leadership of the Liberal Party, to be replaced by Jo Grimond. Under Grimond's leadership a more self-confident Liberal Party terminated the local agreements in Bolton and Huddersfield for the 1959 general election. Proposed agreements in Scotland with the emerging Scottish National Party (SNP) were also rebuffed. Grimond's charismatic leadership also resulted in an influx of young, educated, politically active individuals into the Party, many of whom, such as David Steel, John Pardoe, Michael Steed, Tony Greaves and Richard Holme, would be important figures in the political strategy of the Liberal Party in the 1970s and 1980s. Equally, as will be discussed in greater detail shortly, Grimond's decision to shift the Liberal Party

decisively to the left of the political spectrum had clear implications for the prospect of cross-party co-operation in the future.

Grimond's early period in office saw a 'Liberal revival', exemplified by the by-election successes at Torrington in 1958 and Orpington in 1962. This led to a growing belief among those Liberal activists who had experienced the so called 'wildness years' of 1945–1955, that the Liberal Party could exist independently of pacts or cross-party agreements.[9] Paradoxically, this self-confidence was juxtaposed with Grimond's primary political strategy: the realignment of British politics, a process that, it was broadly acknowledged, could only be achieved through cross-party co-operation.[10]

Grimond's political strategy was predicated on the belief that the real division in British politics was not simply between Labour and the Conservatives, but rather between 'progressives', of whom he saw the Liberals as an integral part, and 'conservatives', who he believed existed both on the right and left of the political spectrum. Grimond envisaged the creation of a new centrist party made up of the Liberal Party, the moderate social democrat wing of the Labour Party, and perhaps a smaller number of moderate Conservatives, thereby leaving the rump of a Socialist Party on the Left and marginalising the Conservative Party on the Right. As will be discussed later in this book, the exact process whereby realignment would occur, in what form and how the Liberal Party would emerge from this transition were not clearly defined by Grimond (or his successors), and would lead to significant intra-Party dispute for the remainder of the twentieth century.[11] Nevertheless, Grimond had positioned his Party 'towards the sound of gunfire', in the hope that it would be prepared to embrace political opportunities if and when they arose.[12]

Grimond's advocacy of realignment in the late 1950s was largely predicated on the belief that an unreconstructed Labour Party was unlikely to win an overall majority. Therefore the return to power in 1964 of a Labour Government, albeit with a wafer-thin majority, undermined Grimond's thesis and suggested little prospect of an immediate change to the duopoly of the political system. However, paradoxically, two issues emerged at this time that resulted in speculation that cross-party co-operation might soon develop in British politics. First, the mid-1960s saw the emergence of a partisan de-alignment in British politics. Both the vote share and the political representation of minor parties at Westminster increased. The Liberals' success at Orpington was an example of this, but it was also witnessed in the by-election successes for Plaid Cymru in Carmarthen in 1966 and the SNP in Hamilton in 1967.

Secondly, the Labour Party had been returned with a majority of just four seats, and, as in 1950, there was consequently every prospect that, through attrition of by-election defeats, Harold Wilson's administration would not be able to survive for a full parliamentary term.

These events seemingly increased the prospect of Britain becoming a multi-party political system, and therefore made a coalition Government seem more feasible. The following section will examine two such occasions when parliamentary arithmetic resulted in speculation that a cross-party understanding might be reached: in 1964–1965 and 1974.[13] Parallels between 1964–1965, 1974 and the subsequent Lib–Lab Pact will be highlighted, with an assessment of the extent to which the decision-making and actions of Jo Grimond (in 1965–1966) and Jeremy Thorpe (in 1974) affected the perspectives and strategy of David Steel in 1977.

Cross-party discussions 1964–1974 and their influence on the Lib–Lab Agreement 1977–1978

Wilson–Grimond discussions 1964–1965

As noted above, following the 1964 general election, the Labour Party, after 13 years in opposition, returned to Government, but with a slender majority of just four seats. Although the new Prime Minister, Harold Wilson, had made no contingency plans for governing with such a small majority, he confirmed that he would govern as though he had a larger majority and would attempt to enact the Government's legislative programme accordingly.[14] Nevertheless, parliamentary arithmetic was such that the most probable medium-term outcome, given the likelihood that the Government's majority would be eroded through subsequent by-election defeats, was either a second general election or the creation of a cross-party parliamentary agreement. The only possible 'coalition' partner was the Liberal Party, as the Ulster Unionists, the only other party represented in the House of Commons, were affiliated to the Conservative Party.

The events of 1964–1965 have generally been regarded as unrelated to the Lib–Lab Pact, primarily because David Steel, quoted in 1977–1978 and in his subsequent writings, broadly dismissed the significance of this period in affecting his own decision-making.[15] Steel notes only the appointment of Liberal MP Roderic Bowen to the vacant position of Deputy Speaker, a decision he took without consulting Grimond, as of significance in shaping his subsequent attitude. Even then, this was only insofar as it stressed the need for collective responsibility and loyalty within the Liberal parliamentary Party.[16] However, there were

in fact many parallels between the events of 1964–1965 and those of 1977, and more pertinently, lessons from this earlier period which, had they been noted, might have been beneficial to Liberal Party preparations, negotiation strategy and intra-Party consultation during the subsequent Lib–Lab Pact. The first significant suggestion that a Lib–Lab understanding might be established in 1964–1965 was press speculation by two fringe Labour MPs, Woodrow Wyatt and Desmond Donnelly, although it should be noted that they were motivated not by a desire for realignment but by their own discontent with Labour Party policy, and specifically steel nationalisation. Jo Grimond nonetheless felt compelled to respond to their overtures, and he stressed to the Liberal Council that 'he did not see why he should repudiate suggestions made by backbench Labour MPs, although he doubted if anyone was more opposed to pacts than he was'.[17]

Grimond's rejection of the Wyatt/Donnelly proposal was primarily based on the political reality that at that stage Wilson did not need Liberal support to remain in office and Grimond did not want to 'show his hand' until required to do so. Grimond wanted to reassure his grassroots; he was aware that a large number of Liberal Party activists were fiercely independent-minded and fearful that the parliamentary Party might be more amenable to a cross-party understanding. Party President Nancy Seear encapsulated this activist mood in the 1960s. At the Scarborough Assembly in 1965 she stated: 'We have not spent these years isolated but undefiled in the wilderness to choose this moment to go, in the biblical phrase, a-whoring after foreign women.'[18]

Despite his assertion that the Liberal Party would not enter into an understanding with Labour, by early 1965 Grimond nonetheless felt compelled to outline how any subsequent agreement might be structured:

> Either we must have some reasonably long-ranging agreement with the Government or a general election. We must have an agreement of a few months on some purpose we both want. I should be very much opposed to going back to the 1929 system, in which the Labour Government and Liberal Party made practically daily ad-hoc decisions.[19]

Grimond's demand for a long-ranging, formal agreement was in some ways replicated by Steel in 1977, but, as will be noted later, some aspects of Grimond's strategy, his attitudes and responses, were markedly different from Steel's prior to the Lib–Lab Pact. Specifically, Grimond

reasoned that 'common aims should be worked out' prior to formal discussions, that a draft understanding should be established in advance of an occasion when they were actually required and that the Liberal Party should have structural and institutional arrangements in place should any cross-party negotiations take place. Very much in keeping with the philosophy of consultation that characterised his leadership, Grimond established a system of 'shadow' spokesmen in preparation for any cross-party understanding. The 17-strong panel, made up of some of Grimond's closest advisers, was drawn from outside the parliamentary Liberal Party, and included Mark Bonham Carter, Christopher Layton, A. D. C. Peterson and Michael Fogarty.[20] As will be seen later, under Steel's leadership, the Liberal Party in 1977 did not enact such provisions.

Grimond and Wilson met in mid-1965 for informal talks at the behest of the editor of *The Guardian,* Alastair Hetherington. The objective was to establish their respective positions *vis-à-vis* 'co-operation'. Hetherington, through his newspaper, had been a staunch advocate of 'Lib–Labbery' and, unlike the newspaper editors of the late 1970s, also gave the Liberal leader numerous opportunities to press the case for political reform. Again in a foreshadowing of later events, Grimond reasoned that 'the formulation [of an agreement] will take time. The parliamentary situation will not give us the time … throwing a lifebelt to a sinking Government is not a job I would welcome.'[21] While these meetings could not be described as 'consultation in any meaningful sense', they do show the extent to which Grimond was preparing the ground on which a more formal understanding could develop should it be required.[22]

Liberal influence on Government policy in 1965 only extended to 'a gesture'. Wilson adjusted his rhetoric to take account of the Liberal presence, commenting: 'A wide field of our legislative programme ought to – and will, I think – fit with the doctrine, enunciated by *The Guardian*, of "parallel courses".'[23] Butler and King (1965) attribute the omission of the controversial Steel Nationalisation Bill from the 1965 Queen's Speech in part to the political reality that, for the legislation to be enacted, the Government would have required but would not have received Liberal support.

Informal discussions did take place between the Chief Whips of the Liberal and Labour parties, on approximately a monthly basis, although their focus was mainly on the parliamentary timetable. Nonetheless, these meetings provided an interesting forerunner to the 'consultative committee' which Grimond had reasoned would be necessary for any

agreement to function. As will be seen later, a consultative mechanism was established by Steel to administer the Lib–Lab Pact. However, it should be noted this was constructed without reference to Grimond's earlier analysis or experience.[24]

One feature which did link the 1965 Lib–Lab consultation with both David Steel's later discussions with James Callaghan in 1977 and Jeremy Thorpe's with Edward Heath in 1974, was that of discussions on electoral reform. Wilson had promised a Speaker's Conference on the matter, and during the summer of 1965 there was some indication that Wilson had looked seriously at the possibility of offering the Liberals a change to the voting system at Westminster in exchange for parliamentary support, albeit, in a typically Wilsonian statement, 'without in any way committing himself'.[25] The Labour Government undertook research into the possible consequences of electoral reform: specifically, the alternative vote system. It was concluded that (according to a Gallup Poll conducted in September 1964) it would have cost Labour the 1964 election. The issue was kept alive by the Government into the autumn but 'probably would only have been considered as a last resort' and as a means of retaining Liberal support in parliament.[26] This episode resulted in a perception within the Liberal Party that they had been 'strung along by a process that yielded no result'. This consequently, in part, explains Thorpe's hostility to Heath's offer of a Speaker's Conference in their discussion in 1974. Similarly, Steel's later view was that 'We would have been laughed at if that was what we gained from the Pact.'[27]

Significantly, when comparing the actions of Grimond and Steel, it should be noted that Grimond's preparations for co-operation were not synthesised into a working document, which the Liberal Party might have utilised in any subsequent cross-party discussions. Equally, it is instructive to note, as will be discussed later in this book, when the prospect of a cross-party understanding was first mooted by the press, in July 1976, Steel did not consult with Grimond or review the events of 1965–1966.[28]

In the final analysis, the Liberal Party was never in a position to enter into a formal cross-party agreement with the Labour Government in 1965. Grimond lamented on the period in his memoirs:

> I do not see that much could have been done between 1964 and 1966. Certainly we had to make a showing in the political fray. We had to pretend that we could influence events. But our influence on immediate events was very limited, if indeed it existed at all.[29]

Nonetheless, within the context of the later Pact, there were parallels between Grimond's position in 1964–1965 and Steel's in 1976–1977, and it was the decision of Steel and the Liberal Party leadership not to re-examine this period which led to some of the structural weakness in the Pact that this book will later explore. In March 1966 Wilson called a general election, in which he subsequently secured an overall majority of 97. The following January, Grimond resigned as leader of the Liberal Party. Although still enjoying the support of colleagues, he felt that his political philosophy of realignment had not borne the fruits he had hoped, and he was unwilling to lead the Liberals into (what appeared likely to be) an extended period in the political wilderness.

Heath–Thorpe discussions, 1974

The second occasion in the later twentieth century when a formal understanding might have been reached between the Liberals and one of the other main political parties was in early March 1974. The inconclusive general election result on 28 February 1974 came as a surprise to all three political parties. Edward Heath was in situ as Prime Minister, and the Conservative Party had secured the largest number of votes but only 297 seats (four fewer than the Labour Party). Heath was 21 short of an overall majority. He thus attempted to ascertain if a working majority might be achievable through an agreement with one or more of the smaller political parties. Having initially courted Ulster Unionist MPs (UUUC) to no avail, Heath approached the Liberal Party. The February 1974 election had seen the Liberals achieve their most significant electoral success in 50 years, gaining 19.3% of the vote, although, because of the anomalies of the plurality voting system, this equated to only 14 seats. Nonetheless, they could justifiably claim to be the moral victors of the election. One consequence of this was that many grassroots Liberals concluded that Heath did not hold the mandate to govern. This conclusion was in part reached because the increase in Liberal support was in some measure a result of erstwhile Conservative voters rejecting Heath's policies.[30]

More importantly, there was a structural weakness in Heath's approach to the Liberals – a Con-Lib coalition would not secure an overall majority in the House of Commons. Heath argued that in terms of actual votes won, when combined, the two parties represented the majority of opinion, and thus would form a clear anti-socialist coalition.

In the aftermath of the inconclusive general election result, the Liberal Party was in ferment. No Liberal strategy paper had been produced to

address such a situation. In 1973 John Pardoe, MP for North Cornwall, had addressed the Liberal Assembly, urging the Party to formulate a coherent policy should a hung parliament result from an election. He had called upon the Executive to plan for the prospect of holding the balance of power, and while the Liberal Party's Standing Committee did produce a strategy report, its recommendations were never formally adopted, and so no formal policy position was enacted.[31] Candidate literature, issued prior to the February 1974 election, was non-committal, concluding that 'what happens in this situation is surely a matter for the other two parties'.[32]

Thorpe's initial response to events was to insist that 'I shan't be going to London on present form until Monday, when I'm meeting my parliamentary Party'.[33] Meanwhile, after consulting his Cabinet on the morning of 1 March 1974, Heath invited Thorpe to a meeting at Downing Street to discuss whether, and on what basis, the two parties might be able to form a coalition.[34] Thorpe, without consulting his colleagues, decided to accept the Prime Minister's invitation for talks. David Steel, the Party's then Chief Whip, was 'confused and irritated' by Thorpe's actions.[35] The Liberal Party activists were overwhelmingly hostile to the news that Thorpe had agreed to meet with Heath without prior consultation, and most were unreceptive to the possibility of a Lib-Con Agreement.[36] Liberal Central Office was inundated with messages from Liberal activists condemning the prospect of a Liberal-Conservative deal. As Michael Steed observed,

> The brief but stormy furore in the Liberal ranks when the proposal was made had only served to emphasise that the Party could easily indulge in fratricidal warfare if talk of coalition was not handled very carefully.[37]

Steel, as Chief Whip, together with Liberal elder statesmen Jo Grimond and Frank Byers, discussed the situation with Thorpe on Sunday 3 March 1974. In an atmosphere of extreme suspicion among the extra-parliamentary Party, and in the knowledge that a Lib-Con coalition would not enjoy an overall majority in the House of Commons, Steel spoke out against a deal. He was convinced that the whole episode had exposed the extent to which the Liberal Party had not prepared for such an eventuality, and in a response which was to be central to his strategy as Liberal leader: 'it was wrong to pretend...that we could leap straight from a handful of MPs into forming a Government, [but at the same time] wrong to reject coalition in any circumstances at any time.'[38]

Impact of Heath–Thorpe discussions on the Lib–Lab Pact

In contrast to his opinion that the political events in 1964–1965 had a minimum impact on his subsequent actions, Steel is clear that 1974 had a direct effect on how he approached his own discussions, this time with a Labour Prime Minister in 1977. Steel was careful in 1977 to seek (and to be seen to seek) the opinions of both the parliamentary Liberal Party and the Liberal grassroots over the weekend of 19–20 March 1977, before meeting with James Callaghan. He also ensured that his meetings with the Prime Minster were held within the confines of Whitehall – Steel was never pictured entering or leaving Downing Street during his discussions with Callaghan, as Thorpe had so memorably been in 1974, much to the chagrin of many Liberals.[39] Indeed, Steel actively sought for his actions in March 1977 to be contrasted directly with those of Thorpe in 1974. Most significant of all, this episode confirmed in Steel's mind that, for all the fact the February 1974 election had seen an increase in the Liberal vote, it was only through 'co-operation' and the formation of a cross-party understanding that the Liberal Party could achieve political office.

Critically, this view also became prevalent within the wider Liberal Party. By the summer of 1974, 92% of Liberal voters wanted some form of coalition if the Party held the balance of power again and only 4% wanted to refuse coalition.[40] This more pragmatic approach would subsequently influence the Liberal grassroots' response to Steel's decision to enter an agreement with Callaghan in March 1977. While Steel highlights 1974 as of greater significance than 1964–1965, it is important to note other members of the parliamentary Liberal Party – MPs such as Emlyn Hooson, Jeremy Thorpe and Jo Grimond, as well as the Lords Banks, Byers, Avebury, Wigoder, Winstanley and Lady Nancy Seear – and several members of the National Executive were influenced by the events of both 1964–1965 and 1974, and each was subsequently involved in the implementation of the 1977 Agreement.

In conclusion, while two instances of possible cross-party co-operation have been noted, it is important to reiterate that the only reason any notion of cross-party co-operation was even mooted in 1964–1965 or 1974 was the parliamentary arithmetic. First, neither instance increased the likelihood of realignment in British politics per se, or the prospect of cross-party co-operation. Indeed, in both cases realignment seemed less likely, as following a period of uncertainty there was a general election in which a majority Government was installed. Second, neither event had led to strategic planning from the Liberal Party

to respond to a fluid political environment, which resulted from the absence of a working majority. By 1977, many in the Liberal Party acknowledged that cross-party co-operation and thus cross-party nego-tiations would be necessary to achieve any degree of power, but issues remained with regard to how the Liberal leader should liaise with the parliamentary Party, the Party Executive and the extra-parliamentary Party in such a scenario. All of these factors were to become per-tinent during the build up to the Lib–Lab Pact, its formation and implementation, as will be discussed in Chapter 2.

The Liberal leadership election of 1976

National politics in 1976 was defined by three events: the loss of the Labour Government's overall majority; the retirement of Harold Wilson as Prime Minister (to be replaced by James Callaghan); and, in the autumn, the IMF crisis. For the Liberal Party it was a period of internal strife triggered by the political scandal involving Jeremy Thorpe, which led to his resignation as Party leader in February 1976. Following an interregnum in which Jo Grimond briefly re-assumed the leadership of the Party, the ensuing leadership contest, in July 1976, saw David Steel elected as Liberal leader. The following section will review this period, with particular reference to how it influenced the political strategy of the Liberal Party within the wider political context and acted as a precursor to the Lib–Lab Pact.

Following Thorpe's resignation as leader, a list of possible candidates emerged, initially extending to almost the entire parliamentary Party. According to Michael Steed, while there was undoubtedly a degree of disillusionment with Thorpe's leadership, there was no obvious replace-ment and little desire within the Party for a radical policy change.[41] John Pardoe and David Steel both asked Grimond directly to remain as leader, at least until the next general election. Pardoe stated, 'I don't think either of us wanted a leadership election at all, we wanted Jo to stay on. Let's face it; neither of us had wanted Jo to leave.'[42] However, Grimond had made two resolutions on returning to the leadership: first, he would not return as leader on a permanent basis; and second, he would not comment on the current political situation for fear of under-mining his successor. Grimond's actions effectively ensured that the Party did not establish a position or formulate a strategy in response to either the loss of Labour's majority in April 1976 or the political repercussions that might ensue from this event. Equally, they did not take account of the different political priorities of James Callaghan as opposed to Harold Wilson. As noted above, Wilson had been opposed to

cross-party co-operation on principle. Callaghan's position was largely unknown, but he did not have the same political baggage on this issue as his predecessor when he assumed both the leadership of the Labour Party and the role of Prime Minister on 6 April 1976.

Grimond as leader had been dismissive of the Labour administration as being 'very illiberal'. It seems extremely unlikely that, had Grimond remained as leader and had Callaghan approached him in March 1977 in the hope of forming a parliamentary agreement, any understanding could have been reached – and certainly on the terms subsequently agreed by Steel. Grimond's later opposition to the accord signed by David Steel bears witness to this.

The Liberal leadership contest was a straight competition between David Steel and John Pardoe, following the swift withdrawal of Russell Johnston and Emlyn Hooson. Steel and Pardoe were almost direct contemporaries in terms of age and parliamentary experience. They had worked well together on a number of projects, both within the Party and in external endeavours such as the Radical Action Movement (RAM). Both had been inspired to join the Liberal Party by the charismatic leadership of Jo Grimond, and as such both sought 'realignment', sharing the belief that cross-party co-operation would be required to achieve this aim. Neither envisaged that these policy objectives could be achieved before the next general election, at the earliest. The leadership election campaign therefore was not viewed at the time as a definitive choice between two competing political philosophies. Instead the choice was characterised as one between style and personality, resulting in a contest which at times descended into personal attacks.

However, behind the apparent unanimity in support of Grimond's 'realignment of the left' strategy, Pardoe has subsequently questioned whether there was either an agreed strategy or a coherent understanding of how realignment could be enacted in practice. Realignment was, even under Grimond, a rather nebulous concept. As Michael Meadowcroft observes, there was a critical difference between Pardoe and Steel as to how they envisaged the Liberal Party should act and how it might emerge out of a political 'realignment'.[43]

Pardoe and Steel both envisaged that realignment would marginalise the extremes of the political spectrum, on the right and the left, and act as a mechanism to end the political dominance of the Conservative Party. However, Pardoe envisaged that the Liberal Party should act as the fulcrum of any realignment in which the old political system would be 'smashed'. Steel meanwhile saw the Liberal Party as part of a wider movement based around 'Liberal principles' in which the Liberal Party

would be a 'participant'. These differences would be critical, not only in their respective attitudes to the Pact but also in the Liberal Party's later interaction with the SDP in the early 1980s. However, they were not considered defining differences in 1976. In this context there was no discussion during the leadership election of how the Party should react to the fact that the Labour Party had lost its majority. It was widely assumed the Government would be sustained until an election, perhaps not taking place until as late as 1978.[44]

Both candidates nonetheless did put forward their manifestos. Steel made clear his position in a speech delivered in Hampstead, where he announced his candidature – rather provocatively, given that this was the home borough of John Pardoe:

> The role of the Liberal Party should not be that of a shadow Government with a detailed policy on every issue of the day, ready and waiting in the wings for a shift in the electoral opinion to sweep us into power . . . we should combine our long term programme with a readiness to work with others wherever we see what Jo Grimond has called 'the break in the cloud' – the chance to implement any Liberal policies.[45]

Pardoe's campaign emphasised his image as an anti-system maverick who 'was a bit of bastard' and 'if elected would change the establishment of the Party overnight'.[46] Pardoe claimed that power for the Liberal Party was 'all important and an achievable goal', maintaining that coming to power 'is nothing like as difficult . . . as some Liberals appear to imagine'.[47]

Steel's more reserved style drew support from the majority of the parliamentary Party and the rank and file, while Pardoe's more radical programme was backed by Party activists. *The Guardian* newspaper, on the eve of the Liberal Assembly in Scarborough in June 1976, placed Pardoe as a slight favourite, but when the result was announced at Bethnal Green Town Hall on 7 July 1976, Steel was a convincing winner by 12,541 votes to 7,032.[48] The weighted 'national vote' system, employed for the first time, had worked in Steel's favour, but had not been pivotal in the result.

The election of Steel might be viewed as a vote for stability, as the Party addressed a number of issues: the Thorpe scandal, poor opinion poll ratings, financial insecurity and the need for internal restructuring. His election, virtually more than any other event, was the key contributory factor in the Liberal Party's decision to form the Lib–Lab Pact or, at

the very least, in influencing the terms under which it was agreed. The
election result also had significant implications for the political ambi-
tion of John Pardoe and his subsequent role during the Lib–Lab Pact.
Crucially, Pardoe is firmly of the opinion that:

> Frankly, if I had been leader, the Pact would never have happened.
> We would never have gone into the Callaghan do. Because simply,
> it was my view that you cannot put the Liberal Party's head in a
> noose unless you are absolutely sure that there is PR [proportional
> representation] under your feet.[49]

The magnitude of his defeat also strongly influenced how Pardoe saw
his future role in the Liberal Party. He retained his position as Eco-
nomic Spokesman and became *de facto* Deputy Liberal leader, working
closely and effectively with Steel. However, he concluded that, 'once
I had been beaten by Steel, I had made the decision . . . I would support
David, and David was absolutely determined to go down this route of
"cooperation".'[50]

The Liberal leadership campaign, and Steel's victory, did not produce
a schism within the Party. Pardoe supporters, such as Gruff Evans and
Geoff Tordoff, worked closely and effectively with Steel. Only the impul-
sive Cyril Smith stated that he would not campaign in constituencies
that had rejected the Pardoe strategy, but by 1977 he too had accepted
Steel's authority as leader.

Liberal Party policy and strategy 1974–1977

David Steel's political philosophy was based on non-partisan
co-operation wherever possible, coupled with a long-term desire for
realignment in British politics. Steel had embraced a number of cross-
party initiatives both inside and outside the Liberal Party. He was a key
participant in the Anti-Apartheid Movement and was active in oppos-
ing the 1968 Commonwealth Immigrants Act. Meanwhile, with fellow
Liberal Richard Holme, he was instrumental in creating the Radical
Action Movement (RAM), intended as a mass movement promoting a
'debate and forging an alliance, between the progressive forces in British
politics'.

Central to fostering Steel's conviction that cross-party co-operation
was a viable political strategy was his stewardship through the House
of Commons of the 1968 Private Member's Bill to legalise abortion.
For Steel, the passage of this legislation, when he worked closely with
Labour and Conservative supporters, was emblematic of what could be

achieved through co-operation.[51] In some ways this was a fortuitous circumstance: not only was Steel lucky to be drawn so high in the ballot, but he had originally intended to propose a Bill calling for changes to the obscure and arcane practices of Scottish tithe law. Steel was only dissuaded from this plan, somewhat ironically by John Pardoe, on the grounds that 'The Abortion Bill' would 'make his name'.[52]

Throughout his period in Parliament, Steel articulated his personal view of the merits of a broad cross-party co-operation, even proposing these extend to electoral agreements. While Chief Whip, he wrote in the *Liberal News* that 'through our constituency associations we should seek to promote "liberal" policies and principles wherever they are found'.[53] Accordingly, he suggested that there should be some strategic withdrawal of Liberal candidates in seats where the Party was weak and the alternative Party candidate was 'liberal inclined'. Not surprisingly, this proposal resulted in a robust exchange within the Party, particularly in the Liberal Executive, the latter chastising Steel and resolving that 'no support, under any circumstances whether locally or nationally, should be afforded candidates of the Labour or Conservative Parties'.[54] Undeterred, Steel commented at the 1970 Liberal Assembly, when discussing the need for the Liberal Party to embrace cross-party co-operation, that 'those unwilling to risk the discomfort of the journey would do better to get off the train now rather than pulling the communication cord once it is under way'.[55]

Through his actions Steel showed the significance he placed on cross-party co-operation as a means to effect a long-term transformation of British politics, even at the expense of short-term Liberal Party advantage. These episodes also show the extent to which Steel's own political instincts were at variance with large sections of the Liberal Party; the significance of these factors will be examined later. Steel's appointment as Chief Whip (a position he held between 1970 and 1976) gave him an understanding of the structures of the Liberal Party and allowed him to liaise closely with many of the key figures within the Party's rank and file. While in theory this role made him thus more attuned to the mood of the wider Party than either Thorpe or Grimond, frustration with the Party's often arcane constitutional procedures compelled him, when leader, to form a private office containing strategic thinkers such as Richard Holme, William Wallace and, later, Archy Kirkwood. Together they constituted a distinct element within the Party. According to Crewe and King (1995), there was an air of separateness, even remoteness, about them.

The first few months of Steel's leadership were relatively benign, and both Liberal MPs and the grassroots seemed relieved that, in electing Steel, the Party had not returned to either the policy-heavy leadership of the Grimond period or the self-promotional style of Jeremy Thorpe.[56] There was widespread agreement that, in the medium term, the first priority for the leader would be to 'steady the ship' in the face of both poor local election results in May 1976 and the ongoing Thorpe scandal. There was no anticipation that the new leader would be required to do anything more than prepare and position the Party to contest the next general election, which was not expected to take place until 1978 at the earliest.

The most important event in Steel's leadership prior to the Pact was his first leader's speech, delivered to the Liberal Assembly at Llandudno in September 1976. In a speech that Steel personally considered one of his best, he outlined for the first time his vision of a 'co-operation strategy'.[57] In many respects this 'strategy' was simply a formalisation of his long-held belief in realignment in British politics and an obvious corollary to the Liberal desire for the adoption of proportional representation. In this context, 'co-operation strategy' (unlike 'community politics', which had emerged in the late 1960s and almost by definition developed from the grassroots) was clearly and explicitly a 'top down' policy, promoted by Steel through his 'mandate' as leader.[58]

In the run-up to the Liberal Assembly, Steel conceded to the attendant press that he was 'coalition minded', a comment that prompted a deputation of Liberal officials attempting to dissuade him from adopting such an explicit stance on co-operation when he came to address the Assembly.[59] Steel listened to their concerns, but concluded that 'it stays in'. Emlyn Hooson, in his welcome address as leader of the Welsh Liberal Party, articulated what appeared to be the prevailing mood of the grassroots, and a concern that would become a significant point of intra-Party discontent during the Lib–Lab Pact, namely that 'the Party should not shy away from coalition, but [that] electoral reform must be part of any deal'.[60] Although in *Strategy 2000* (a policy pamphlet published the year before) Steel had canvassed specific policy objectives, such as industrial democracy and profit-sharing, his leadership speech was comparatively light on policy detail. Instead he set out a political strategy emphasising that:

> We must be clear in our own minds that if the political conditions are right and if our own values are retained, we shall probably have to – at least temporarily – to share power with somebody else to bring about the change we seek.[61]

He continued:

> We must not give the impression of being afraid to soil our hands
> with the responsibilities of sharing power. We must be bold enough
> to deploy the coalition case positively ... the road I intend to travel
> may be a bumpy one, and I recognize therefore the risk that in the
> course of it we may lose some of the passengers.[62]

The response in the hall was 'pandemonium'. The Young Liberals, aware
that 'co-operation' would be the focal point of the speech, mounted
an orchestrated 'silent' demonstration, brandishing placards demand-
ing 'No Coalition'. However, largely as a reaction to the Young Liberals'
demonstration, the majority of the delegates cheered and clapped, and
at the conclusion Steel received an unusually long, four-minute, stand-
ing ovation. Bartram suggests that Steel misinterpreted the warm recep-
tion from the majority in the hall as an endorsement of 'co-operation',
a misunderstanding of rank-and-file sentiment that would prove be an
enduring feature during the Pact.[63]

Despite the reference to co-operation and the Young Liberals' opposi-
tion, Steel did not intend the speech to be seen as taking the Party in a
significantly new direction. It was, like previous speeches, most notably
those by Jo Grimond, designed to set the foundations for an as yet
undefined future political environment. Steel himself concedes 'there
was no working paper' on 'co-operation', but he concludes that it was
broadly assumed that the Labour Government would maintain its posi-
tion as a minority administration. Steel undertook no strategic thinking
about the merits of the various forms of 'co-operation': full coalition,
'confidence and supply', just 'confidence' or support on an issue-by-
issue basis. Michael Steed emphasises that, for many Liberal councillors,
working with counterparts from other parties was part and parcel of
local politics, and he therefore saw no problem in doing the same at a
national level. 'Realignment' had been discussed 'in every meeting since
the 1950s'.[64] The *Liberal News* concluded that 'delegates will have been
surprised that according to the media the main subject of the Assembly
was coalition'.[65]

There was one caveat to all this, however: concern that 'co-operation'
might mean working with the Conservative Party. According to Steed,
a discernible anti-Thatcher sentiment had developed in the Party by
1976.[66] Most Liberals assumed that David Steel's co-operation strategy
would eventually lead to a Lib-Con political agreement rather than a
deal with Labour. This was even in spite of the fact that Steel himself
was more politically aligned to the social democratic wing of the Labour

Party. However, the assumption can, in part, be explained by historic precedent: Lib-Con pacts had existed in the 1950s, the Liberal Party had been in discussion with the Conservatives following the February 1974 election and the Labour Party had historically been antipathetic to coalition.[67]

The co-operation strategy was also seen by many as providing the Liberal Party with a coherent policy after what was considered by many the rudderless leadership of Thorpe. Both as a long-term strategy and a short-term tactic it was considered a reasoned position. It ensured the development of a Party manifesto on which the Liberals could fight the next general election. Critically, there was never any suggestion in the Llandudno speech, or afterwards, that the strategy was a mechanism through which a parliamentary arrangement might be formed in the current parliament, and therefore little work was done after Llandudno to define what a 'co-operation strategy' actually meant in practice.[68]

Through late 1976, while the national political debate focused on the economic crisis and the forced intervention of the IMF, the Liberals' NEC and the Party Council, exemplifying the inclination of many of its membership to be 'oppositionist' rather than a potential party of Government, discussed largely abstract, introspective or fringe interests, such as equality issues, the war on waste and the rights of single mothers. Likewise, a paper entitled 'Liberal Political Strategy 1977–78' and presented to the NEC at the end of January 1977 (just six weeks before the creation of the Pact), focused not on co-operation but on devolution (including to English regions) and the perennial demand for electoral reform. The author, Peter Knowlson, envisaged that one of the target audiences for the Liberal Party would be 'anti-Thatcher Conservatives'. Clearly, with the formation of the Lib–Lab Pact, this section of the electorate all but evaporated as a source of Liberal votes.[69] The absence of a formal analysis of possible coalition scenarios in 1976–1977 has been viewed by Michael Steed as a serious strategic error. He comments: 'in retrospect the period between Llandudno and the Pact was a missed opportunity, when we should have been making the case for co-operation.'[70] However, this oversight can in part be explained by the fact that the NEC considered this to be a matter for the Party leader.

There were some moves designed to discuss the mechanisms of a co-operation strategy. National Executive representative Gordon Lishman had requested that NEC sponsor a one-day seminar on coalition-forming, in order to 'clarify views', pointing out that this process had only taken place in a limited way in 1974. No such seminars were conducted before the Lib–Lab Pact was formed.[71] Similarly, in January

1977 the NEC asked the parliamentary Party to 'consider its strategy in the event of the Government losing its majority in the House of Commons'.[72] At the next NEC meeting, on 18 February 1977, and in the context of the Government's impending defeat on the guillotine motion to the Devolution Bill, the Executive again requested clarification of the Party's strategy *vis-à-vis* the Labour Government, suggesting that discussions should be conducted on what policy demands ought to be made if Liberal support was requested. Crucially, it was envisaged by those present that Liberal support would be available only on an 'issue-by-issue basis', not as a formal parliamentary agreement. Steel, present at this meeting, maintained the stance he had taken on becoming leader:

> The Party should adopt a broad flexible approach, based on the presentation of key issues. It could thereby meet the demands of a changing situation, which might not be possible if the Party was ensnared by a precise commitment to support a rigid 'shopping list' of measures.[73]

This approach had been outlined in an interview on BBC Radio 4 on 18 November 1976, when Steel explained that he was:

> Rather reluctant to go into detail on what we would call a 'shopping list' because in the present condition of the country, I think what is required is some form of minimal agreement on what is required for the national good rather than what is required for the Labour Party the Liberal Party or the Tories . . . I am demanding, if you like, a degree of policy self-sacrifice on the part of all parties, and I certainly don't intend that the Liberal Party should lean to one or the other.[74]

Interestingly, for a Party which broadly acknowledged that cross-party co-operation or formal coalition would be the most likely route to power, there were fewer attempts through this period to understand the science of coalition-forming or to obtain a broad appreciation of how coalitions in other European countries had either been formed or functioned. Michael Steed notes there had been little appetite for a review of how case studies from other countries might be employed in the United Kingdom. The essence of this scepticism seems to have been primarily the idea that the UK had a different political culture, and a different voting system from countries in which coalitions were the norm. Consequently, it was envisaged that the UK experience of cross-party co-operation would be unique, and an understanding of coalition

formation would only become necessary if and when electoral reform was enacted.[75] While, as previously noted, David Steel had been heavily involved in cross-party initiatives at Westminster, he had less interest in the academic analysis of coalition forming or pan-European forums than either Grimond or Thorpe, only becoming involved in the Liberal International movement in 1975. There is no evidence that he sought discussions with European Liberals or academics on the process of coalition-forming prior to entering discussions with Callaghan in March 1977, although he did hold discussions with Scandinavian counterparts during the Pact.[76]

Conclusion

This chapter has discussed the status of cross-party co-operation in British politics between 1945 and 1977, placing the Lib–Lab Pact in a broader historical context. The two most significant cases studies in 1964–1965 and in 1974 were occasions when formal cross-party co-operation might have occurred, it was a failure of the Liberal leadership not to drawing on these experiences, in the context of the de-alignment of the two-party system in the mid-1970s. The Liberal Party, under Jo Grimond, had largely accepted the principle of co-operation as a path to power. This had been espoused by David Steel when he assumed the leadership of the Party in 1976. However, 'co-operation' had largely remained a philosophical concept with little development of the institutional or structural mechanisms of co-operation or how it might operate in practice. Nevertheless, the election of Steel as leader was a key factor in the future formation and structure of the Lib–Lab Pact; it could not have been formed, or at least not under the same terms, had Jeremy Thorpe not been forced to resign as Liberal leader, had Jo Grimond chosen to stay through to a general election or had John Pardoe been elected to lead the Liberal Party. The contemporary commentary, retrospective political memoirs and academic historical analysis of the origins of Lib–Lab Pact of 1977–1978 have broadly concluded that the Lib–Lab Pact came like a 'bolt out of the blue'. However, this stands in stark contrast to the growing assumption at the time that multi-party politics would result in some kind of cross-party co-operation occurring at Westminster.[77] Some within the Liberal Party organs were calling for greater analysis of a co-operation strategy in the light of the Labour Party losing its overall majority in April 1976 and the benevolent neutrality of the minor parties in February 1977. John Pardoe sardonically concludes 'we *should* have seen it coming' (emphasis added).[78] The failure

not to have a more detailed strategy over mechanics and structure reside almost exclusively with the Liberal leadership. As will be discussed in the next chapter, this lack of preparation and planning for a parliamentary agreement was to have significant consequences for the Liberal Party, in particular, when Callaghan actually did approach the Liberals to establish if they would give formal support for the Government in March 1977, and it had far-reaching consequences for how the Pact was received and developed through 1977–1978.

2
Build-Up to the Lib–Lab Pact, 1974–1977

This chapter examines why the scenario of a parliamentary agreement between the Labour and Liberal Parties was not anticipated, or planned for, by any of Britain's political elite. Focus will be on the period from the Labour general election victory in October 1974 through to the parliamentary vote of (no) confidence in March 1977, which necessitated Prime Minister James Callaghan entering into the cross-party discussions that led directly to the formation of the Lib–Lab Pact. Analysis will centre on the parliamentary arithmetic of the period 1974–1979 and the legislative programme of the Labour Government, which together created the necessity for cross-party discussions.

Harold Wilson had reaffirmed his condemnation of cross-party co-operation in 1973, stating:

> Let this be clear: as long as I am leader of the Party, Labour will not enter into any coalition with any other Party, Liberal or Conservative or anyone else…there will be no electoral treaty, no political alliance, no understanding, no deal, no arrangement, no fix, neither will there be any secret deal or secret discussions.[1]

Following the inconclusive February 1974 election, the Labour Party governed as a minority administration and the Liberal Party voted on legislation on an issue-by-issue basis. Wilson called a second election, but his position on coalition remained resolute in the build-up to this second election. In response to Heath's call for a Government of National Unity if no party achieved an overall majority, Wilson described it as, 'Con politics, Con leadership, by a Con Party, for a Con Trick'.[2] The October 1974 election saw the Labour Party re-elected, albeit with a wafer-thin parliamentary majority of three seats. Wilson's

decision to avoid cross-party co-operation had been vindicated. Heath resigned as Conservative leader and his successor, Margaret Thatcher, subsequently rejected co-operation as a political strategy, describing coalitionists as 'Quislings'.[3] Under such circumstances there seemed little prospect of a parliamentary agreement being established in the foreseeable future.

With such a small majority Wilson admitted privately that he assumed Labour's parliamentary majority would last for 'less than two years'. However, he could be more sanguine than Labour politicians in either 1950 or 1964 that his administration might be able to remain in office, albeit perhaps as a minority Government. This can be explained by a number of factors. The first of these was the political composition of the House of Commons. Labour's majority over the Conservatives was 42, a spectrum of minor parties comprising the remainder of the chamber. Indeed, October 1974 saw the most disparate collection of political parties ever elected to the House of Commons, the eight minor political parties who enjoyed parliamentary representation collectively receiving 26% of the popular vote. Labour was also helped by the minor parties' policy proximity to the Labour Party or, more significantly, by the lack of convergence between a critical number of them and the main opposition Conservative Party. As David Wood's editorial in *The Times* commented: 'to adapt the old trade union maxim that "unity was strength", for Labour, disunity of opposition parties was strength.'[4] In this regard, institutional factors also helped the Labour Government of October 1974. The 'Westminster model' dictates that the Government must enjoy the confidence of the House of Commons. However, this does not require that the Government actually commands the positive support of the majority in the Commons; rather, it merely needs to ensure that there is no majority against it.

The Labour Government was further assisted by the policy positions it had adopted relative to the other minor parties on a number of key issues. The single most important of these was the Devolution (Scotland and Wales) Bill. By Labour's own admission, the introduction of the Bill in 1976 and its subsequent laborious progress through parliament were, in part, politically motivated.[5] Labour's devolution policy ensured what might be termed the 'benevolent neutrality' of a critical number of minority parties: namely, the Welsh and Scottish Nationalists and the pro-devolution Liberal Party.

Labour also benefited from its own experience of governing with a small majority. The Labour Cabinet in October 1974 was the most experienced in the Party's history – almost all had served in 1964–1966 and

so had direct experience of governing with a small majority. The Cabinet took a pragmatic approach to legislation, and this was coupled with Wilson's decision to front-load the legislative programme so that the more controversial measures were enacted when Labour enjoyed an overall majority. It also utilised a highly astute Party management team, led between 1974 and 1976 by the experienced Chief Whip Robert Mellish, and then, after James Callaghan succeeded Wilson as Prime Minister in 1976, by the equally skilled Michael Cocks, who were complemented by Deputy Chief Whip Walter Harrison and Jack Dormand, Pairing Whip. Dialogue with minor parties through the 'usual channels' facilitated by the Private Secretary to the Chief Whip, Freddie Warren, were crucial in advising Michael Foot, Leader of the House, on managing the Government's programme.[6] Furthermore, as Norton observes, it was during the 1970s that 'the myth was finally exposed' that a Government defeat in the division lobby must either be reversed or the Government was bound by convention to request a dissolution.[7] The Labour Government repeatedly attempted to avoid parliamentary confrontation, increasing the perception amongst opposition parliamentarians and the media that the Labour Government would remain in office, albeit with a greatly truncated programme but, crucially, without the need for formal cross-party support for the foreseeable future.

A notable example of the Government's pragmatism was its position on Europe. Labour's 1974 manifesto had pledged to renegotiate the terms under which Edward Heath had taken the UK into the EEC on 1 January 1973. A national referendum would be held, in which Cabinet Ministers would be given the freedom to campaign according to their conscience. By adopting such a policy, Wilson was able to criticise the terms negotiated by Heath while avoiding the exposure of deep divisions present within his own Party on this issue.

The ECC referendum campaign was the first example since the Second World War of national politicians working together in a common cause. Occurring just 18 months before the Lib–Lab Pact, it might be assumed that it acted in some way as an important precursor to formal cross-party co-operation. Certainly the collegiate nature of the 'Britain in Europe' campaign lead politicians who worked together in the SDP–Liberal Alliance later cited this period as an example of cross-party co-operation in action. However, as Butler and Kitzinger (1976) observe, at the time there was very little evidence of any long-term effect.[8] The impact on the wider British political system was fleeting and soon dissipated; 'neither in styles of campaigning, nor in new alliances had the referendum left its mark on British Politics.'[9] Of the two main

protagonists of the Lib–Lab Pact, James Callaghan, as the then Foreign Secretary, abstained from any involvement. The referendum campaign did give David Steel an insight into the resources and professionalism of the two larger parties, and it gave the Liberal leader added media exposure.[10]

The loss of the Labour government's overall majority

The loss of the Labour Government's majority in April 1976 was of crucial importance in the process that led to the formation of the Lib–Lab Pact. The next section will examine briefly the circumstances that led to the Labour Government losing its overall parliamentary majority, and the subsequent events that led to the tabling of a vote of confidence by Margaret Thatcher on 17 March 1977, which in turn necessitated the formation of the Lib–Lab Pact.

It was inevitable that through its period in office, the 1974–1979 Labour Government would be compelled to fight by-elections; likewise it was all but inevitable that it would lose a proportion of those elections. For a time, after October 1974, the Labour Party had some success in defending by-elections, losing only one of the first six by-elections contested during the opening 18 months of the parliament in which Labour were the incumbent. Technically, the Government's overall majority finally disappeared following the sudden death of Labour MP Brian O'Malley on 6 April 1976 – coincidentally, on the same day that James Callaghan became leader of the Labour Party and Prime Minister, after the widely anticipated, though nonetheless sudden, resignation of Harold Wilson. However, in reality, through the support of the two Irish Nationalist MPs, its parliamentary position remained relatively secure. Over subsequent months, the Government's majority was eroded further because of three factors: defections, poor intra- and inter-party relations and by-election defeat. In April 1976, the disgraced former Paymaster-General John Stonehouse changed his designation from Labour to Labour/English National; he later resigned his parliamentary seat, whereupon the ensuing by-election was won by the Conservatives. The parliamentary arithmetic was further complicated by the defection of two Scottish Labour MPs, Jim Sillars and John Robertson, who, unhappy with the slow progress of the devolution legislation, left the Labour Party to form the Scottish Labour Party.

As the Government's position became more precarious, antagonism between Labour and Conservative members intensified, most notably during the Aircraft and Shipbuilding Bill, when 'the usual channels' were suspended. In July 1976, *The Times* newspaper speculated on the

possibility that a formal understanding between the Government and one (or more) of the minor opposition parties might come about as a consequence; the Government might look for some 'patched up, temporary coalition'.[11] However, following the retention of two parliamentary seats by the Government in by-elections, talk of coalition abated. However, on 4 November 1976 a further three by-elections were contested, resulting in two defeats for the Labour Party. One was Walsall North (John Stonehouse's former seat); the other was the former safe seat of Workington. The sitting MP, Fred Peart, a long-time political ally of the Prime Minister, was ennobled by Callaghan in order for him to guide legislation through the upper House as Leader of the House of Lords. Defeat in what had been a Labour citadel for over 50 years was a serious blow to the standing of the Government and raised questions about the wisdom of both Callaghan and his Party managers in forcing the by-election in the first place. Parliamentary arithmetic was further complicated in December 1976, when former Cabinet Minister Reg Prentice, facing de-selection by his increasingly 'left-orientated' constituency Party, resigned the Labour whip to sit as an Independent, before later crossing the floor to join the Conservative Party.

Next Callaghan proposed Roy Jenkins as President of the European Commission, to be accompanied by fellow Labour MP David Marquand as a European Commissioner. In order to fulfil these roles, both men were obliged to resign their seats in the House of Commons. While Marquand's Ashfield constituency was considered a safe seat, Jenkins's Birmingham Stechford seat was a marginal. In November 1976, *The Economist* speculated that, should Labour lose either seat, it might be inclined to form an understanding with the Liberal Party.[12] The sudden death of Foreign Secretary Anthony Crosland on 19 February 1977, as well as being a serious personal blow to Callaghan, also meant that the Labour Government now faced the prospect of fighting a by-election in Crosland's Grimsby constituency – like Birmingham Stechford, a Labour/Conservative marginal. As Kenneth Morgan observes, Crosland's death 'manifestly weakened a floundering Government'.[13]

By March 1977, the number of MPs who took the Labour Whip had declined from 319 to 310. Crucially, this meant that, should it fail to defend any of the three previously Labour-held seats in which by-elections were now pending – and even taking into account the support of the Scottish Labour Party MPs, Gerry Fitt (SDLP) and the mercurial Irish Independent Frank Maguire, all of whom notionally supported the Labour Government – the Government would be vulnerable to defeat on a motion of confidence. If the need for financial support

from the IMF was the economic nadir of the 1974–1979 Labour Government, then spring 1977 was the political equivalent, prior to the unrest seen during the 'winter of discontent'.

Clearly, the loss of the Government's overall majority and then a further erosion of its parliamentary contingent were of fundamental importance in the process which led to the formation of the Lib–Lab Pact. However, a second and concurrent process, which was in some ways of greater significance, was the effect of poor parliamentary discipline within the Parliamentary Labour Party *vis-à-vis* the legislative process in February and March 1977.

Loss of the guillotine motion on the Devolution (Scotland and Wales) Bill, 22 February 1977

As has already been highlighted, the progress of the Devolution (Scotland and Wales) Bill occupied a pre-eminent place on the parliamentary agenda in the middle half of the 1974–1979 parliament. In keeping with parliamentary procedure relating to a constitutional Bill, its committee stage was undertaken on the Floor of the House of Commons. In the face of significant filibustering from the Conservative Party and dissenting Labour MPs (over 300 amendments were tabled), by spring 1977 the legislation had ground to a halt. Under pressure from the Scottish Labour Party and his own pro-devolution back-benchers, Michael Foot, as Leader of the House, controversially proposed that a guillotine motion be imposed in order to force through the legislation. The debate and subsequent vote on the guillotine motion were timetabled to take place on 22 February 1977.

As noted above, by February 1977, the Government was in a minority of ten. Aware that a significant number of Labour MPs would vote against the motion, Foot recognised that substantial support would be required from the minor opposition parties. Although the Government could be confident of support from the pro-devolution SNP and Plaid Cymru, the Liberal Party was divided over how it would respond to the imposition of the guillotine. David Steel advised his Party colleagues to vote against the motion, on the basis that it was 'a bad Bill badly drafted'. However, he conceded that the two Liberal MPs representing Welsh constituencies, Geraint Howells and Emlyn Hooson, could vote for the motion on the grounds that to vote against would result in discontent in their constituencies. In his memoirs, Steel argued that the Liberal Party's actions 'demonstrated usefully to the Government that the Liberals meant what they said', and thus acted as a useful precursor to the Lib–Lab Pact discussions.[14] However, it is important to place the

Liberal Party's actions in context. It was not Steel's intention, in vot-
ing against the guillotine, to precipitate either cross-party talks or the
immediate resignation of the Labour Government. His prime motiva-
tion was to show dissent on the sole basis that the guillotine motion
prevented discussion of Liberal amendments: specifically, the vote on
whether the devolved assemblies be allowed tax-raising powers. Indeed,
Steel later acknowledged that he had not anticipated the ramifications
of his actions.[15]

The guillotine motion was, despite Foot's efforts, lost by 312 votes
to 283, with 22 Labour MPs voting against and a further 23 abstain-
ing. The SNP and Plaid Cymru, in response, announced that they would
subsequently vote against every aspect of the Government's legislative
programme. David Steel was less forthright in his response, stating that
the Liberals would vote against the Government on any subsequent
motion of confidence, but he added the crucial caveat 'unless there
were concessions' when the Devolution legislation was reintroduced.[16]
This was, self-evidently, an empty threat. Michael Foot had confirmed
to parliament the previous day that the Government was undertak-
ing a multi-party consultation process, and that compromise would be
required before the reintroduction of the Devolution Bill.

With the nationalists withdrawal of unofficial support Callaghan
called a Cabinet meeting to discuss how best to proceed. In a wholly
pragmatic response, it was quickly agreed that the legislative programme
should be amended. The Direct Labour Bill should be postponed, the
Occupational Pension Bill should be amended, and the ship-repairing
aspect of the Aircraft and Shipbuilding Bill should be abandoned. On the
two constitutional Bills before the House, the Devolution Bill was obvi-
ously in hiatus, but would be reintroduced at the earliest opportunity.
Meanwhile, with regard to the direct elections to the European Parlia-
ment, on which action had been repeatedly deferred owing to internal
Labour Party dissent, it was agreed that an all-day Cabinet meeting
should be convened to plan the discussion on how to proceed.[17] The
Cabinet also discussed how cross-party support might be sought in order
to facilitate the progress of the Government's legislative programme.
Callaghan emphasised the need to:

> carry through a positive programme of desirable legislation, and
> [that] Ministers would have to construct the necessary parliamentary
> majorities . . . by putting proposals to the Parliamentary Labour Party
> (PLP) and therein obtaining support, and by seeking support from
> the minority parties at the planning stage.[18]

In this context, Gerald Kaufman and Stan Orme, in particular, appear to have undertaken some discussions with the Liberals MPs, although Merlyn Rees later confirmed to the Prime Minister that these discussions did not extend to formal cross-party co-operation.[19]

It is important to stress that the loss of the guillotine vote did not make the Lib–Lab Pact in any way inevitable. Just one week before the commencement of cross-party discussions that led to the Pact, the media were predicting the Government would continue in its current form long into 1978.[20] It did, however, have an important contributory impact on the terms under which it was agreed. Why this was the case will be the focus of the next section.

In an attempt to show the sincerity of the Cabinet's intention to persevere with the devolution legislation, Michael Foot (as Leader of the House) informed the House of Commons on 24 February 1977 that the Government would open cross-party and intra-party discussions in an attempt to determine the conditions whereby the Devolution Bill could be amended and passed into law. These discussions were explicitly a mechanism to re-establish tacit support for the Devolution Bill, rather than any active move towards a more consultative form of Government.

Cross-party discussion on devolution, February–March 1977

It was envisaged that talks on devolution would extend over a six-week period. Mindful of the necessity for a successful resolution of this process, Callaghan and Foot combined in conducting the negotiations with the minor parties.[21]

In *A House Divided* (1980), David Steel notes that, with regard to this process of cross-party consultation:

> the Tories refused to participate on the grounds they were against devolution anyway . . . the SNP refused to participate because they thought the guillotine should have been a vote of confidence. That left the Liberals talking constructively with the Government about changes to legislation . . . It was a significant foretaste of the Lib–Lab Pact itself.[22]

However, this is not in fact the case. Documents in the National Archives show that, concurrent with their discussions with the Liberal Party, Callaghan and Foot variously entered into formal discussions on a number of occasions with the Conservatives, the SNP, the Ulster Unionists, Plaid Cymru and the Scottish Labour Party. They also

consulted backbench Labour MPs who represented constituencies in the North of England.[23]

The first discussions, after the loss of the guillotine motion, took place with the SNP leader, Donald Stewart. Stewart blamed the Government's defeat on the Liberals' decision to vote against the Bill, asserting that 'they are finished in Scotland as a devolution Party'. The SNP delegation then asked if a future guillotine motion might have been treated as a vote of confidence in the Government in order to compel Labour rebels to support it, to which Callaghan replied that he had considered it but had concluded that 'there were people [in the Labour Party] who were prepared to sacrifice their political careers on this', and defeat might have meant the loss of the Government's economic policy.[24] With the SNP unresponsive, Callaghan then focused his energies on the Liberal Party. Devolution was one of the few policies in which the Liberal Party had a 'completely worked-through' policy position.[25]

Discussions between Callaghan and David Steel commenced on 3 March 1977. The Liberal leader outlined the broad constitutional reforms enshrined in his Party's manifesto. Callaghan responded rather abruptly by stating 'at some point the issue of what the Liberals would require to vote for a guillotine motion would need to be discussed'.[26] Steel subsequently outlined the key issues required for Liberal Party support, which are worth reviewing as they would also be an important subsidiary issue in the Lib–Lab negotiations that led to the formation of the Lib–Lab Pact:

- The voting system employed should be proportional representation (PR), or at least this should be offered as an option in a referendum. (No mention was made of specific forms of PR to be employed, although the Liberal Party manifesto specified the Single Transferable Vote.)
- Clearly defined powers for the [Scottish and Welsh] assemblies, to avoid an overlap with Westminster.
- Reduced powers of the Secretaries of State, or abolition of their offices altogether.
- Revenue-raising powers for the Assemblies.
- Reduction of the numbers of Scottish MPs in Westminster or reduction of their voting rights (a reflection of what would become known as the West Lothian Question).

Steel, however, was somewhat passive in his negotiating position, stating that these were 'simply recommendations', and that Government

would only 'need to show flexibility' in order to secure Liberal support in a future Guillotine Motion.[27] Nonetheless, Callaghan was dismissive of a number of the Liberal demands. Specifically, with reference to the Liberals' preferred option of PR to be employed for elections to the devolved Assemblies, he argued that 'there was no use the Government getting 10 Liberals if they lost 80 supporters from their own Party'. Steel questioned this number, to which Callaghan asserted that 'in the light of discussions on Direct Elections, he felt confident of this assessment'.[28]

Callaghan's strong assertion in this meeting, that the Labour Party would not countenance proportional representation, greatly influenced the thinking of David Steel, having a direct bearing on the Liberal leader's negotiating strategy when, during the Lib–Lab Pact, discussions extended to a proportional voting system for the Direct Elections Bill. In this way, the Lib–Lab devolution discussion had a greater significance on the structure of the Lib–Lab Pact than has hitherto been highlighted.

For David Steel, discussions with the Government on devolution were exactly the type of cross-party co-operation he had long advocated and hoped for. Indeed, he openly expressed his desire that the discussions might precipitate wider consultations on economic and social policy. However, he was equally mindful of the more cautious view of cross-party discussions held by many in the Liberal Party, as expressed at Llandudno and subsequently. Accordingly, Steel felt compelled to stress in a letter to Liberal activists the limited nature of the discussions he had entered into with the Government: 'for your own information reports of talks between Callaghan and myself on political co-operation are groundless, the only meeting we have had is on devolution'.[29] 'Letters to Prospective Party Candidates' was one of the few ways that Steel was able to communicate directly, with Liberal Party activists and he was to utilise this mechanism throughout his leadership, including during the Pact.

Steel used this letter as an opportunity to outline the areas of policy that any broader cross-party discussions might focus on: devolution, direct elections to Europe with a proportional voting system, tax reform and industrial partnership were all highlighted. Some of these issues would subsequently be central to the Lib–Lab discussions in March 1977. Similarly, many were invoked by some Liberal activists as prerequisites for any deal with the Government.

Cross-party discussions on how to proceed with the Devolution Bill continued into the summer of 1977, concurrent with the Lib–Lab Pact, which had been formed in March and were only suspended when the Government's need for wider consultation became redundant. This

demonstrated both the significance of the successful passage of the Devolution Bill to the Government, and the fact that a pragmatic Labour Party did not necessarily assume that the agreement with the Liberals (which initially was only scheduled to run until the end of the parliamentary session) would alleviate all the legislative dilemmas facing the Government in 1977–1978.

Expenditure White Paper debate, 17 March 1977

Government and parliamentary business continued concurrently with the inter-party discussions on devolution, but with no contentious legislation imminently passing through the House of Commons there was little to indicate that the Government was in any immediate danger of collapse. Indeed, Callaghan was confident enough to travel to North America between 9 and 13 March 1977 for meetings with President Carter and the Canadian Prime Minister Trudeau. The next parliamentary test for the Government was the Expenditure White Paper debate on 17 March 1977. Despite being critical to subsequent events, the precise circumstances of the Expenditure White paper debate and vote have been variously ignored or misrepresented in previous analyses of the formation of the Lib–Lab Pact.[30] However, its significance necessitates that it be examined in detail.

Both by convention and necessity, the Government is compelled to outline its proposed spending and thus pass an Expenditure White Paper each year. On 10 March 1976 the Labour Government had lost a vote on the Expenditure White Paper. At that time, 37 Labour MPs had abstained in the vote. Harold Wilson was compelled to table a motion of confidence. Faced with the prospect of a general election if defeated, the Parliamentary Labour Party voted unanimously with the Government and a Government majority was secured by 297 votes to 280.

In March 1977 the Chief Whip, Michael Cocks, had been informed by left-wing Labour MP Eric Heffer that, in the face of Treasury proposals for further fiscal constraint, a substantial number of Labour back-benchers were prepared to repeat their actions of a year earlier and rebel on the Expenditure White Paper vote.[31] Defeat on the Expenditure White Paper would compel the Prime Minister, now Jim Callaghan, to call for a vote of confidence. However, now facing the avowed opposition of the Nationalist parties, it seemed certain to lose any such vote. In response to this predicament, Cocks presented a scenario to the Prime Minister whereby the Government would not technically lose the Expenditure White Paper vote and therefore it would not be compelled to call for a

vote of confidence – but would face a degree of ignominy in the House of Commons and in the media.

Callaghan accepted Cocks's proposal, the rationale of which ran as follows: rather than calling a vote expressly on the Expenditure White Paper, the Government could use a procedural device whereby the Expenditure White Paper would be debated and voted on not as a substantive motion, as was customary, but as part of an adjournment debate. This particular parliamentary procedure would have a number of key advantages for the Labour Party. The conventions of the House of Commons decree that whilst the House must adjourn at the end of a day's sitting, a vote through the division lobbies does not have to take place unless dissent is expressed. Should a vote be called, the Government would certainly lose, but because MPs were technically voting on whether to adjourn the House of Commons and not on the Expenditure White Paper directly, this would not constitute a direct defeat on the Government's fiscal policy. Thus its programme of spending cuts contained within the Expenditure White Paper would be retained for the time being. The procedure would also avoid directly exposing the extent of Labour backbench dissent on the Expenditure White Paper, as they would not technically be voting on it. Moreover, because it is not possible to submit an amendment to an adjournment debate, the House would not be able to use this opportunity to express a view on the White Paper. Finally, as noted above, were the Government to be defeated in a vote on the Expenditure White Paper, a key plank of the Government economic policy, it would be compelled, by convention, to table a vote of confidence. A loss on an adjournment debate would not necessitate such a measure, and it would be incumbent on the Opposition to seek a vote (the significance of this difference will be explained shortly).

Following the conclusion of the adjournment debate on the Expenditure White Paper, angered SNP members expressed dissent and called for a vote – as Cocks had predicted. Consequently, a full vote of the House was called.

To show their combined disdain for the Government's tactics, Opposition MPs voted unanimously for the adjournment. Labour Party managers instructed their MPs to abstain from the adjournment vote, thereby ensuring that the Government would not be seen to actually lose the vote by a quantifiable margin. In conducting this action, they hoped to reduce the credibility of the result. (The SNP supplied the tellers for both the 'Aye' and the 'No' lobbies.) Labour MPs were consequently left in the ignominious position of remaining seated on the

Government benches while the Opposition voted 293 votes to 0 for the adjournment of the House. The Labour Party was visibly humbled, but not technically defeated on the Expenditure White Paper.

The leader of the Opposition, Margaret Thatcher, condemned the Government's actions, concluding despite her 'natural caution' that she had to call for a vote of confidence; she formally tabled the motion on 18 March 1977.[32] As stated above, by utilising the adjournment device, the Prime Minister was not compelled to call a vote of confidence. As such, a further parliamentary convention was enacted which further benefited the Government. Had Callaghan been forced to call for a vote, the debate and vote would have had to take place on the next full day of parliamentary business – Monday 21 March 1977. By contrast, Opposition motions only have to take place within 'a few days', at the discretion of the Leader of the House, albeit in discussion with the Opposition Chief Whip and the clerks of the House of Commons. In the event, Michael Foot, responding to Thatcher's demands, informed MPs that time would be made available for the confidence motion to take place on the afternoon of Wednesday 23 March 1977. In this way, the Government was afforded time, which otherwise would not have been available, in which to negotiate with minor parties in its attempt to secure the support needed to win the confidence motion. Therefore, a number of factors combined, meaning that without Cocks's procedural device it is unlikely that the subsequent cross-party co-operation would have been achieved.

Conclusion

In the same way that, as noted in Chapter 1, the change of leadership of the Liberal Party in 1976 was central to the formation and functioning of the Pact, so too was the appointment of James Callaghan as Prime Minister. The Pact could not have been formed had Harold Wilson remained Prime Minister. The loss of the Devolution Bill and the Finance Bill (adjournment debate) episode were emblematic of the difficulties faced by the Labour Party in the period from 1974 to 1979. The level of internal discontent within the Labour Party and the pragmatism and ingenuity of the Labour Party managers had maintained the Government in office – if not necessarily in power. A mixture of back luck and bad judgement eventually led to the loss of the Government's overall majority and culminated in the vote of confidence held on 23 March 1977. Access to archive material allows new perspectives to be drawn on the significance of the inter-party discussions, and while the EEC

referendum had little material impact on subsequent negotiations, the reintroduction of the devolution legislation did impact significantly on the subsequent negotiating strategy of Steel and Callaghan both in forming the Lib–Lab Pact and in its implementation, as will be explored further in Chapter 4.

3
Cross-Party Discussions,
17–20 March 1977

This chapter will examine the period of inter-party consultation, focusing on the direct negotiations that took place during 17–23 March 1977 between the Labour Party and the Ulster Unionist and Liberal Parties respectively.

Immediately following the Government's defeat in the adjournment debate, and cognisant that Margaret Thatcher would almost certainly call for a vote of confidence the following day, Callaghan organised a meeting of key Ministers and Government Whips, in the Prime Minister's office behind the Speaker's chair in the House of Commons. Defeat in the vote of confidence would necessitate a general election, and with the Conservative Party sitting 16% ahead in the opinion polls, it was widely assumed this would result in a comfortable Conservative victory. Callaghan reasoned that the only option available to him was to construct a parliamentary majority incorporating the minor parties to win the confidence motion and thus avert an election.[1]

Redolent of a military operation, each participant was ascribed the objective of making contact with an allotted minority Party. Current and former Northern Ireland Secretaries Merlyn Rees and Roy Mason were to make contact with Gerry Fitt of the SDLP and the Ulster Unionists respectively. Cledwyn Hughes was to contact the Liberals, aided by William Rodgers, the Transport Secretary. The day before, Hughes had opened a line of communication with David Steel to establish how the Liberal Party intended to vote in the adjournment vote. Meanwhile, Rodgers had enjoyed a good working relationship with Steel during the 1975 EEC Referendum debate, although, as noted above, the relationship had not developed significantly in the intervening months. Finally, the Whips' Office was to liaise with the two dissident Scottish Labour Party (SLP) MPs, Jim Sillars and John Robertson.[2]

John Ryman, the maverick Labour MP for Blyth, speaking on 18 March 1977, caused some consternation when he had called on 'every Labour MP to ask themselves; does the Government deserve to survive?' In the event, under pressure from the Whips' Office, he, together with the entire Labour Party cohort, voted with the Government.[3] There was media speculation on how the various minority parties might vote. It was assumed that both Irish Nationalist MPs would vote with the Government, whereupon the Government would be in a minority of five.[4] Consequently, Callaghan's primary focus was to secure the support of one or more of three distinct groups: the two SLP MPs and the former Labour Minister Reg Prentice; the 11 United Ulster Unionist Council MPs, but ideally without the consequential loss of Gerry Fitt and Frank Maguire; and finally, the 13 Liberal MPs. Importantly, if either of these two latter blocs of MPs could be persuaded to vote with the Government (or to abstain), the Government would survive the vote of confidence.

If the Government could survive the immediate threat of the vote of confidence, the Opposition would not, for political reasons, be able to employ a confidence motion again for a number of months, thereby allowing the Government's economic programme time to show material benefits, assisted by a 'give away budget' due to take place just one week after the vote of confidence. Under such circumstances, the Government's opinion poll ratings might improve sufficiently, allowing it to call a general election, with the prospect of achieving a working majority. Alternatively, having survived the vote of confidence, the Government would, through the cross-party discussions, reintroduce the Devolution Bill and so placate the SNP and Plaid Cymru.

The Labour Government's strategy at this time can thus be characterised as a continuation of their pragmatic approach, re-establishing the informal coalition of benevolent neutrality of the minor parties, rather than an explicit shift towards cross-party co-operation. Either way, when considering Callaghan's motivation with regard to the cross-party co-operation and the Lib–Lab Pact, it must be borne in mind that his preferred option was a loose arrangement, with an ultimate objective being to call an election with a reasonable change of securing a Labour majority.

Concurrent with the cross-party discussions Callaghan instructed his Principal Private Secretary, Kenneth Stowe, to produce a consultative paper outlining how parliamentary business might be concluded, parliament prorogued and a possible date for a general election set.[5] Although this was not the first confidence motion tabled against the 1974–1979

Labour Government, it was the first time contingency planning had been undertaken for a general election.[6]

Labour–Ulster Unionist discussions, 16–22 March 1977

In his attempts to secure the parliamentary votes needed to win the vote of confidence, Callaghan initially and instinctively chose to look first to enter discussions with the Ulster Unionists. He felt 'he could "talk" with them', they were 'serious men . . . straight, tough old fashioned conservative people'.[7] There were also clear political advantages in pursuing an agreement with the Ulster Unionists above that of any other grouping. If Callaghan could persuade the Ulster Unionists to abstain *en bloc*, the Government would probably survive, but crucially, this support might be achieved by only giving concessions on issues related to Northern Ireland, without the need for either a formal agreement or impacting on the Labour Government's key economic policy and industrial strategy.

The composition of Northern Irish political representation at Westminster in October 1974 had been transformed as a consequence of the formation and subsequent collapse of the Sunningdale Executive in May 1974. Anti-Sunningdale Unionists had formed a loose coalition called the United Ulster Unionist Council (UUUC), and under this banner ten MPs had elected to Westminster. Their contingent was made up of six Official Unionists, led in parliament by James Molyneaux, three Vanguard Unionists, led by William Craig, and a single Democratic Unionist, the Rev. Ian Paisley. Significantly, while the UUUC MPs shared a strong contempt for the Sunningdale Agreement, they remained, even within their own Party groupings, a disparate collection of individuals, often with divergent and contradictory views on economic and social policy and, more specifically, on the merits of maintaining the Labour Government.

Callaghan had in fact instigated a meeting with members of the UUUC on 16 March 1977, the day before the Expenditure White Paper debate, 'to see if there was a basis for future Commons co-operation'.[8] This pre-emptive act was indicative of the Prime Minister's preference for an informal understanding with the UUUC. Callaghan subsequently sought to arrange a bilateral meeting with Molyneaux on Friday 18 March 1977, but the MP for South Antrim chose to take his pre-arranged flight back to his Northern Ireland constituency. As such, it was Michael Foot who made the first formal contact with the UUUC when he spoke with James Molyneaux that afternoon. Foot also spoke with Enoch Powell (UUUC MP for South Down) later the same day.

When Foot reported back to the Prime Minister with his findings, he concluded that he was 'not hopeful' of an agreement.[9] The UUUC had begun to divide on the issue of how it would approach the vote of confidence. The three Vanguard MPs, together with Ian Paisley, confirmed that they would vote with the Conservatives. They cited as their primary motive the Government's failure to tackle increased violence in the province.[10] Meanwhile, the stance of the six Official Ulster Unionist MPs remained uncertain.

Roy Mason, Secretary of State for Northern Ireland, reporting back on Monday 21 March 1977, concluded that, he 'did not think there was room to offer the Unionists anything which would change their mind, and at the same time be acceptable to the Government'.[11] In contrast, Michael Foot, had since conducted telephone discussions with the Molyneaux and become more optimistic. He explained to Tony Benn over dinner on Sunday 20 March 1977 that he felt a deal could be done with the Unionist Party, contingent on an increase in Northern Ireland representation at Westminster, and combined with reform of local government in the province.[12]

The first official discussions, which constituted the cross-party negotiations, were conducted in the Prime Minister's rooms in the House of Commons, at 14.30 on Monday 21 March. On the Government side, the Prime Minister and Michael Foot, and representing the Ulster Unionist side, James Molyneaux and Enoch Powell. Powell's involvement was important for two reasons: first, his extensive knowledge of the mechanics of Westminster was of great assistance to the largely inexperienced Ulster Unionist contingent[13]; and second, his political stature was such that he exerted 'significant influence within the parliamentary Ulster Unionist Party'.[14]

Callaghan began these discussions by confirming the Government's commitment to a Speaker's Conference to review the allocation of Northern Ireland seats at Westminster. Michael Foot had previously conveyed the Government's inclination to recommend an increase in representation to James Kilfedder, Ulster Unionist member of the UUUC and MP for North Down, during the multi-party discussions on Devolution.[15] This concession was in fact in direct contradiction of the declared policy of the Government, as outlined by Northern Ireland Secretary Roy Mason in 1976. The archive notes suggest that the concession made to Kilfedder on 11 March 1977 had not been conveyed to Molyneaux and therefore took him by surprise, but was nonetheless met with approval. Molyneaux demanded an increased level of devolved power to local councils to take account of the changing

political structure since the imposition of direct rule. Callaghan gave the assurance that the Cabinet would seriously consider the Unionist proposal, although he confessed that he had previously 'misunderstood what they had in mind until this afternoon's meeting'.[16]

It was during these discussions that Callaghan first outlined how he envisaged cross-party co-operation operating: 'He had in mind that [the Government] would inform them about legislation in advance and consult them, and he wanted Mr. Molyneaux to know that that an offer was open to him as well as to Mr. Steel.'[17] The meeting concluded with a clarification from Powell that the most the Unionists could offer was abstention in the vote, and that they could 'deliver no more than six persons' (the UUP contingent of the UUUC).[18] Michael Foot subsequently represented the Government in face-to-face discussions with the Ulster Unionists, which continued in parallel with Lab–Lab negotiations, only drawing to a close on the evening of the 22 March 1977. The minutes to the meeting also highlight Callaghan's broader position; 'In 1951, there had been a widespread feeling that it was time for change, for a new direction, [I do] not believe that this is the case now.'[19] His strategy was in contrast to Harold Wilson's avowed dislike of coalition, as outlined in Chapter 1. It may also be noted Callaghan's own stance did change, so that in March 1979, when again facing parliamentary defeat, he rejected suggestions from Cabinet colleagues that Labour might construct an understanding with either the Northern Irish Parties or Plaid Cymru.

The significance that Callaghan attached to the Labour–Ulster Unionist discussions became apparent when, on the morning of the 22 March 1977, at a meeting held in 10 Downing Street between the Prime Minister and his closest aides, he happily declared that 'he had a copy of the letter of exchange' from the Ulster Unionists. 'They would abstain . . . that would be enough.'[20] The Prime Minister then candidly expressed his opinion that 'the deal would work' while he 'found it difficult to talk to the Liberals . . . Steel was very adolescent. He did not think he could deal with them.'[21]

In response, his political adviser, Tom McNally questioned Callaghan's optimism with regard to a successful long-term deal with the Ulster Unionists. McNally argued that to rely on the Ulster Unionist votes might not be politically expedient either tactically or strategically. First, if the Labour Government was to lose both the Stechford and the Grimsby by-elections, due to take place on 21 April 1977, they would once again be without a majority (even with Ulster Unionist support) and thus in an even more difficult position in securing a parliamentary

majority.[22] Second, to rely on the Unionists, based on the reform of local government in Northern Ireland, would almost certainly result in the loss of the support of the SDLP leader Gerry Fitt, and that of the Irish Nationalist Frank Maguire. Indeed, Fitt had made exactly this point in the press over the weekend.[23] Bernard Donoughue, head of the Downing Street Policy Unit, also contributed to this discussion, expressing concern that, in agreeing terms with the Unionists, the Prime Minister would alienate a significant number within the Parliamentary Labour Party, including those in the Cabinet who were sympathetic to the grievances of Irish Nationalists, leading to the danger that, when it came to passing the agreed Northern Ireland legislation, it would 'split the Party'.[24] Both McNally and Donoughue argued that, despite the Prime Minister's reservations, there remained a pressing need for a deal with the Liberals. Callaghan reluctantly accepted this analysis, and forthwith he focused on discussions the Liberal Party.[25]

The Unionists' subsequent actions must be viewed within this context that they were aware (like all the other MPs) that an agreement with the Liberals was all but assured and, as a consequence, that the Labour Government's survival was guaranteed, irrespective of Unionists' actions.[26] The UUUC MPs eventually agreed, despite a three-line whip being imposed by the Belfast-based Ulster Unionist Council to vote against the Government, that the group should 'vote in such a way as to show the Government that they appreciated the points conceded', at the same time making it clear that concession had been wrought without entering into a formal agreement.[27] On this basis three Ulster Unionists – Enoch Powell, John Carson and James McCusker – abstained in the vote of confidence. Carson and McCusker were to demonstrate their independence from the UUUC later in the parliament when both, again acting against the Ulster Unionist whip, supported Labour against the confidence motion which finally brought the Government down in March 1979.

The Unionist–Labour deal has been largely ignored in the literature on the political dealings which maintained the Government after 1977. However, the agreement, such as it was, was an important factor in providing stability and longevity. Its significance was not lost on the Labour Cabinet. The Government, already grappling with a legislative programme heavy with constitutional Bills, would not otherwise have been inclined to implement the legislative changes related to Northern Ireland representation. A Speaker's Conference was convened, and as a direct result there was an increase in Northern Ireland parliamentary representation, against the Government's official policy. As Donoughue

had warned, there was significant discontent in some quarters. The Parliamentary Labour Party was divided on the issue; 36 Labour MPs voted against the second reading of the Redistribution of Seats Bill, several abstained and two Parliamentary Private Secretaries were obliged to resign. Burton and Drewry (1979) have pointed out that the problems encountered during the passage of this legislation were symbolic of the wider issues facing the Labour Government, as 'attempts to secure the support of a minor Party resulted in divisions amongst the rank and file Labour members'.[28]

Conversely, SDLP leader Gerry Fitt, while maintaining his support for the Labour Government throughout 1977–1978, raised concerns over the degree of consultation and the extent of regional devolution envisaged in the 'Molyneaux Plan', and Fitt's discontent on this issue was a factor in his decision in March 1979 to vote against the Labour Government in the motion of confidence. Meanwhile the Irish Foreign Minister, Garret FitzGerald, had 'slight misgivings' at the developments.[29] Bernard Donoughue remained a resolute opponent of the deal.[30] In contrast, David Owen, Foreign Secretary 1977–1979, was more supportive, noting that, 'It was commented on much less than the formal Lib–Lab Pact, both at the time and subsequently. Yet I believe that it was a more stable relationship, and was at least as important in the survival of the Labour Government.'[31]

Importantly, within the context of the subsequent agreement with the Liberals, the Prime Minister later denied, in discussions with Cabinet colleagues on 23 March 1977, that an understanding existed between the Government and the UUUC, despite the fact that, as noted above, Callaghan had agreed a memorandum of understanding with Molyneaux on 21 March. James Molyneaux meanwhile maintained that at least an informal understanding did exist between the parties, stating (on 7 July 1977) that if, at some point later in the parliament, Ulster Unionists *support* was necessary, 'we should require something in writing at that point'.[32] Ulster Unionist support for the Government was confirmed when the Party abstained *en masse* in the censure motion on the procedural device of the 'Prime Minister's pay', tabled in July 1976 by the Scottish and Welsh Nationalists.[33] The Unionist–Labour informal agreement lasted longer than the formal Lib–Lab Pact, only ending in late 1978, and in some respects was more productive. For the Unionist Party there were tangible policy concessions, without undermining their political independence; meanwhile, for the Government, the fact that for the most part Ulster Unionist MPs and their supporters

focused on Northern Ireland issues meant that the Government was afforded more freedom to pursue the central aspects of their legislative programme. Therefore, while the significance of the Unionist–Labour agreement has been overlooked by previous academic studies on cross-party co-operation, in fact it had policy and political consequences in its own right, and was an important subsidiary parliamentary agreement to the Lib–Lab Pact.

Negotiations with other parties

While the Government's discussions with the Ulster Unionist Party and the Liberal Party have rightly taken precedence in the analysis of the cross-party negotiations of late March 1977, it is worth remarking briefly on Callaghan's interaction with other parties. The two Scottish Labour MPs, Jim Sillars and John Robertson, met with Michael Foot on 21 March 1977, confirming their stance, as expressed during the devolution discussions, that their support for the Government was conditional on a guillotine motion on the devolution legislation as a vote of confidence in the Government.[34] As ITN's *News at Ten* commented at the time: 'Foot either could not or would not agree to these demands.'[35] Consequently, Sillars and Robertson voted against the Government in the vote of confidence. Elsewhere, interaction with the SNP and Plaid Cymru was minimal, and both parties also voted against the Government, consistent with their avowed stance that following the loss of the Devolution Bill they sought a general election. As an aside to these discussions, there was some conjecture within the press, and also by Callaghan himself (writing in a private note), that during this period the Liberal Party and former Labour Cabinet Minister Reg Prentice were in clandestine discussions over what might be achieved from a deal with the Government.[36] Prentice had previously spoken in favour of a Liberal initiative for electoral reform, and *The Guardian* suggested that 'So identical was Prentice's tone that it seemed clear he had been colluding with the Liberals.'[37] Prentice did not meet directly with the Prime Minister to discuss his position, and John Pardoe was unaware of any collusion between the Liberals and Prentice during the negotiating process.[38] When the confidence vote took place, Prentice voted with the Government. With all other avenues explored, Callaghan focused his energies on discussions with the Liberal Party, whose support he now deemed essential for the long-term survival of his administration.

Conclusion

Pragmatic necessity was the only reason Callaghan conducted substantive discussions with the minor Parties at Westminster. This pragmatism was evident in how the Prime Minister instructed colleagues to make contact with specific groups and then report back with their finding and conclusions. In this way Callaghan hope to ensure the optimum deal might be struck to sustain the Government. For Callaghan that might be defined as forming temporary voting blocs on a policy-by-policy basis among the minor parties, without creating a formal accord with any single grouping. This chapter has observed, for the first time, the process of negotiation between the Labour Party and the UUUC, noting concessions which were forthcoming from Callaghan, the effect this had on Labour intra-party dynamics and the deal's subsequent significance in sustaining the Government. It was, in the final analysis, only the apparent fragility of a deal with the Unionists which led Callaghan to approach the Liberal Party, the discussions with whom will be the topic of the next chapter.

4
Lib–Lab Discussions, 17–23 March 1977

Overview

This chapter will focus on the negotiations between the Labour Party and the Liberal Party which led to the formation of the Lib–Lab Agreement on 23 March 1977. The approach by Cyril Smith to the Labour Party in early March 1977 will be reviewed, followed by an examination of the discussions between Labour representatives Cledwyn Hughes and William Rodgers with the leader of the Liberal Party, David Steel. The meetings that took place between Labour Ministers and Liberal Party representatives during 21–23 March 1977, which led to the formation the Lib–Lab Agreement, will then be reviewed.

Negotiations between the Labour Party and the Liberal Party, March 1977

Labour's negotiations with the Liberal Party ran concurrently with the other cross-party discussions reviewed in the previous chapter. Unlike the UUUC, it was assumed by Labour ministers that the more cohesive Liberal Party would almost certainly vote as a bloc in the imminent vote of confidence. Furthermore, the Government supposed that the Liberals would be favourably disposed to some form of agreement, primarily because of the positive discussions between Callaghan and Steel over the reintroduction of the Devolution Bill and Steel's earlier pronouncements on cross-party co-operation. However, it should be noted, within the context of the subsequent discussions and according to Tom McNally, that these assumptions were not based on a deep understanding within the Labour Party of the structures or political philosophy of the Liberal Party in the 1970s.[1]

As noted in the previous chapters, Steel made clear his personal inclination for cross-party co-operation; furthermore, he had also outlined areas of policy on which he might demand concessions in exchange for Liberal Party co-operation. To recap, these were: devolution; legislation on direct elections to the European Parliament with a proportional electoral system; tax reform; and industrial partnership – specifically 'profit sharing'.[2] Setting aside the relative significance of each of these issues to Steel for further analysis later in this book, it is important to note that in a large number of policy areas substantive differences existed between the Liberal Party and the Government. The Liberals had voted against the Government in each of the votes of confidence that had taken place between 1974 and 1976, and they had also voted against aspects of the Government's legislative programme, most notably: the Employment Protection Act 1975; the Industry Act 1975; the Dock Workers' Regulation Act 1976; the Trade Union and Labour Relations Act Amendment 1976; the Aircraft and Ship Building Act 1976; and the Health Service Act 1976. However, as noted previously, much of the Government's more controversial legislation had been processed, and significant areas of convergence remained – most notably, devolution and elections to the European Parliament.

Cyril Smith's approach to the Labour Party, March 1977

All academic analysis of the Lib–Lab Pact highlights the first inter-party contact being an approach to Labour by Cyril Smith, Liberal MP for Rochdale. Smith wrote to the Prime Minister on 7 March 1977 suggesting a meeting to discuss 'shared objectives'.[3] Michie and Hoggart (1978) are correct to note that this was an important conduit for future discussions; however, previous studies have placed too great an emphasis on the subsequent significance on Smith's approach and misrepresented why Smith's approach was significant, as the following section will explain.

Smith had been making 'noises around Westminster' about the need for some form of agreement as early as July 1976,[4] but it was not until the spring of 1977 that he first approached David Steel with the suggestion that he (Smith) might open up a dialogue with Callaghan over some form of co-operation, on behalf of the Liberal Party. Smith assured Steel that he 'knew Callaghan quite well from his [Smith's] days in the Labour Party'.[5]

Significantly, this was not an orchestrated approach from the Liberal leader, but rather Smith working 'off his own bat to sound him out'.[6]

However, whatever relationship Smith and Callaghan had enjoyed in the past, it was not sufficiently close for the Prime Minister to feel obliged to respond to Smith's request personally. Instead, he instructed Cledwyn Hughes to contact Smith to explore the scope for further discussions, whereupon the combustible Smith was irked by what he considered a snub, seeing Hughes as no better than 'a backbencher, just like the rest of us'.[7] Smith thus rebuffed Hughes's approach, and subsequently leaked the episode to the press. Smith's decision to leak this information had an important unintended consequence which only became evident with the release of the archives related to this period – it impacted on how both Labour Party and the Civil Service dealt with the Liberals during the Pact. Kenneth Stowe, Callaghan's Private Secretary, specifically cited Smith's leaking of information as influencing the level of information conveyed to Liberal spokesmen during the Pact.[8]

Following the public exposure of the Smith approach in the *Daily Mirror*, Callaghan was concerned lest the episode be seen as a snub to the Liberal Party. Consequently, he instructed Hughes to talk to Steel directly (on 17 March 1977). Hughes's approach has subsequently been seen as significant in facilitating future discussions.[9] However, there must be some suspicion over the timing of Hughes's supposedly conciliatory action, coming, as it did, some two weeks after the Smith approach and the same day the Government faced defeat on the Expenditure White Paper. While Steel and Smith are correct in highlighting that Smith's approach did act as a bridgehead towards the Liberal/Labour contact, the Labour Government by 17 March 1977, in a perilous state in parliament, would undoubtedly have ascertained David Steel's position, with or without Smith's peremptory intervention.

The significance of the influence of Cyril Smith must be placed in the context of his assertion that discussions he undertook with Michael Heseltine, Conservative MP for Henley, in early March 1977 initiated the Conservative Party's decision to call for a vote of no confidence in the Government on 17 March 1977, on the basis that they 'might receive Liberal support'.[10] There is no evidence to suggest that Smith's discussions with Heseltine had any effect on the decision-making processes of the Conservatives over the following weeks. When Margaret Thatcher did eventually call for a vote on confidence, her main motivation was the concern that not to do so would have handed the political initiative to the SNP who were poised to table a motion of no confidence of their own. Likewise, Michael Heseltine makes no reference to the conversation with Smith, or its significance in the subsequent vote of confidence, in his autobiography.[11]

Setting aside the Smith approach, the only other documented evidence of Lib–Lab discussions on co-operation in early 1977 appear to have been those between Cledwyn Hughes and Emlyn Hooson, Liberal MP for Montgomery. The two men knew each other well; both were law graduates from Aberystwyth University. While Hooson was a long-time opponent of cross-party co-operation, having spoken against it in both 1965 and 1974, he would nonetheless have been able to assist Hughes in understanding the thinking of David Steel. Whatever their merit, these discussions were soon supplanted by the formal negotiations between Steel and Callaghan.

As has been noted, following Thatcher's tabling of the no-confidence motion, Callaghan consulted with his colleagues and constructed a 'plan of action'. It is therefore instructive to note that Steel chose not to organise a comparable meeting of Liberal MPs to discuss Party strategy, despite the fact that the full contingent of the Liberal MPs, with the exception of Alan Beith, had been present for the adjournment debate. Steel defends his inaction through this period on the grounds that there were a number of permutations as to how the Labour Party might achieve a majority in the vote of confidence, a formal agreement with the Liberals being but one option open to the Government.[12] Steel also believed it imperative that any discussions between the Liberal and Labour parties should be instigated with an approach by the Prime Minister. It was important that the Labour Party should be seen to be requesting Liberal support rather than the Liberal Party offering to 'save the Government'.

In this context, Steel argued that there was no point in undertaking intra-party discussion until the Government officially approached the Liberals with a proposal. It seems Steel did not deem Smith's actions as an 'approach', nor did he view his discussions with Cledwyn Hughes sufficiently significant to be considered an 'official approach' and thus convene a meeting of the parliamentary Liberal Party. On the basis that 'no approach' had been forthcoming, Liberal MPs returned to their constituencies with a view to meet in the evening of 21 March.

There were consequences to this strategy of deciding not to convene a meeting on 17 March 1977. In the relative remoteness of his constituency home at Ettrick Bridge, Steel was able to orchestrate the pace and structure of Liberal Party planning and strategy over the weekend of 18–20 March 1977. In an age before mobile phones he experienced only minimal media intrusion and only the occasional unsolicited input from Liberal activists. As a result, the subsequent inter-party discussions through this period, from the Liberal perspective, were largely

leader-centric in nature, as opposed to being a collective process based around either the Liberal Party's Central Office or the parliamentary Liberal Party.

As noted above, following the tabling of the motion of no confidence, David Steel clarified with Hughes the Liberal Party position *vis-à-vis* the current political situation and hinted at the concessions he would require from Labour in order to secure Liberal support. In a statement to the press, he asserted:

> either the Government proceed on the basis of agreed measures in the national interest for the next two years, in which case we would be willing to consider supporting such a programme, or else we have a general election . . . we cannot stagger on like last night with a lame duck Labour programme . . . After the defeat guillotine the Government announced that they would proceed to seek 'the widest possible measure of agreement in parliament'. They must now say whether that principle is to apply to the whole of the Government's programme.[13]

Throughout the weekend of 19–20 March 1977, Steel reaffirmed his desire to move beyond and expand on the already established devolution discussions. In an attempt to 'increase pressure on the Parliamentary Labour Party', Steel issued a further press statement early on Saturday 19 March 1977, asserting that

> If the Labour Party does not respond and acknowledge the political reality that it cannot continue to push on with full-blooded socialist Government because there is no mandate for it, then the thirteen Liberal votes will be bound to be cast against the Government.[14]

As other commentators have noted, the Labour Government was in no position to push through 'socialist' policies by March 1977, having lost its majority a year earlier. In reality, Steel's pronouncement was little more than a holding statement, while he awaited an opening gambit from the Labour leadership.[15]

Lib–Lab negotiations, 19–20 March 1977

The first official contact between a Government representative and the Liberal Party took place on the afternoon of Saturday 19 March 1977. William Rodgers, the Transport Secretary, had been advised by Peter

Jenkins of *The Guardian* that it might be advantageous to the Government if a telephone call was made to David Steel. Jenkins had had lunch with Steel a few days earlier and had been 'left in no doubt' that Liberal Party support might be achieved in exchange for a 'definite formal agreement' with the Government.[16] Rodgers, as well as being conscious of Steel's numerous statements on cross-Party consultation, had been briefed by Hughes about the issues the Liberal leader had highlighted in their earlier meeting. His initial motive for contacting Steel was therefore to ascertain the Liberal Party's current position. However, Rodgers recalls that his conversation with Steel quickly developed into a more detailed discussion on specific consultation processes and aspects of policy Steel envisaged would form the foundation of a 'formal consultative agreement'. Steel demanded: that a formal 'liaison committee' be established; that the Government legislate for Direct Elections to the European Parliament, with a form of proportional representation using a regional list system (significantly he did not demand the Single Transferable Vote, which was in fact Liberal Party policy); that a proportional voting system be employed in the Assembly elections; and finally, that any such agreement was to last for 18 months.[17]

Rodgers made it clear he was not in a position to 'negotiate', but he assured Steel that he would convey the Liberal leader's demands to the Prime Minister; furthermore, he personally felt the terms were 'practical'.[18] He asserted that, in his view, 'the Cabinet would prefer a deal with the Liberals than the Ulster Unionists'. However, he emphasised that there was no prospect of a change in the voting system for Westminster elections (a policy prioritised in the 1974 Liberal Party manifesto). Steel assured him that he would not make this a prerequisite for any agreement.[19] Rodgers then conveyed Steel's demands to Callaghan later that day.

The archive record of the Rodgers/Callaghan conversation provides an important perspective of the Prime Minister's attitude to Steel's demands, before actual face-to-face Lib–Lab negotiations took place. Callaghan was receptive to Steel's demand for both progress on the European Assembly Elections Bill (direct elections) and his insistence on the reintroduction of the devolution legislation. Both of these constitutional policies were central to the Government's legislative programme for 1977–1978. Indeed, Callaghan hoped a Lib–Lab agreement would to some extent counteract the significant opposition that existed within the Parliamentary Labour Party both to direct elections and to devolution.

The Prime Minister was more reticent on Steel's demand for a 'liaison committee' to meet on a regular basis. Rodgers argued that in his view 'a formal liaison committee would look too much like a coalition', and Callaghan concurred, adding that this form of consultation would be 'unacceptable'.[20]

On the issue of proportional representation for the direct elections to the European Parliament, Rodgers explained to Callaghan that he had made it clear to Steel that the Liberals' demand for proportional representation (PR) could not be 'whipped through' the Parliamentary Labour Party, a stance that Callaghan again endorsed. Rodgers explained that Steel had been conciliatory on this point, but the Liberal leader had made it clear he expected the 'payroll' (Government Ministers) to vote for an as yet unspecified form of PR, and for a guillotine to be imposed if required. Neither Callaghan nor Rodgers committed himself to a position on this issue at this stage. However, on the inter-related Liberal demand for a proportional voting system for the Scottish and Welsh Assemblies' elections, Callaghan thought this 'a very weak point', highlighting correctly that PR had 'already been heavily voted down in the House' during the Devolution Bill debates. Despite the fact that Callaghan did raise some concerns with Steel's demands, Rodgers recalls that Callaghan did not think the Liberal demands were 'unreasonable'.[21]

Having been given Callaghan's endorsement to hold negotiations with the Liberals, Cledwyn Hughes and William Rodgers both contacted David Steel again on Sunday 20 March 1977. Rodgers this time issued a formal invitation from the Prime Minister for the Liberal leader to meet with him on the evening of Monday 21 March 1977 to explore any areas of agreement between their respective parties. According to his own account, Steel then spent the evening on the telephone discussing with 'colleagues and my staff, advising them how to handle the matter'.[22]

Consultation undertaken by David Steel, 19–20 March 1977

David Steel's leadership style has been described as 'aloof' and his relationship with members of the Liberal Executive little more than cordial; he did nonetheless consult widely before entering into discussions with the Prime Minister. Significantly, the Party's executive officers, MPs and others were consulted.[23] At Steel's behest Liberal Central Office consulted with the Liberal grassroots, constituency parties and activists. These discussions were as extensive as was practicable within the time and financial constraints, and certainly contrast with the complete absence of intra-party soundings by the Labour

leadership. In an unambiguous attempt to avoid a repeat of the vacuum of intra-party communication which existed during the Thorpe–Heath negotiations in March 1974, Steel instructed the Liberal Party Chairman, Geoff Tordoff, and Chief Executive, Hugh Jones, to consult both with Liberal constituency parties and other Liberal affiliate groups over the weekend of 19–20 March 1977. Their role was to ascertain views on the current political situation, on what policy issues were most pressing for the grassroots and on whether cross-Party discussions take place, and to establish what the grassroots response might be should the Liberal leader decide upon a parliamentary agreement with the Government. Indeed, the most important outcome of the Tordoff/Hugh Jones consultation was the sense of inclusion in the negotiation process it gave the Liberal grassroots, thereby attempting to mitigate potential opposition to the subsequent agreement.

In a report to the NEC on the consultation process Tordoff observed that

> the affair would not have gone so smoothly had the Party not had a considerable amount of discussion. After consulting with Party members I was able to maintain constant contact [with Steel].[24]

Michael Steed, President of the Liberal Party 1977–1978, had been in Rome attending a conference during the intra-party discussions, and upon his return he liaised with senior Party officials and elements of the grassroots, all confirming to him that Steel had consulted widely.[25]

The Liberal leader's consultation was almost exclusively internal to the Liberal Party. While Steel had enjoyed cordial relations with a number of Labour Party MPs during the referendum campaign in 1975, this did not extend to consulting them during the negotiation process with Callaghan.[26] The one exception was Labour MP and close family friend John Mackintosh. Mackintosh was not only a strong pro-devolutionist and supportive of Steel's ambition for political reform; he was also Professor of Politics at Strathclyde University and an expert on British political and constitutional affairs. Although not close to the inner workings of the Labour Party, Mackintosh was able to give Steel his own perspective on the machinations of the Labour leadership. Steel remained in close contact with Mackintosh throughout the Lib–Lab period, and his premature death in July 1978 was a great personal and professional loss to Steel.

There is also evidence that Steel also sought the advice of the former Conservative Prime Minister Edward Heath.[27] Heath had asked Steel, in a conversation in November 1976, whether 'Callaghan had talked to you yet?' Steel recalls that he confirmed that 'he had not', to which Heath retorted 'he will'.[28] The episode clearly remained salient in Steel's mind, and highlights the Liberal leader's desire to consult as widely as possible, albeit within the confines of his own political contacts. David Butler notes that Steel's soundings bear favourable comparison with other cross-party discussions. In 1915 and 1916, as well as 1931 and 1940, only a handful of front-benchers met together and settled the issue (though in May 1940, by chance, the Labour Conference was meeting and endorsed Attlee's action in joining the coalition).[29]

While Steel's consultation was both broad and deep, it should be stressed that through the whole period of inter-party negotiations he repeatedly asserted his position as leader to control the Liberal Party's negotiation strategy. Steel had stated in the press on 18 March 1977 that a meeting of the parliamentary Party was to take place in his office in the House of Commons, on the morning of Tuesday 22 March 1977. In fact, in a premeditated move, in order to allow his colleagues freedom to discuss its position without media speculation, Steel had scheduled the meeting for the evening of Monday 21 March 1977.[30] Intriguingly, after agreeing to a meeting with the Prime Minister at 6pm that day, Steel could have rearranged the meeting of Liberal MPs so that it preceded his meeting with Callaghan. Steel chose not to do so, and as a consequence, while he had telephoned all MPs on Sunday 20 March 1977, he entered negotiations with the Government without having undertaken face-to-face discussions with any of his parliamentary colleagues, either individually or collectively.

Allied to this strategy, Steel decided to hold this first meeting with Callaghan alone – this might be contrasted with James Molyneaux, of the Ulster Unionist Party, who was accompanied by Enoch Powell or the Conservative/Liberal Democrat negotiations in 2010. Steel signalled his intent to act as sole negotiator throughout the Lib–Lab discussions when, on the Monday afternoon, the Prime Minister's Office requested that Michael Foot accompany Callaghan in the discussions. Steel replied that, 'this would only be agreeable if John Pardoe could accompany him'. Steel made this statement in the full knowledge that it would be rejected by Callaghan. He defends his actions, commenting, 'I thought I should really have a first go over the ground with the Prime Minister alone.'[31] As it transpired, Foot, while absent from this first meeting, did

attend all subsequent negotiations, while Pardoe was only present for part of the final meeting.

Steel explicitly chose not to employ the services of other members of the parliamentary Party in the direct negotiations with the Labour Party, even though there were other negotiating strategies open to him. He might, for example, have employed Jo Grimond or Jeremy Thorpe, both of whom had experience of inter-party consultation, from 1965 and 1974 respectively. Alternatively he could have employed Cyril Smith, one of the few Liberal MPs with directly experience of power-sharing, while Mayor of Rochdale. He might have involved Alan Beith, Chief Whip of the Liberal Party, on the basis that Steel himself as Chief Whip had been consulted by Jeremy Thorpe in 1974. Beith's involvement would also have been logical, as the primary purpose of the Lib–Lab Pact was to facilitate the progress of the Government's legislative programme.

It is the contention of this book that a more robust negotiating team might have achieved more substantial policy concessions than Steel achieved alone. Furthermore, it might have dissipated the focus of attention on Steel when intra-party disputes developed. Steel retorts that he was concerned that to expand the negotiating team might have restricted his negotiating position. In response, Michael Steed, among others, has concluded that 'this would not have been a bad thing'.[32]

Consultation undertaken by Callaghan, 19–20 March 1977

Having assessed the consultation undertaken by David Steel both prior to agreeing to Lib–Lab discussions, it is instructive to contrast it with that of the Prime Minister. As noted above, it was markedly less extensive Steel's. The mechanisms of the Labour Party meant a number of bodies could have been consulted: the Cabinet, the parliamentary Party, the National Executive, the Trade Union movement via the TUC–Labour Party Liaison Committee and the Labour Party constituency parties. As noted above, Callaghan did liaise with close Party colleagues over the weekend 19–20 March 1977, notably the *de facto* deputy Prime Minister Michael Foot, Cledwyn Hughes, William Rodgers and, to a lesser extent, Roy Mason and Merlyn Rees. Beyond these individuals, only his close aides – his political adviser Tom McNally, his press secretary, Tom McCaffrey, and his Parliamentary Private Secretary, Roger Stott – were consulted during the negotiation process. As will be developed later, much of the most instructive advice for the Prime Minister came from his Private Secretary, Kenneth Stowe.

Callaghan could feasibly have convened a special Cabinet or indeed a meeting of the Parliamentary Labour Party (PLP) during the negotiation

process; however, there was an acknowledgement within the PLP that Callaghan, as Party leader, had the express prerogative to negotiate on their behalf, and then report back at a later stage. The PLP, meanwhile, was forced to accept a *fait accompli* and never explicitly voted on the terms of the Pact, being obliged to accept it as part of the vote of confidence in the Government. With regard to discussions with the wider Labour movement, on the morning of 21 March 1977, Callaghan attended the monthly meeting of the TUC–Labour Party Liaison Committee. The usual agenda was suspended in order to discuss the political situation.[33] There was unanimity among those present that an election should be avoided if possible, though the qualification of 'not at any cost' was added by Barbara Castle. As noted above, the TUC representatives asserted that 'any talks with other parties in the next two days were the proper responsibility of the Prime Minister'.[34]

The Labour Party's National Executive Committee (NEC) also endorsed Callaghan's right to negotiate on the Party's behalf and did not oppose Callaghan's initiative to approach other parties. This was despite the fact that, according to David Butler, 'the Government could often only rely on 10 out of a membership of 29',[35] although it might be noted that some of those who were subsequently hostile to the Lib–Lab Pact, such as Ian Mikardo and Joan Lestor, were not present at the relevant meeting. This limited consultation was a conscious decision by the Prime Minister, who later apologised to those in the No.10 Policy Unit that he had felt the need to 'keep these things very close to his chest'.[36]

First meeting of the Lib–Lab negotiations, 21 March 1977

The first of four meetings between the leadership of the Labour Party and the Liberal Party took place at 6pm on Monday 21 March 1977. As with his meetings with the Ulster Unionists, Callaghan chose to use his office in the House of Commons rather Downing Street. This location similarly enabled the Ulster Unionists and the Liberals to use the meeting rooms of the Houses of Parliament for their own discussions, thus also avoiding direct media scrutiny. For David Steel, this choice of venue corresponded with his own desire not to re-enact Jeremy Thorpe's very public entry through the front door of No. 10 during his discussions with Edward Heath in February 1974. As highlighted in Chapter 1, Thorpe's rather ostentatious actions had not impressed Steel or the Liberal Party's rank and file.[37]

Despite the preparatory work undertaken by both Hughes and Rodgers, this first meeting between Callaghan and Steel exposed significant areas of difference between the two Party leaders, specifically

on what each anticipated cross-party co-operation would mean in practice. Callaghan, as evidenced in his discussions with the Ulster Unionist Party, envisaged a loose informal agreement based on specific policies. He repeated this proposal to Steel, highlighting Industrial Democracy and the Local Authority Works Bill as examples of where 'discussions could be made public since no secrecy was necessary'. Under such terms, he reasoned, the Government could 'take account of Liberal thinking'.[38]

Callaghan elaborated by explaining that he envisaged constructing 'a different majority for different Bills', hoping that he would 'sometimes have the support of the Liberals and at other times the SNP or the Unionists'. Cledwyn Hughes had pointed out to Callaghan before the Lib–Lab negotiations commenced that there was precedent for this formula: Jeremy Thorpe had been consulted regularly by Harold Wilson in the period between the two general elections of 1974.[39] Steel rejected this proposal out of hand, outlining his own initiative for a 'framework agreement', not based on voting 'issue by issue', as the Prime Minister envisaged, or conversely on a 'shopping list' of Liberal demands, but centred on the idea of 'both parties forming a formal agreement about economic policy and consultation'.[40] Steel had emphasised in his earlier discussions with both Cledwyn Hughes and William Rodgers that any agreement with the Labour Government must be based on the establishment of a formal mechanism of 'consultation' between the Liberal Party and Labour Party. In this first meeting with the Prime Minister, Steel reiterated that

> there was no point discussing immediate policy issues at this meeting. He would like to discuss what basis there might be for a continuing relationship between the Government and the Liberal Party. They were not interested in a 'one night stand'.[41]

Callaghan, undeterred by Steel's rebuff, pushed on with his desire for a policy-orientated agreement, specifically asking Steel, 'What concessions the Liberals could highlight to their supporters in exchange for supporting the Government'. Steel's response is instructive of Steel's strategic priorities in agreeing to form the Pact. He sought evidence that the Liberal Party 'have been *consulted*, not to humiliate the Government but publicly to be seen to have been consulted'.[42]

Steel went on to argue that for his concept of consultation to function effectively, a forum would be required to enable Government Ministers and Liberal spokesmen to discuss areas of conflict in a formal setting. Moreover, he envisaged that through this committee structure the

Liberals could be seen to be sharing in the business of Government, and this would help to scotch the notion in the public mind that a multi-party Government could not provide stable government. In demanding the establishment of a formal consultation mechanism as a prerequisite for a Lib–Lab Agreement, Steel was explicitly placing his own political philosophy at the centre of the Liberal Party's negotiation demands. As Bartram highlights, for Steel, the key point of the agreement *was* the consultative committee.[43]

Callaghan was still unsure of the merits of Steel's proposal. However, the archives highlight that at this stage the single most significant problem with Steel's demand for 'consultation' was the terminology used by the Liberal leader. As with his discussions with Rodgers on 20 March 1977, Steel referred to consultation taking place through a 'Liaison Committee' akin to the Labour–TUC Liaison Committee. The Labour–TUC Liaison Committee was established in 1972 as part of the Social Contract, in an attempt to foster closer relations between the Labour Party and the Trade Unions, which had suffered in the aftermath of the aborted 1969 White Paper 'In Place of Strife' (to curb trade union power). It was a tripartite body comprising six members from the Party's National Executive Committee, the Labour Cabinet and the TUC General Council respectively. By 1977 the Committee had increased in importance, both in symbolic and in policy terms, to the point that it was considered an integral part of the Labour Party's decision-making processes.[44]

Paradoxically, Steel had envisaged that the use of the term 'Lib–Lab Liaison Committee' would be compared favourably with Labour's current body. However, by using this analogy, Steel had inadvertently prompted an extremely negative response from the Prime Minister. Callaghan feared that the left wing of the PLP would immediately draw parallels with the TUC, questioning the extent to which the PLP was being superseded by the new Lib–Lab body and thus compromising the integrity of the Labour Party in exchange for Liberal support. Callaghan rejected Steel's proposal, describing the idea as 'very damaging to his position as leader of the Labour Party; he further stressed to Steel that "he was sure that his Party would find it unacceptable" '.[45]

Steel, seemingly concerned that the discussions would be terminated forthwith, quickly clarified, or apparently amended, his position. He explaining that he envisaged that a committee would be established based on 'periodic meetings between the Leader of the House and the Liberal Chief Whip'. This much less structured concept seems to have pacified the Prime Minister. He nevertheless remained frustrated with

the absence of a fully formulated proposal from Steel as to *how* consultation might function, commenting that 'we have now walked round the field'.[46]

Steel's emphasis on 'consultation' in this meeting meant that other policy issues were only briefly discussed. On devolution, there was broad agreement; Steel maintained his position, as expressed during the cross-party discussions on the issue a few weeks earlier; he rejected the Government's proposal for a select committee, insisting instead on the need for separate Bills for Scotland and Wales. This change was already being considered by the Government and so was immediately accepted in principle by Callaghan, and this shared position on Devolution would form part of the Lib–Lab Agreement.

Callaghan and Steel then proceeded to declare their shared support on the principle of direct elections for the European Parliament, but it was acknowledged that there remained a significant divergence of opinion on the electoral method to be employed. As a result, at this juncture the topic was deferred. At the conclusion of this discussion both men agreed that there was enough common ground to merit a second meeting, and they agreed to reconvene the next day. In the interim, both would discuss matter arising with colleagues. Kenneth Stowe was then instructed by the Prime Minister to compose a 'draft accommodation' document on the basis of these discussions. The content and significance of this document will be discussed in Chapter 5. According to Bernard Donoughue, who met Steel in the corridor after the meeting, the Liberal leader was 'bewildered . . . he was obviously not satisfied with the talks. He wanted another go.' Callaghan meanwhile was 'frustrated . . . it was very unpromising. All too vague, he couldn't get hold of anything'.[47]

Discussions between Michael Foot and John Pardoe, 21 March 1977

Before the two Party leaders reconvened the next day, a meeting took place between John Pardoe and Michael Foot. The unlikely facilitator was the left-wing Labour MP Eric Heffer, following a chance discussion with Pardoe in a television studio. (Ironically, Heffer was later to become one of the most outspoken critics of the Pact.) Heffer's motivation for promoting this meeting was a desire to give the Labour negotiators a clearer understanding of the Liberal position.[48] The Foot–Pardoe meeting, the only official Lib–Lab meeting at which David Steel was not present, commenced at 9.45pm on 20 March 1977. Foot opened the meeting in similar terms to Callaghan's opening gambit with Steel, by

attempting to promote the concept of an informal agreement between the two Parties, arguing that such arrangements had worked well in the past. Pardoe responded by adhering to his leader's insistence that any agreement should be based on a formal consultative committee.

Pardoe, without a strict briefing from Steel on how to proceed beyond this key aim, speculated that a consultative committee should include Liberal representatives drawn from outside parliament. Foot dismissed this as 'unlikely to be acceptable', on the basis that any agreement would be solely a parliamentary arrangement. Pardoe then suggested that alongside the consultative committee, the Liberals' departmental spokesman might meet the corresponding Labour Ministers to discuss specific policies face to face – according to Pardoe, this model had only been developed in the conversation between Pardoe and Steel earlier that evening.[49] Foot assented, and this aspect of the consultation process was to form the basis for a consultative mechanism employed during the Pact. Pardoe went on to affirm Steel's demand for a formal agreement, which would last for between 18 months and two years.[50] The character of these discussions highlights the *ad hoc* nature of the negotiating process and the absence of formal planning by the Liberals on what consultation meant in practice, even though, as has been noted, 'consultation' had long been seen as the fulcrum of any cross-party agreement entered into by the Liberals.

The only policy issue discussed in the Foot/Pardoe meeting was Labour's stance on the voting system to be employed in the proposed European elections. Foot asserted that 'Just as the Liberals had a permanent interest in PR, so the Labour Party had a permanent non-interest.' Foot's personal implacable opposition, both to the principle of direct elections and to the notion of proportional representation, was to become an important factor in the subsequent Lib–Lab negotiations, as will be discussed in due course. According to the official minutes, Pardoe concluded the discussions with a comment that 'he had no doubt that the Government and the Liberals would reach an accommodation, it had got to be'.[51] It appears from other documentary evidence in the National Archives that this comment was to prove significant in influencing Foot's negotiating strategy over the coming days.[52]

Liberal Party communiqué, 22 March 1977

The first meeting of the parliamentary Liberal Party to discuss the political situation was held on the evening of Monday 21 March 1977. As noted above, the original purpose of this meeting was to decide how the Party should approach the impending confidence vote. However,

with events now making that agenda redundant, Steel took the opportunity to brief his colleagues on the issues discussed in his meeting with the Prime Minister. Steel articulated the view that, rather than the Lib–Lab discussions being focused on policy issues, the Party should take the opportunity to promote a more far-reaching change to British politics; 'we have tried realignment in opposition for twenty years. Now was a chance to try it in Government . . . policy concessions would be achieved . . . through the *process* of consultation.'[53]

The parliamentary Liberal Party largely accepted Steel's analysis of the political situation and his negotiation strategy thus far – or at least they accepted that it was Steel's prerogative as leader to negotiate as he saw fit. According to John Pardoe, the only explicit area of disagreement at this early stage was a rejection of Steel and Pardoe's shared concept of a formal agreement lasting for 18 months without review.[54] The remaining Liberal MPs came to the view that any agreement should be reviewed in the summer of 1977. This position was based on two factors: first, the belief that the agreement should not run beyond the Liberal Assembly in the autumn, at which point it could be debated and a vote could take place; second, there was a concern that the parliamentary Liberal Party should not be seen by the extra-parliamentary Party to be selling itself too cheaply, with too long a deal without a period of review or renegotiation.

It was consequently decided that Steel would seek an agreement which would only run to 'the end of the parliamentary session', at which point it would be reviewed. In theory, this might mean through to 21 October 1977, when parliament reconvened after the summer recess, though in practice it meant ending or renegotiating when parliament was prorogued in July 1977. It seems that this decision for 'review' was itself a compromise position, with some MPs calling on any agreement to state that 'it could be terminated' at any time.[55] This compromise position shows that the parliamentary Liberal Party was able to exert some peripheral influence on Steel as the Lib–Lab negotiating process developed. Similarly, it is evident that even at its inception, for some Liberal MPs the possible 'renewal' of the Pact was seen as an opportunity for 'renegotiation', potentially achieving more concessions that Steel achieved in March 1977.

Following the meeting of the parliamentary Party, a Liberal communiqué was drafted, to be sent to the Prime Minister before the second round of Lib–Lab negotiations commenced the following day. David Steel again controlled this phase of the process. While he took soundings from his colleagues, Steel alone drafted this document on the

morning of 22 March 1977. This was the first document that outlined
an official Liberal Party position, and, while extensively redrafted in sub-
sequent Liberal/Labour meetings, it nonetheless formed the broad basis
on which the Lib–Lab Agreement was established. More specifically, the
majority of the areas of policy outlined in this document were present
in the final document. It is therefore worth analysing these initial Lib-
eral demands in greater detail in order to establish later how and why
some were amended or removed from the final document

As noted above, in November 1976, David Steel had outlined a list of
policy demands which he highlighted as important in any cross-party
understanding. In this document he had delineated a 'programme for
National Recovery' and outlined a nine-point plan. Specific demands
were listed on economic policy: a shift in the balance of taxation
from income to expenditure; continuation of pay restraint after July
1977; and immediate (non-specific) assistance to small-scale businesses.
In return, the Liberals offered support for the National Enterprise Boards
and for 'industrial reorganization'.[56] In contrast to these specific and
largely economic-centred demands in the communiqué the Liberals
again argued for 'national recovery', but based on the rather abstract
notion of a 'reduction in the burden of taxation on personal income'.
At the behest of John Pardoe, the Party's economics spokesman, the
communiqué demanded that before any agreement was ratified, a meet-
ing should take place between himself and Chancellor of the Exchequer,
Denis Healey, to ensure 'sufficient identity of view on economic strat-
egy'. A meeting did take place on the morning of 23 March 1977,
although, as Pardoe acknowledges, 'there was no chance that a diver-
gence of views at such a late stage would have resulted in the Pact not
going ahead'.[57] Steel was later to argue the Pact was a 'block on social-
ism'. However, the nationalisation clause in the communiqué was not
included in the formal Lib–Lab Agreement, and, as mentioned earlier,
the extent to which 'no measures of nationalisation' on a Government
without an overall majority can be seen as a true concession might be
questioned. Indeed, Callaghan had already confirmed in the Queen's
Speech 1976 and in the policy review on 3 March 1977 that there would
be no further nationalisation in the current parliamentary session.

On devolution, the Liberal document called for the reintroduction of
the legislation. It was, of course, the Government's intention to do just
this, and the document simply requested that 'the Government take
account of Liberal proposals'. The Liberal proposals for devolution were
submitted at the same time as the communiqué, but in effect what the
Liberals were demanding was merely a continuation of the devolution

cross-party discussions. It should be noted that, although demanding legislation on devolution was clearly central to Liberal Party policy objectives, it was not a uniquely Liberal objective; clearly both the SNP and Plaid Cymru shared the Liberals' desire for devolution. Thus, paradoxically though unavoidably, in demanding the reintroduction of the legislation, the Liberals diminished the necessity for the Labour Party's reliance on the Lib–Lab Pact. Once devolution had been reintroduced, the Nationalist parties might revert to their erstwhile position of 'benevolent neutrality', and the Government would thus be assured of winning any votes of confidence through Nationalist support.

To summarise the demands outlined in the communiqué, it might be observed that the document did not call on the Government to enact any legislation which it had not itself already enshrined in the 1976 Queen's Speech, or which it might be assumed would either be enacted or conversely retracted (in the case of nationalisation). While John Pardoe had argued during the parliamentary Liberal Party discussion on the Monday evening that 'the economy was the centre of the whole thing', the Liberal communiqué as constructed by David Steel avoided the specific economic measures outlined in November 1976, prioritising instead Steel's desire for 'consultation'.[58]

The singular exception to this was the emphasis placed in the Liberal document on the electoral system to be employed both in the proposed Scottish and Welsh devolved institutions and in the direct elections to the European Parliament. In each case the Liberals outlined specific, though distinct, criteria which they expected the Government to enact. The Liberal Party's attitude to these issues would become of critical importance in the subsequent Lib–Lab negotiations and largely frame the historical legacy of the Lib–Lab Agreement. The following section will therefore outline the rationale of the Liberal Party on electoral systems, as stated in the communiqué.

With regard to the devolved Assemblies for Scotland and Wales, the Liberals demanded that when parliament voted on the electoral system to be so employed, which they were scheduled to do early in 1978, Labour MPs should be allowed a free vote. (In the previous vote in the House of Commons, during the devolution debates in January 1977, the Government had imposed a three-line whip, demanding its MPs vote against proportional representation, a decision which had incensed the Liberal Party.)[59]

Meanwhile, for the direct elections to the European Parliament, which the Government was drafting concurrent with the Lib–Lab negotiations, the Liberals called for the Government to 'introduce and *commend* to

the House a Bill . . . based on a proportional system'. That is to say, the Government would be required explicitly to promote PR as its preferred electoral system, although the communiqué did not specify whether a 'whip' should be imposed compelling Labour MPs to vote for PR. As noted above, Steel had originally demanded, in his discussions with Rodgers on 20 March 1977, a 'payroll vote' – essentially a demand that all members of the Government vote for PR. It is important to note, therefore, that in requiring the Government simply to 'commend' PR, the Liberals had watered down their demands substantially.

Steel has argued that the decision to take two distinct approaches with regard to PR, specifically – a free vote for the Scotland and Wales Bill, and 'commending' PR with regard to the European Elections – was based on a pragmatic assessment of political reality. Implicit in the Liberal Party's stance was David Steel's assessment of the inflexibility of the Labour Party on this issue. In this regard, Steel's discussions with Callaghan on devolution in early March 1977, as noted in Chapter 3, acquire increased significance. To recap, during these discussions Callaghan had insisted, with regard to legislating for a PR system for the devolved Assemblies that, 'there was no use the Government getting 10 [*sic*] Liberals if they lost 80 supporters from their own Party'. When Steel queried this judgement, Callaghan confirmed that 'in the light of discussions on Direct Elections, he felt confident of this assessment'. At the same meeting, Callaghan had asserted that a vote for proportional representation would not be supported by a majority of the Parliamentary Labour Party.[60]

Despite the protestations of colleagues, both at the time and subsequently, Steel was of the opinion that it was both futile and politically naive to make unachievable demands on the Prime Minister. Furthermore, Steel had concluded that a free vote on the voting system to be employed in the devolved assemblies would garner enough support to secure a majority in the House of Commons. This calculation was on the basis of a combination of the pro-devolution section of the Labour Party, his own parliamentary contingent, the SNP, Plaid Cymru, MPs from Northern Ireland and a majority of the Conservative Party. Steel's estimate worked on the principle that there would be a repeat of the large number of Conservatives who had voted for PR when offered a free vote by the Conservative front bench on an amendment tabled by John Mackintosh during the devolution debates on 25 January 1977, which had called for a proportional voting system.[61] He further hoped that evidence of his conciliatory approach on the electoral system for the devolved Assemblies would give him political

capital when discussion shifted to the direct elections to the European Parliament.

Turning to the Liberal position on the direct elections to the European Parliament, Steel's demand for the Government to 'commend' proportional representation was again in his view pragmatic and again largely based on his own perception of Labour Party and in part garnered from his meetings with Callaghan. Steel accepted at face value Callaghan's assertion, made both during the cross-party devolution discussions and in the first meeting of the Lib–Lab negotiations on 21 March 1977, that a large proportion of both the Cabinet and the Parliamentary Labour Party were fundamentally opposed to both the 'principle of Direct Elections and to the concept of proportional representation'. Steel accepted the view that for many within the PLP 'the mixture of the two [was] positively poisonous'.[62]

Steel's perception of the Labour Party position was also influenced by the input of William Rodgers. Steel telephoned Rodgers on 22 March 1977, the Liberal leader stating that 'We are in danger of coming unstuck on one point – Direct Elections. Everything else is negotiable but not this.' Rodgers responded that he did not think it was 'in the Prime Minister's power' to deliver the whole payroll vote for regional PR. According to Rodgers, Steel seemed 'mollified' by this, recognising the Prime Minister's limitations.[63]

Steel was correct that attempts to legislate for direct elections had resulted in a serious and very public division within the Parliamentary Labour Party and the Cabinet. The Cabinet conclusions from a specially convened meeting on 25 February 1977 highlight the seriousness of the impasse. The Cabinet minutes note that the issue would result in the Labour Party being 'deeply divided' and demoralised, and in the worst case scenario result in the 'fragmentation of the Labour Party'.[64] Joel Barnett, Chief Secretary to the Treasury, later commented that Cabinet divisions on direct elections were 'some of the worst' he had ever experienced.[65]

By 21 March 1977 Steel concluded that he could not demand of the Prime Minister what was 'not deliverable' – the payroll vote on a proportional voting system. He nonetheless reasoned something more than a 'free vote' would be required. There was less cross-party support for direct elections in *principle* than for devolution, and consequently there was less chance of support for the Liberals' additional demand for a proportional voting system for European elections. Faced with the dilemma of how to achieve PR under such circumstances, Steel concluded that his only course of action was to demand that Government 'commend'

this voting system. This strategy was contingent on a number of factors. First, he reasoned that if he could secure the significant personal influence of Callaghan, speaking in favour of PR, a small but significant majority of the Labour Party would follow the Prime Minister's lead. Second, the Welsh and Scottish Nationalist parties would support PR, while the two Northern Ireland Nationalist MPs would be expected to abstain from a vote dealing with a constitutional issue related to the United Kingdom.

Finally, and most crucially, Steel assumed that those Conservative MPs who supported the concept of PR, as seen in their involvement in the Electoral Reform Society established in 1976 and in their voting records during the Devolution Bill debate in February 1977, would also vote for PR for the European elections. Conservative Party support for PR had increased through the 1970s. Some Tories reasoned that PR at Westminster would act as a foil to socialism. Steel calculated that on this basis that the pro-PR Conservative MPs numbered approximately 100. It was on this premise of an alliance of pro-PR groups that Steel concluded a Commons majority could be achieved.

The above analysis has noted two key factors when reviewing the Liberal communiqué: first, the parliamentary Liberal Party, or more specifically David Steel, dismissed a previous negotiating position based on a 'shopping list' of Liberal policy demands and instead prioritised consultation. Second, a conciliatory stance with regard to achieving PR for devolved elections and the European elections was based on Steel's decision to take a 'pragmatic' position based on his own perceptions of what was deliverable. The consequences of these decisions would have huge repercussions for both the subsequent Lib–Lab negotiations and the perceived 'success' of the Lib–Lab Pact for Liberal Party activists and supporters.

Second meeting of the Lib–Lab negotiations, 22 March 1977

The Liberal communiqué outlining the Party's demands arrived on James Callaghan's desk on the morning of 22 March 1977. Callaghan was in his rooms at No. 10, where Tom McNally and Bernard Donoughue had just left, having outlined the shortcomings of the proposed deal with the Ulster Unionists as noted in Chapter 3. It is within this context, of Callaghan's acknowledgement that the Government's survival was dependent on a deal with the Liberals, that Tom McCaffrey, Labour Press Secretary, entered the Prime Minister's study and handed him the Liberal document. On reading Steel's demands,

Callaghan 'threw it on the coffee table and said "well, I cannot take that" '.[66] McCaffrey duly picked up the letter and handed it back to the Prime Minister, and Callaghan composed himself and reconsidered its contents. Thereupon, as agreed, he contacted the Liberal leader with a view to reconvening the negotiations later that day.

Although the narrative of these developments appears in the memories of Bernard Donoughue, Kenneth Stowe is adamant that he was the only other person present with Callaghan when McCaffrey handed him the letter. Taking into account this discrepancy in the historical sources, Stowe nonetheless confirms the basic turn of events, concluding that 'It was the most annoyed I ever saw Jim'.[67] Stowe attributed Callaghan's frustration to three factors: a desire to remain in office (a natural enough desire for any Prime Minister); irritation that the necessity for cross-party discussion was a consequence of internal dissent within the Labour Party, bad political judgement (primarily by Harold Wilson) and bad luck on his part; and finally, Callaghan's sense of duty – to the country to the office and to his Party. Specifically, he was resolute that he should be given the chance to guide the country out of the economic difficulties present at the time. Callaghan was consequently resigned to having to accept what was, it has been established, for him the least desirable option, a formal agreement with the Liberal Party.

When Callaghan met with Steel for the second time, at 12.30pm on 22 March 1977, in order to discuss the Liberal communiqué (this time with Michael Foot and Tom McNally present), the Prime Minister was quick to express his frustrations, abruptly stating, 'This letter could not be published, it was wholly unacceptable'.[68] Steel assured the Prime Minister that the document was merely for consultation, but Callaghan remained unhappy with the drafting process and at the end of the discussion insisted that all subsequent documents were to be drafted by the Government's side, with Kenneth Stowe and Tom McNally being charged with this role. Callaghan also suggested that the final agreement should be presented as an *aide-mémoire*, not as a long document. Steel consented to both requests, asserting that his own preference was for a short document.

In agreeing to cede the drafting of all subsequent amendments of the Lib–Lab Agreement (of which there were four) to the Labour Party, and specifically to Tom McNally (the Prime Minister's political adviser), the Liberal Party lost a degree of control over how their priorities would be expressed and emphasised in the wording of the final document. There was no real necessity for Steel to make this concession; he might,

as an alternative, have made the drafting process more bipartisan in character, perhaps bringing in his own political adviser, Alistair Michie, or Chief Whip, Alan Beith, to represent the Liberal Party. If this had been done, the final document might have enshrined a more nuanced stance, with a stronger emphasis on Liberal policy input, or, at the very least, Steel could have deflected some of the criticism from his own Party about how the agreement was constructed, which consequently focused almost exclusively on Steel as the leader.

While voting systems remained the key area of dispute, this second meeting also saw a number of subsidiary issues discussed, many of which were to feature in the final Lib–Lab Agreement. One such issue, and one of the few which the Liberal Party subsequently promoted as a policy achievement resulting from the Pact, was the agreement to implement Liberal MP Stephen Ross's Homelessness Bill. Ross had come first in the Private Members' ballot, and the Liberal Party was hopeful that the Pact would ensure his proposed changes to housing legislation would be adopted by the Government. As is often the case with Private Members' Bills, although championed by a back-bencher, if the Government agrees with the basis of the proposal, it may look favourably upon it and assist the legislative process.

It should be noted that recognition of Ross's Bill had not been included as a demand in the Liberal communiqué; furthermore, the archive records show that the suggestion for the inclusion of Ross's Homelessness Bill in the Lib–Lab Agreement actually came from the Prime Minister. The Cabinet had already concluded on 10 February 1977 that 'it should be given all necessary support to ensure a Second Reading', and accordingly it received cross-Party support at this stage.[69] When it came to the Lib–Lab discussions, Callaghan deduced correctly that the inclusion of the Homelessness Bill in the body of the Agreement would be viewed favourably by Liberals, without being an onerous undertaking for the Government. It therefore appears that Liberal Party claims that the adoption of this legislation should be classed as a Government concession are undermined by the archive evidence.

A second subsidiary issue raised and agreed upon at this meeting and subsequently included in the Lib–Lab Agreement was a provision which limited the scope of the Local Authorities (Works) Bill. This addressed the anomaly whereby existing direct labour activities of local authorities had been made illegal simply owing to local Government reorganisation. This clause in the Pact was therefore little more than an administrative amendment to the Bill, and the Government, in consultation with the Chief Secretary to the Cabinet and the Local

Government Organisation, accepted it in full. This was not, therefore, in any meaningful sense a 'concession' on the part of the Government. Equally, such a procedural change to local authority reorganisation yielded little electoral benefit for the Liberal Party.

Having agreed on these subsidiary issues, the Callaghan–Steel discussions shifted to the more substantive matters which would consume the remainder of the Lib–Lab negotiations: the degree of compulsion demanded in the vote on the electoral systems when legislating for the devolved Assemblies, and the direct elections to the European Parliament. Steel began by stating that, from his perspective, 'a proportional system for Direct Elections was really the only sticking point', because, he stressed he could not 'sell an agreement to his Party in the country . . . without something on this'.[70]

Michael Foot, attending the discussions at the behest of Callaghan, advised that the Government was due to publish the White Paper on Direct Elections (in April 1977) and could not 'pre-empt this by promoting one system now' – a point that Steel acknowledged. Foot then suggested what was to prove to be a highly significant progression in the negotiating process. He reasoned, given that the Liberal Party was prepared to allow a free vote for Labour MPs in legislating for the devolved Assemblies, that surely it was only reasonable to allow the same for the direct elections. Moreover, Foot observed that this was consistent with the Liberal Party's erstwhile position of promoting the principle of free votes on constitutional issues.[71]

Two factors might be considered at this point. The first is that the archives suggest that this was a negotiating position initiated by Foot rather than a joint position with the Prime Minister. In a private note written prior to the second meeting, Callaghan comments: 'free vote? – M. Foot idea'.[72] The second is that Foot's negotiating position (demanding that the two Bills be treated the same) was only possible because of the differentiation which the Liberal Party itself had introduced into how it expected the Labour Party to act. Without the 'pragmatic' difference in approach in the Liberal communiqué as noted above, Foot would not have been able to disassemble the Liberals' demands. The 'pragmatism' shown by Steel was thus to prove a key factor in undermining his own negotiating position and the extent to which the Party could achieve significant policy concessions on the issue of electoral reform during the Pact.

Interestingly, the archives also suggest an important divergence of opinion between Foot and Callaghan on this issue. While Foot pressed for a free vote, Callaghan was amenable to the idea of Government

support for PR using the 'list system'. He observed that the Government 'would have to make a recommendation in due course…the idea of a list system was gaining ground'. On 17 March 1977, the same day as the vote on the Expenditure White Paper, the Cabinet had discussed this issue, whereupon it appears that Callaghan sensed a shift in opinion among his colleagues in favour of PR. He would later, in a meeting of the Parliamentary Labour Party, highlight his own ambivalence towards this issue, regarding it as of 'little interest to the public at large' and thinking it 'should not be an issue which should either split the Labour Party or bring down the Labour Government'. Nevertheless no formal Cabinet decision on PR had been reached prior to the Lib–Lab negotiations.[73] In the meeting with Steel, Callaghan made the somewhat ambiguous observation that 'he could not settle the Government's policy this afternoon, although he did not rule out that it might be [accept]proportional representation for the first election' to the European Parliament.[74]

Callaghan's apparent ambivalence over the merits of proportional representation might be considered surprising given his subsequent strong denunciation of PR, which he described in his autobiography *Time and Chance* (1989) as 'an animal of a very different colour, for the Party was against it and so was I'.[75]

In response to Foot's suggestion of a 'free vote', Steel was dismissive, claiming that with regard to the direct elections legislation 'a free vote might have come anyway' and affirmed his belief that 'on a free vote there was no guarantee that their [the Government's] recommendation would secure the legislation'.[76] The second meeting of the Lib–Lab negotiations concluded without an agreement, whereupon the Liberal leader confirmed that he would convey the Government's position to his colleagues, and that the two sides would reconvene for further discussions later that day.

The official minutes then record verbatim a private conversation between Callaghan and Foot. In this discussion, the Prime Minister expresses concern that the question of 'PR for Europe' may derail the whole negotiating process with the Liberal Party. He then implies that, in exchange for a formal agreement, he would be prepared to concede to the Liberal demands for the Government to commend (significantly with a whip imposed) the proportional system, stating that

the Cabinet would, in return for an agreement, settle for proportional representation on the list system for 1978 because the outcome would be one of total obscurity in relation to the prospective outcome of a general election.

Michael Foot's recorded response was:

> Yes, perhaps, but this was not a gnat to swallow. He would prefer to try the Liberals on the basis that 'one major matter for consultation is the operation of free votes, given the present situation, and one such free vote might be on the option for the European Assembly and Scottish Assembly'.[77]

It should be observed that it is extremely unusual for such an obviously political discussion to be transcribed and retained in the official archives of the Prime Minister's Papers. Kenneth Stowe, who took the minutes, could not recall why he had transcribed this conversation, but it clearly demonstrated that the Prime Minister was, at least at this stage, countenancing acceding to Liberal demands. Callaghan's conversation with his deputy ended with the Prime Minister stating that 'they would consider this further'. In a report outlining the chronology of the Lib–Lab discussions, Kenneth Stowe noted that between 5pm and 6pm on 22 March 1977, Callaghan met with Foot. Sadly there is no record of these subsequent discussions.[78]

Clearly, had Callaghan's position remained unaltered, it would have changed subsequent events significantly. Members of the Government would have been compelled to vote for a proportional voting system for the European elections, and this, in turn would have resulted in significant Labour intra-party conflict on this issue. It would also have markedly altered the historical legacy of the Lib–Lab Pact and potentially changed the British attitude to electoral reform at European, and potentially Westminster level.[79]

The release of the Cabinet Conclusions in the National Archives has provided the only reference to the Callaghan–Foot discussions. No comment is made in Callaghan's autobiography, nor does Kenneth Morgan refer to the discussion in his biographical works on Callaghan and Foot respectively. Unaware of the turn of events, Morgan understandably holds with the traditional view that Callaghan was consistently opposed to the principle of electoral reform.[80]

In contrast to Callaghan's ambivalence, Foot was strident in his opposition to both the principle of direct elections and the prospect of a proportional voting system being employed. As noted above, it was Foot's suggestion that the Liberal Party might accede to giving the Labour Party a free vote on direct elections that drove the subsequent negotiations. Foot's position in this regard is interesting and was influenced by a number of factors. He felt he had a better appreciation of

the Liberal position than many of his colleagues, in part because of his strong family links with the Liberal Party but, more pertinently, because his position had been informed by discussions with John Pardoe on 21 March 1977. He also felt the Labour Party held a strong hand in negotiating with the Liberal leader and commented to his Private Secretary that the 'Liberals could [not] break off talks on this issue [electoral system for direct election to the European Parliament] – they would look very silly if it were known that the Government had offered a free vote and they had rejected it'.[81]

This notion of the Liberal Party being forced to accept the terms of the Lib–Lab Pact for fear of looking 'silly' has become the prevalent historical view of Liberal decision-making in 1977.[82] However, archive evidence suggests that, had Steel decided to walk away from the negotiations at this stage, he might have been caricatured as 'silly' in the press and by his political opponents, but he would have retained the support of both his parliamentary Party and the Liberal grassroots.

Geoff Tordoff's report on grassroots sentiment conducted over the weekend of 19–20 March 1977 had concluded that the Party expected 'cast-iron' assurances – it may be assumed that the virtual guarantee of PR for European Elections was one of these assurances. Furthermore, a second report by Tordoff, on 22 March 1977, had showed a marked shift in Liberal grassroots sentiment away from an agreement being brokered 'under any circumstances'. Of 21 constituencies contacted (mostly in the South-East of England), 19 were against a potential agreement without guarantees on PR.[83] By the following day, out of a further 27 constituencies contacted, all were against an agreement without significant concessions.[84] Rather than looking 'silly', Steel could therefore have argued that by ending the negotiations on the 'red line' of concessions on PR he was actually acting in accordance with the sentiment of a significant and seemingly growing section the Party's grassroots.

While the Party on the ground was becoming more sceptical, Steel was, as Foot speculated, becoming increasingly convinced that a deal should be done. He had concluded by 22 March 1977 that 'it seemed a pity that our failure to agree on this one issue should vitiate the prospects of everything else and plunge us into an election'.[85]

Following his discussions with Michael Foot, noted above, Callaghan instructed Kenneth Stowe and Tom McNally to draft a document designed to act as a reply to the Liberal communiqué, which the Liberals could review and respond to. Although 12 copies of this *aide-mémoire* arrived with the Liberal leader, they were not distributed among the MPs; instead, Steel's consultation only extended to a discussion with

John Pardoe. The Liberal leader reasoned he had already briefed his parliamentary colleagues on the current state of negotiations earlier that afternoon. Furthermore, Steel deemed the latest document unsuitable for wider discussion, on the grounds that it was 'vague on several points'.[86] Having conducted discussions with Pardoe, he then waited for the Prime Minister to initiate the next stage of the negotiation process. This Callaghan duly did, and a third round of the Lib–Lab discussions was arranged for 5pm the same day.

The Stowe–McNally *aide-mémoire* now replaced the Liberal communiqué as the framework for the final stage of the Lib–Lab discussions. This is important, as there were significant differences between the two documents. While the Liberal document had demanded joint action, 'in pursuit of National Recovery', the Stowe–McNally version called for 'economic recovery'. It appears from the archive evidence that this change was at the behest of Michael Foot, who felt that 'national recovery smacked of coalition'.[87]

With regard to how consultation was to function, there was also a significant amendment. The clearly defined Liberal demand for consultative meetings to take place 'at least fortnightly during the sitting of the House' was removed completely, as was the suggestion that the two Party leaders should meet 'as necessary'. In fact, Steel and Callaghan did meet on an *ad hoc* basis, but the omission of this explicit reference to formal consultation is evidence of the Labour negotiators being concerned about how the degree of Lib–Lab consultations might be perceived by their own supporters. This change also removed an explicit reference to the extent of 'consultation', so central to Steel's own political strategy. Liberal representatives would no longer 'introduce policy' in the Consultative Committee – this proposal was seen by the Prime Minister as 'totally impractical'. This omission of formal input on policy would be important when more detailed discussions took place on 25–26 March 1977 into how, and under what terms, Liberal spokesmen would interact with their Labour counterparts.[88]

The removal of explicit references to Liberal consultation or policy influence was also evident in economic matters. The Liberal desire for the Agreement to be based on a 'reduction in the burden of taxation on personal income' was completely removed. There were clear practical reasons for the exclusion of this clause in the Agreement in March 1977: primarily, the fact the Government already had a defined fiscal policy, but also the fact that Denis Healey had argued that a switch to indirect taxation would be inflationary, and thus run counter to one

of his core economic objectives. Even so, the removal of an explicit aspiration for tax reform from the Lib–Lab Agreement, together with all other overtly Liberal economic policies, meant that the Liberal Party would find it difficult to claim credit for the improving economic conditions that occurred through the lifetime of the Pact. The statement that 'No measures of nationalisation should be introduced' did remain in first Stowe–McNally draft, but this reference too would be absent from the final document. The Liberal document had also stated that agreement could only be reached following a meeting of the Chancellor and the Liberal Economic spokesman, and although such a meeting did take place, specific reference to this was also redacted from the final Agreement. John Pardoe, even though he did get assurances of intent on the change in the burden of taxation, concluded that the absence of all specifically Liberal-orientated economic policies made the idea of Liberal influence almost impossible to 'sell to the public'.[89]

Finally, and most significantly, the demand in the Liberal document that the Government should 'commend' that the direct elections to the European Parliament be held under a proportional voting system was significantly amended. The Stowe–McNally *aide-mémoire* followed the proposal put forward by Michael Foot, namely that the forthcoming White Paper would state that the Government would 'take account of the Liberal Party position but no recommendation would be made'. With regard to the Devolution Bill, despite the fact that no formal agreement had yet been reached between the two parties on how to proceed on this issue, the Stowe–McNally document envisaged that Labour MPs would be offered a free vote, again showing evidence of the input of Michael Foot in this process.[90]

It is important to highlight in this analysis that the Liberal document was intended as an opening salvo in the cross-party discussions, with some amendments through negotiation inevitable. It might also feasibly be argued that part of the reason for so many amendments was based on a shared desire of the Prime Minister and the leader of the Liberal Party to condense the Agreement to a one- or two-page memorandum. However, this drive for a 'concise document' seems to have been almost wholly at the expense of some of the more specific examples of Liberal policy influence: namely, in economic policy, references to 'consultation' and electoral reform. In the context of the Liberal Party's requirement to show its own supporters and the public that they had achieved either specific policy concession or direct consultation, the *aide-mémoire* was a significantly weaker document.

Third meeting of the Lib–Lab negotiations, 5pm, 22 March 1977

The Lib–Lab negotiations reconvened for the third time at 5pm on 22 March 1977. Despite the significant changes to the body of the draft agreement as noted above, the Liberal leader proceeded to raise no substantial issues with the content of the Stowe–McNally *aide-mémoire*. Instead, Steel focused almost exclusively on the issue of the voting system to be employed for the direct elections to the European Parliament. On this point Callaghan, seemingly influenced by his earlier discussions with Michael Foot, did not repeat his earlier speculation on whether or not PR would be acceptable 'for the first election'. He simply reiterated the position that the Government 'could not give a pledge on proportional representation', although he added the proviso 'at this stage' (a phrase underlined by Stowe in the official minutes). Intriguingly, this ambiguous statement was not expanded on by Callaghan, or questioned by Steel, either in this meeting or in subsequent negotiations.[91] Steel did not press for the return of 'commend' to the wording of the document.

However, Steel did asked the Prime Minister for his assurance that 'the Government would give a lead' (for PR) when the debate reached the floor of the House of Commons. Callaghan formally consented to this request, although, this somewhat ambiguous demand, did not feature in the final draft of the Agreement. At the conclusion of this third meeting, Steel deemed the terms 'acceptable', whereupon he reported back to his colleagues.[92] Steel duly convened a meeting of the parliamentary Liberal Party at 6.45 pm. Some Liberal MPs exhorted him to achieve greater concessions on the issue of direct elections, specifically by requesting a formal undertaking that the Labour Party would endorse a proportional voting system for the European elections.[93] However, their criticism did not extent to an absolute rejection of what Steel had negotiated thus far, even though, as has been noted, the latest draft of the agreement had seen substantial change from the original Liberal communiqué they had agreed to the previous day. Meanwhile, the Prime Minister once again held private discussions with Michael Foot before the two sides reconvened for one final meeting at 9.45 pm.[94]

Fourth meeting of the Lib–Lab negotiations, 9.45pm, 22 March 1977

The fourth and final Lib–Lab meeting again comprised Steel, Callaghan and Foot, but with the addition of John Pardoe, the *de facto* deputy leader of the Liberal Party. Steel reasoned it was right to involve Pardoe at this stage.[95] In spite of the detailed briefings Steel had provided his deputy throughout the negotiations, when the Prime Minister began his

opening statement, outlining the terms thus far agreed, Pardoe quickly interrupted, stating:

> Prime Minister, I do not think that will be acceptable to the Liberal Party. We have to achieve something concrete out of this, and the only thing the Liberals think is concrete is proportional representation.[96]

After a short discussion, it was decided to leave this issue for later. Crucially, before the question of voting systems could be resolved, John Pardoe left the meeting for a prearranged interview with the BBC *Tonight* programme, in which he stated that 'he did not think there would be an Agreement because of the sticking point of PR'.[97]

In Pardoe's absence, the conversation returned to the seemingly intractable question of Labour's attitude to PR; however, within 45 minutes an agreement was reached. Steel's eventual compromise position was as follows: subject to ratification by his parliamentary colleagues he accepted the invitation to reach a formal Agreement with the Government. This was based on the understanding that the Labour Party would be given a 'free vote' on the voting system to be employed for the European elections.

This rapid change of position on Steel's part was based on only one further concession: a personal and private undertaking by the Prime Minister that, when the time came for the House of Commons to vote on which voting system would be used for the European elections, Callaghan would vote, and let it be known that he would vote, for the list system of proportional representation. This verbal understanding and the absence of a written undertaking was to have far-reaching consequences for what members of both the Labour and the Liberal Parties expected from the Government in fulfilling what would later be called the 'spirit of the Agreement'.[98]

For Callaghan the fact that this concession should remain secret from his Party colleagues was of the utmost importance. To disclose this concession to a Parliamentary Labour Party which was sceptical of cross-party co-operation *per se*, as well as direct elections and electoral reform might have led to serious divisions both within the Cabinet and in the PLP. Indeed, the extent to which this deal remained secret was evident in its omission from the Prime Minister's subsequent submission when the Cabinet met to discuss the terms of the Pact on 23 March 1977. Callaghan explicitly assured his colleagues at this time that 'there was no private understanding that did not appear in the statement which the

Cabinet had before them'.[99] Steel, of course, was compelled to inform his parliamentary colleagues of Callaghan's commitment, by way of explanation of his decision to accept the 'free vote' option, but he also stressed that this information should not be divulged to the wider Party or the press.

Steel subsequently convened a meeting of his own MPs and outlined what he regarded as the wider significance of the deal he had agreed with the Prime Minister, namely, an opportunity to influence policy via a consultation mechanism. Each of the 11 MPs present (Richard Wainwright had gone home, consistent with his Methodist principle of not working past midnight) was subsequently given a brief opportunity to express their views. A majority of the MPs accepted the deal; only Jo Grimond and David Penhaligon expressed direct opposition, and Cyril Smith similarly had reservations. However, Grimond, Penhaligon and Smith all agreed to abide by the protocol of collective responsibility (which the parliamentary Liberal Party exercised at this time). While no formal vote was taken, the resolution passed unanimously. The Liberal MPs subsequently showed unanimity in supporting the deal at a press conference held on the 24 March 1977. All 13 MPs were present, and all spoke in support of the Pact. At a series of public engagements in subsequent weeks they each publicly expressed their support for the agreement.[100] At 1.20am on 23 March 1977, Steel informed Kenneth Stowe that the Liberal Party had endorsed the Agreement.[101] The final stage in the process would be Callaghan's consultation with the Cabinet, which was scheduled to take place the next day.

Liberal Party communiqué, 22 March 1977

Dear Prime Minister,

My colleagues have unanimously asked me to state that the Liberal Party will be prepared to consider sustaining the Government in its pursuit of national recovery on the following basis:

1) There would be set up a Consultative Committee between the two parties, possibly under the chairmanship of the Leader of the House. Other membership to be discussed. To meet as required, but at least once a fortnight during sitting of the House. In addition to informal contacts of the kind already established between ministers and appropriate Liberal

spokesmen, these would attend this committee as and when the agenda so required. Any major departmental Bill, White Paper or policy statement under preparation could be referred for discussion to the Committee by either Minister or Liberal spokesman. The Liberal may also introduce policy proposals. This arrangement to last until the end of the present parliamentary session, when both parties will consider whether the experiment has been sufficiently fruitful to continue, in which case the proposals for the Queen's Speech in the next session would be considered by the Committee.

2) There will be an immediate meeting between the Chancellor and the Liberal economic spokesman before making this agreement to confirm that there is sufficient identity of view on an economic strategy based on the reduction of process and income increases and reduction in the burden of taxation on personal income.

3) The Government will undertake the introduction and commend to the House a Bill for Direct Elections to the European Parliament based on a proportional system.

4) Progress will resume with legislation for devolution, taking account of Liberal proposals already submitted. In any future debate on proportional representation for the devolved assemblies, no Government whip will be applied against it in either House.

5) The Government will not proceed with the Local Government Direct Labour Bill announced in the Queen's Speech, nor with 'proposals to ensure that banking and insurance make a better contribution to the national economy' foreshadowed in the manifesto. NO measures of nationalisation will be introduced.

6) The terms of agreement between us to be published as a formal exchange of letters.

Yours,
David Steel

Conclusion

Access to archive documents has allowed for a new insight into the negotiating positions of the Labour Party and the Liberal Party between

17 and 23 March 1977. Steel's decision to negotiate alone, and his desire to construct a formal agreement based on 'consultation' rather than policy influence, was consistent with the Liberal leader's political philosophy noted in Chapter 2, but was also a contributory factor in the subsequent Liberal intra-party conflict which was to characterise the later stages of the Pact, as will be discussed in Chapters 7–9. Steel's decision to focus on a 'co-operation' strategy, which he hoped would later lead to policy concessions, was key to the dynamics of the Lib–Lab negotiations. This strategy also meant there few examples in the final agreement of tangible short-term policy concessions. Consequently, the discussions quickly distilled to focus on how their respective Parties would respond to the need to legislate for the direct elections to the European Parliament and the Devolved Assembly, and most pertinent of all, on which voting system should be employed in each case. The cross-party discussions on devolution noted in Chapter 3 were especially significant in this regard. One of the fundamental weaknesses of Steel's strategy was his assumption, which emanated out of these earlier discussions, that the Labour Party would not vote for PR and that Callaghan could not feasibly compel then to do so. In this context, this chapter has addressed one of the most significant conclusions of this book, specifically, that Callaghan considered it both expedient and politically practical to offer, in exchange for Liberal support, a commitment from the Government that it would endorse a proportional voting system for the elections to the European Elections. The position of Michael Foot was also particularly important: he acted both as a loyal lieutenant to the Prime Minister and later as a defender of the Pact, while simultaneously arguing successfully for a more strident position with regard to electoral reform. Steel calculation that the Conservative Party would support a move to PR would prove to be his greatest political error of judgement. As will be seen in subsequent chapters, Steel's focus on strategy rather than policy concessions and his desire for the Pact to be leader-centric would prove critical to his subsequent renegotiating of the Pact and his relations with the organs of the Liberal Party and Party activists.

5
Cabinet Discussions on the Lib–Lab Agreement

With the parliamentary Liberal Party position confirmed, James Callaghan was obliged to secure the agreement of Cabinet colleagues prior to the parliament debate and subsequent vote of confidence, due to commence at 3.30 pm on 23 March 1977. The Cabinet convened at 12.30 pm, the first time it had met since the tabling of the confidence motion on the 17 March 1977. Although Ministers were clearly aware that cross-party discussions had been conducted, the vast majority were ignorant of the exact nature of those discussions until a copy of the Lib–Lab Agreement was placed in front of each of them around the Cabinet table.

Aspects of the Lib–Lab Agreement which related to individual Government departments had been circulated to each of the Permanent Secretaries by Kenneth Stowe prior to the Cabinet meeting, to ensure that there were no significant policy issues that might prove to make the deal unworkable. Each Permanent Secretary had confirmed that there were no issues, and so the 'political' discussion in Cabinet could proceed.[1] Stowe had produced a briefing note for the Prime Minister, prior to the Cabinet discussions, highlighting possible areas of conflict and outlining the key issues which the Prime Minister might like to point out to his colleagues.[2] Denis Healey was fully briefed of the economic aspects of the Pact, having met with John Pardoe that morning to discuss economic policy, and while later meetings between the two men were to prove difficult, they reached an early understanding, although this should be tempered by Pardoe's pragmatic observation that 'we could hardly have done otherwise, given the situation'.[3]

The Ministers processed into the Cabinet Room, Tony Benn recalled, with Callaghan 'red-faced' and Michael Foot looking 'white and drawn'.[4] Callaghan proceeded to outlining the chronology of the events

since the adjournment debate on 17 March 1977. He emphasised that, in negotiating with both the Ulster Unionists and the Liberals, he had done nothing which would undermine the integrity of the Labour Party. He then explained that he had first entered into discussions with the Ulster Unionists, having believed that this was the most likely avenue for agreement. Callaghan confirmed the Government's intension to form a Speaker's Conference on increasing Northern Ireland's representation at Westminster, but stated that talks with the Ulster Unionists 'had led to nothing', with the sticking point being security issues. As noted in Chapter 3, he made no reference to the informal understanding achieved with Molyneaux and Powell. Instead, the he stressed that, having failed to reach an agreement with the Ulster Unionists, he had shifted his attention to discussions with the Liberal Party. Emphasising that he had had low expectations for success, nonetheless 'after some very hard bargaining' an agreement had been reached.[5]

Callaghan then proceeded to dissect the content of the Lib–Lab agreement line by line, after which the Cabinet embarked upon an open discussion. The Cabinet Conclusions can only hint at the nature of these discussions. Michie and Hoggart described the meeting as 'lighthearted', with the majority of Ministers expressing a 'sense of relief' that an agreement had been achieved.[6] However, Kenneth Stowe, present throughout the meeting, recalls that 'people were arguing around the table about the words...this was not some kind of cosy cuddle'. Callaghan later confided in Bernard Donoughue that 'it had been a hard meeting. He had taken more criticism than he had expected.'[7]

The majority of the criticism emanated from two ministers: Peter Shore, Secretary of State for Environment, and Tony Benn, Secretary of State for Energy. Shore, the most staunch so-called anti-Marketeer member of the Cabinet, initially argued that he could not agree to a deal as there were issues within it which affected his Department. Callaghan turned to Kenneth Stowe seeking clarification that the relevant Permanent Secretary had agreed the document – Stowe confirmed this was the case, and so the Prime Minister stated 'well then let's carry on'.[8]

Shore then refocused his attack on to the terms of the agreement, and predictably this related to the European Direct Elections Bill. He warned that the decision to agree to the principle of direct elections, and 'to take account of the Liberal position' on the electoral system, would 'cause great bitterness within the Labour Party'.[9] Shore viewed the concession on electoral reform as a 'sop to the Liberals'.[10] Shore's response in many ways confirmed the implication given by Callaghan in his negotiations with Steel, that to grant more concessions in the White

Paper on direct elections would almost inevitably lead to resignations from the Cabinet. However, according to William Rodgers, Callaghan had been careful in previous months to be more inclusive in his dealings with Shore, 'letting him in on talks'. While his primary motive was to isolate Benn', it appears that Callaghan's man-management was a factor in persuading Shore not to resign from the Cabinet over the Lib–Lab Agreement.[11] Equally, it also seems that Shore did not feel that he was in a strong enough position politically to resign, citing the fact that he did not have the power base within the Party that Benn enjoyed.

While a sizeable cohort of the Cabinet shared Shore's scepticism on direct elections, for the majority of Ministers the most contentious aspect of the Agreement was 'consultation'. This can in turn be split into two issues: first, the lack of consultation undertaken by Callaghan with the organs of the Labour Party, and second, the need for clarification over the level of consultation the Liberal Party were to enjoy in the implementation of the Pact *vis-à-vis* the Parliamentary Labour Party's mechanisms of consultation.

To some extent Ministers' protests on consultation seem to have been largely symbolic. Callaghan had pre-empted dissent by outlining in his timeline of discussions that the cross-party negotiations had variously involved Michael Foot, Cledwyn Hughes, William Rodgers and Roy Mason as well as the Whips' Office. He also noted the acquiescence from the NEC. On the broader issue of why there had not been wider consultation with the PLP and the NEC before agreeing to the Pact, Cledwyn Hughes informed colleagues that, in the first case, there had been no time to consult more widely, and second, even if there had been time, there was no obligation on the part of Callaghan to consult the Parliamentary Labour Party.

Tony Benn, who had decided even before the Cabinet meeting took place that he would vote against the Agreement, rather predictably, was not appeased by this argument. He commented that 'the Cabinet does not control the PLP, the Executive or the Party and he would have to consult with each'.[12] Joel Barnett, the Chief Secretary to the Treasury, dismissed Benn's comments, 'as with so many of Tony Benn's Cabinet contributions it was all very much for history'.[13] David Owen was of the same mind, describing Benn's intervention as 'ritual rather than passionate, making his denunciations for the record but offering nothing in its place'.[14]

Nonetheless, in this instance Benn was not alone in airing concerns. Eric Varley, Stan Orme, Fred Mulley and even, from the social democrat wing of the Party, Shirley Williams all expressed a desire for consultation

in the PLP before the vote of confidence took place. At this point Denis Healey, in an echo of the support he had given the Prime Minister during Cabinet discussion during the IMF crisis, intervened, stating that 'we cannot convene the PLP, only the Prime Minister can speak for the Party'.[15] While Williams conceded Healey's point, Tony Benn was not mollified, and at the end of the Cabinet discussions he voted against the agreement, citing the lack of consultation.

On the question of the degree of consultation offered to the Liberals, Kenneth Stowe, in his briefing to the Prime Minister, advised Callaghan to stress that consultation with the Liberals would 'not outbid or devalue' the consultation already in place with the Parliamentary Labour Party.[16] Callaghan duly reassured his Cabinet colleagues that the 'Consultative Committee' was 'no more than that. It has no powers.' He asserted that in his view it was no more than the Government offered the CBI or the TUC.[17]

To some extent, the Prime Minister was aided in this regard by the vague terms in which 'consultation' had been outlined in the Lib–Lab Agreement. The composition of the committee and regularity of meetings had yet to be confirmed. Meanwhile, in the wider narrative of intra-Labour Party conflict, the fact that the Consultative Committee was to be chaired and administered by Michael Foot meant many on the left, sceptical of the whole process, were reassured that it would not be used as a cover by those in the social democratic wing of the Party to develop closer ties with the Liberal Party.[18] The Prime Minister was also assisted on this issue by the fact that he had recently reviewed and strengthened the level of consultation which took place within the Labour Party, most notably between the Cabinet, the Parliamentary Labour Party and the National Executive. Michael Foot, in further effort to pre-empt a confrontation with the PLP on this issue, had arranged to meet with the PLP's Liaison Committee to discuss their concerns before the confidence vote took place.[19] Callaghan continued to monitor internal discontent within the PLP over the issue of consultation with the Liberals. He instructed Stowe and McNally to keep a record and keep him informed of the level of consultation undertaken by Cabinet Ministers both with their Liberal counterparts and with members of the PLP through the organs of the Labour Party.[20]

After 75 minutes of Cabinet discussion a vote on whether or not to endorse the Lib–Lab Agreement finally took place. Only four of the 24 Ministers voted against the Agreement. Shore and Benn were joined by Stan Orme, Secretary of State for Social Security, and Bruce Millan, Secretary of State for Scotland. According to Joel Barnett, Stan Orme

felt he 'could not go along with what he saw as a compromise of his socialist beliefs'; he also considered the Agreement to be 'unnecessary and humiliating'.[21] Orme had great personal anxiety over his decision, asking the Prime Minister if those who had voted against would be compelled to resign. Callaghan reassured all present that, while he required them to adhere to the formal protocol of collective responsibility, and thus expected them to vote with the Government in the confidence motion, he did not wish to make it a resignation issue. Bruce Millan, who had been brought into the Cabinet as Secretary of State for Scotland by Callaghan in 1976 as a supporter of the Prime Minister, objected on the grounds that the Agreement would see the reintroduction of the devolution legislation which he opposed. Millan's decision was also influenced by the fact that he had a strong personal dislike of David Steel, the Liberal leader having been critical both of his appointment and of his abilities.

It is important to note that the majority of Ministers were content with the policy aspects of the Agreement. Joel Barnett's assessment of the deal is perhaps indicative: he saw no alternative to the course of action that had been taken, and in some ways was relieved that the deal was not as restrictive as it might have been. Nonetheless, he 'did not relish the prospect the Pact offered' of regular consultations with John Pardoe. Barnett confessed in his autobiography: 'I did not anticipate just how soon those consultations would begin, how tortuous they would be, and how often they would take place.'[22] Denis Healey had also resigned himself to accepting the Agreement, although in conversation with the Prime Minister privately, he predicted correctly that, for all the formal nature of the Agreement, it would in practice mean they would 'need to construct a compromise with the Liberals on every issue'.[23] He nonetheless preferred this to dealing with 'Nats and nutters' a reference to minor parties from Scotland, Wales and Northern Ireland.[24]

The complementary role played by Michael Foot in promoting Callaghan's negotiating strategy and the virtues of the Pact was of crucial importance in the Cabinet discussions and later with the parliamentary Party. Despite his personal reservations over the concept of cross-party co-operation and over much of its content (devolution, direct elections and proportional representation), he spoke forcibly in favour of the Agreement in Cabinet, stating that '[we] could emerge stronger and stay in power stronger'. Foot's stance had a direct bearing on the actions of many on the left in the Cabinet, most notably Albert Booth, in supporting the Agreement.[25]

Meanwhile, as alluded to above, Callaghan's management of the Cabinet was also an important contributory factor. Kenneth Stowe described Callaghan's management of these discussions as 'a virtuoso performance comparable with his handling of the Cabinet meetings during the IMF talks'.[26] As during the IMF discussion, Callaghan was prepared to listen to colleagues and make changes on their advice. Indeed, even at this late stage, amendments were made to the Lib–Lab Agreement as a consequence of Ministerial objections. Intriguingly, David Steel was party to this aspect of the Cabinet discussions; queries raised by Ministers were relayed to Steel via Kenneth Stowe, who was sitting in the corner of the Cabinet room. Stowe noted areas of ministerial conflict, then intermittently left the Cabinet room to converse on the telephone with Steel, who was stationed in his own office in the Commons. Having conferred with Steel, Stowe then returned to the Cabinet room to inform the Prime Minister of Steel's response. At no time did Callaghan leave the room to talk directly with Steel; as Stowe states, 'for obvious reasons, he did not want to leave them to talk on their own'. Stowe further observes, with some satisfaction, that 'for a couple of hours, I really was the little bit of wire between the Prime Minister and the leader of the Liberal Party'.[27] The amendments to the Lib–Lab document using this process were mostly cosmetic: the insertion that the consultative committee was to be chaired by the Lord President of the Council (Michael Foot), and a slight change to the wording related to the Local Authority (Works) Bill. They nevertheless highlight both the fluid nature of the Lib–Lab negotiations and the inclusive management style adopted by Callaghan, a style he would retain during the Lib–Lab Pact.[28] At the end of the Cabinet meeting the Prime Minister asked for colleagues to return their copies of the Agreement, and all but Tony Benn complied. Benn justified his decision to secretly retain his copy on the grounds that he saw no reason why he should not be able to discuss it with 'his friends'.[29] It was through Benn's subsequent discussions with colleagues that the first formal opposition to the Pact developed, as will be discussed later in this book.

The final meeting of the Lib–Lab negotiation process took place after lunch on 23 March 1977, when the parliamentary Liberal Party met to discuss, and formally endorse, the minor Cabinet amendments. Later that day, on the floor of the House of Commons, the leader of the Opposition, Margaret Thatcher, tabled the no-confidence motion, in response to which Callaghan announced the formation of the Lib–Lab Agreement.

The Joint Statement by the Prime Minister and the leader of the Liberal Party

We agreed today the basis on which the Liberal Party would work with the Government in the pursuit of economic recovery.

We will set up a joint consultative committee under the chairmanship of the Leader of the House, which will meet regularly. The committee will examine Government policy and other issues prior to their coming before the House, and Liberal policy proposals.

The existence of this committee will not commit the Government to accepting the views of the Liberal Party, or the Liberal Party to supporting the Government on any issue.

We agree to initiate regular meetings between the Chancellor and the Liberal Party economic spokesman, such meetings to begin at once. In addition the Prime Minister and the leader of the Liberal Party will meet as necessary.

We agree that legislation for Direct Elections to the European Assembly for 1978 will be presented to Parliament in this session. The Liberal Party re-affirm their strong conviction that a proportional system should be used as the method of election. The Government is publishing next week a White Paper on Direct Elections to the European Assembly which sets out the choices among different electoral systems but which makes no recommendation. There will now be consultation between us on the method to be adopted and the Government's final recommendation will take full account of the Liberal Party's commitment. The recommendation will be subject to a free vote of both Houses.

We agree that progress must be made on legislation for devolution and to this end consultations will begin on the detailed memorandum submitted by the Liberal Party today. In any future debate on proportional representation for the devolved assemblies there will be a free vote.

We agree that the Government will provide the extra time necessary to secure the passage of the Housing (Homeless Persons) Bill, and that the Local Authorities (Works) Bill will now be confined to provisions to protect the existing activities of direct labour organizations in the light of local Government reorganization.

> We agree that this arrangement between us should last until the end of the present parliamentary session, when both parties would consider whether the experiment has been of sufficient benefit to the country to be continued.
>
> We also agree that this understanding should be made public.
>
> (NA, PREM16/1399: Joint Statement by the Prime Minister and the leader of the Liberal Party 'The Lib–Lab Agreement', 23 March 1977)

Confidence motion, 23 March 1977

On the afternoon of 23 March 1977, Margaret Thatcher, in a highly charged House of Commons, tabled the no-confidence motion. However, she later confessed that, 'devoid of inspiration' and aware that a deal had been agreed between the Labour and Liberal parties, her speech was the worst of her career. The *Daily Telegraph* criticised it as 'hovering uncertainly between disaster and tragedy and finally settl[ing] on catastrophe'. The result of this was to hand the initiative to the Prime Minister, who nonetheless later commented that 'it had been the roughest House he could ever remember'.[30]

Callaghan defended the Government's policies, then presented the 'Joint Statement' and outlined its key aspects. David Steel subsequently, in a speech which, like Thatcher, he considered to be one of his worst, defined the reasons why he agreed to the Pact, stressing his primary motivation as being the need for stability and 'national recovery'. In response to jeers from the Conservative benches, Steel argued that the deal agreed with the Labour Party was the same as the Liberals had offered to the Conservatives in 1974.[31]

At the conclusion of the debate, which extended over six hours, the House divided. The result, as anticipated, was a victory for the Government, by a majority of 24 votes. The full complement of 307 Labour MPs voted with the Government (Tom Litterick was absent because of illness). Labour was joined by 13 Liberals, the Independent Nationalist Frank Maguire and Gerry Fitt of the SDLP. As previously observed in Chapter 3, the UUUC members Harold McCusker, John Dunlop and Enoch Powell abstained.

Voting for the motion were 275 Conservatives – Anthony Steen, MP for Liverpool Wavertree, was absent, having fallen asleep in his London home after recently returning from a visit to Bangladesh. He

had requested a wake-up call but the 'GPO dialled the wrong number (it was then possible to request an alarm call from the General Post Office, which administered the national telephone system)'.[32] Of the minor parties, both Scottish Labour MPs, the full contingent of Plaid Cymru, SNP and seven UUUC members voted with the Conservatives against the Government.

In analysing the result, it is clear that the Liberals' decision was critical. If they had voted with the Conservatives, the Government would have lost by two votes. However, it is also important to emphasise that the Liberals' decision to vote with the Government meant that the minor parties (SNP, Plaid Cymru and SLP) were able to cast their vote against the Government, secure in the knowledge that it would not result in its defeat. Michie and Hoggart argue that the Welsh and Scottish Nationalists might have voted against the motion without the prior confirmation of the Liberal position. A more plausible scenario, however, which might have averted a Government defeat without the need for the Pact, was that a contingent of the UUUC MPs would have positively supported the Government, together with the two SLP MPs. This, as has been noted, was Callaghan's preferred scenario, but, as also observed, it would have led to probable long-term political instability that was not evident after the formation of the Lib–Lab Pact.[33] While conjecture will remains as to whether the Labour Government would have survived on 23 March 1977 without the Lib–Lab Agreement, the more significant consequence of the deal with the Liberals was the medium-term parliamentary security it offered the Government. In this way it acted as a political corollary to the economic agreement Callaghan had secured with the IMF the previous autumn. It also ensured that the prospect of a general election was removed from the political agenda, at least for the remainder of the parliamentary session. From the Liberal Party's perspective it did offer, for the first time since 1945, the opportunity to be consulted and potentially influence the policy agenda. As Steel observed, what mattered now was 'how we use it'.[34]

Assessment of the Lib–Lab agreement: could David Steel have secured more than a 'free vote'?

It was noted in the previous chapter that the most significant aspect of the Lib–Lab negotiations was the concession of David Steel to accept a 'free vote' for Labour MPs when they came to then deciding on the type of electoral system which would be employed for the European Parliamentary elections scheduled to take place in 1978. This concession has

resulted in the most significant criticism of the negotiating strategy of David Steel, both at the time and subsequently. Taking into account new archive material outlined for the first time in this book, the following section will review whether Steel might have achieved more on this issue via the negotiating process. Other aspects of Liberal influence, by means of the consultation process, will be discussed in the next chapter.

It has been observed that Steel's decision to accept a Labour MPs be given a free vote on this issue was based on a pragmatic assessment of two factors: first, that the substantial opposition within the Labour Party would militate against securing the Pact under more onerous terms; and second, a belief that sufficient support could be achieved from a combination of opposition MPs.

To recap, the archive documents suggest that Callaghan contemplated conceding to the Liberal demand that the 'payroll' be compelled to vote for proportional representation. It has similarly been observed that the intervention of Michael Foot proved crucial in securing a 'free vote'. Given the archive evidence on Callaghan's position, the next section will examine whether Steel should have been more attuned to the Prime Minister's position and thus demanded greater concessions on this issue in return for Liberal support.

To begin by stating Steel's position: he remains resolute in his opinion that the opposition within the Labour Party to the concept of direct elections, allied to any mode of electoral reform, was of such intensity that Callaghan could not have compelled the PLP to vote for electoral reform without splitting the Party and thus ending the Lib–Lab Pact and contradicting Steel's long-term strategy to show that 'cross-Party cooperation could work'. It should also be noted that several academics, writing without the insight of the Prime Minister's paper, concur with Steel's analysis, most notably Morgan (1997 and 2007) and Butler and Kavanagh 1979). It must also be acknowledged that it is not possible to establish what the position of the Labour Cabinet would have been if faced with the demand for a whipped vote on this issue. While a series of discussions had taken place, it is nonetheless important to observe that no formal vote was taken on the voting system to be employed before the formation of the Pact.

Nonetheless, Callaghan's conjecture and ambivalence on this issue mean that Steel's negotiating position must be questioned. David Owen, Foreign Secretary 1977–1979, is of the view that Steel should have been more familiar with the Cabinet's position with regard to proportional representation: 'The Liberal Party knew the majority of the Cabinet had already accepted that Proportional Representation should be in the

legislation since I had personally told Jeremy Thorpe that this was the case.' Owen was also of the opinion that 'If Jim had to persuade the Cabinet . . . as a necessary price [for the Pact] . . . I doubt if even Tony Benn would have resigned.'[35]

Owen's discussions with Thorpe had taken place in early March 1977, and it seems conceivable that Thorpe would have conveyed the Foreign Secretary's views to Steel during the numerous meetings of the parliamentary Liberal Party before and during the Lib–Lab negotiations. Seemingly, Steel chose to discount this information while accepting the arguments proffered by the Prime Minister and Michael Foot. Jo Grimond had stated to Liberal colleagues that he had it 'on very high authority', without divulging his source, that the Cabinet would have agreed to PR under a list system.[36] Meanwhile, Christopher Mayhew, the former Labour Minister who defected to the Liberals in 1974, was even more forthright. In terms not dissimilar to those articulated by Callaghan to Foot on 22 March 1977, he states:

> From my own long experience, I felt certain that if confronted with the stark choice between PR for Europe and a disastrous general election, enough of its members could be browbeaten by the Prime Minister, into voting for PR.[37]

Tom McNally, political adviser to Callaghan (and present during some of the Lib–Lab discussions), is more circumspect, believing that for Steel to hold out for a proportional system for the direct elections would have been 'very high politics . . . neither Callaghan or Foot was in the business of reshaping British politics . . . the Prime Minister would have faced considerable opposition from the left, notably Tony Benn'. Nevertheless, he too concluded that the Cabinet probably would have 'gone along with it'.[38]

The fact that a number of Steel's colleagues appear to have been informed by senior members of the Labour Party that the Labour Cabinet might have accepted an agreement with the Liberals on such terms again highlights, as previously noted, the absence of wider pre-planning on the part of the Liberal Party. Steel clearly did not enjoy the same inter-Party channels of communication with Cabinet-level politicians in the Labour Party as some of his colleagues, but equally he chose not to utilise their experience or knowledge in his discussions with the Prime Minister. Steel's decision not to make use of even these limited resources, but instead to conduct the negotiations in a largely bilateral manner with the Prime Minister, had two notable consequences: first,

the claim of colleagues, not involved in the negotiations, that more policy concessions might have been achieved; second, the fact that the focus of Liberal Party discontent, during the Pact, was centred on Steel, for not negotiating a 'better' deal, rather than on the Labour Party for not fulfilling the 'spirit of the Pact'.

To now turn to the second of Steel's assumptions: to recap, Steel assumed that a free vote, and with a majority of Labour MPs opposing PR, would still secure a Commons majority through a coalition of minor parties. Critical to this assumption was that at least 100 Conservative MPs would support PR. Steel reasoned that they had done this during the devolution debates in early 1977. In retrospect he is contrite, acknowledging that 'this was the biggest political mistake of my career'.[39] With the benefit of hindsight, it is easy to view Steel's supposition as politically naive. It seems implausible that even the more pro-PR Conservatives would vote in favour of the policy, when to vote against would undermine the Lib–Lab Pact and potentially hasten a general election, which it was anticipated would result in a Conservative victory. Steel did have contacts in the Conservative Party, such as Edward Heath and Christopher Chataway, but these relationships were based on a shared interest in European integration and electoral reform, and their views were not indicative of the majority of Conservative MPs. But equally Steel was not alone in misjudging the mood of the Conservative Party. Michael Steed, who would serve as President of the Liberal Party 1977–1978, had been in the company of Geoffrey Rippon, the Pro-PR Conservative MP for Hexham, on the day that the Pact was announced, and was amazed that Rippon, furious with the Liberal Party for sustaining the Government, was determined to break the Pact.[40]

A number of points might be raised in mitigation of Steel's actions. First, he had secured the personal assurance of Callaghan that he would make known 'when the time was right' his personal support for PR. Second, the Joint Agreement explicitly stated that the Government would consult with the Liberals and 'take full account' of the Liberal Party's support for PR. On this basis, Steel envisaged he would be able to influence both the drafting of the European Elections White Paper and the attitude of Labour MPs to the merits of PR, through the consultation process established by the Pact. Furthermore, Steel was also aware that the Agreement would need to be reviewed, and hopefully renewed, at the end of the parliamentary session. It was possible that this would enable the Liberals to push for further concessions – indeed this did prove to be the case, as will be discussed later.

However, perhaps the most important factor in mitigation of Steel's strategy was that the Liberal leader did not see the Pact as an end in itself. It was, in his view, a stepping stone to further cross-Party co-operation in the future, and therefore short-term concessions on policy (even electoral reform) were far less important than the long-term strategic goal – realignment in British politics.

Steel's apparent reluctance to demand specific assurances on this issue, as well as his acquiescence on other ones, was based on a broader assumption on the future composition of British politics. He reasoned that there was a distinct possibility that the next general election would result in another hung parliament, at which point the Liberal Party, perhaps holding the balance of power, could demand electoral reform for European and/or Westminster elections as a prerequisite for full support of a coalition. It should be noted that Steel's analysis was shared by a significant proportion of his own Party, and seen as plausible by many academics and media commentators. In a questionnaire of Liberal Party constituency chairmen and minor Party officials conducted by *New Society* magazine in spring 1977, over half thought that the next general election would result in a hung parliament, and more than one third believed the Liberals would hold the balance of power. The remainder assumed that an amalgam of other parties, such as the SNP, would hold the balance.[41] Furthermore, in Steel's defence, in a scenario in which the Liberals were invited to form a coalition, they would be able to cite the Lib–Lab Agreement as an example of effective cross-Party co-operation and promote the Liberal Party as trustworthy and a mature coalition partner. Under such circumstances, the failure to achieve PR for the European elections in 1978–1979 would probably be regarded as of little consequence in the broader political picture, especially given the fact there would eventually be convergence on this issue and that the UK would be compelled to introduce a PR system for European elections, as it did after 1999.

Conclusion

Callaghan's collegiate approach and adherence to Cabinet Government were important factors during the Cabinet discussions which endorsed the Pact. The role of Kenneth Stowe in this process was uniquely observed. As noted in Chapter 4, Callaghan might have been amenable to voting reform for the European elections, and when compounded with the evidence of Jo Grimond, Jeremy Thorpe, David Owen and Christopher Mayhew, it is hard not to conclude that, in parallel with the

lack of preparation for inter-party discussions noted in Chapter 1, Steel failed fully to exploit intra- and inter-party knowledge of the Labour Party position on voting reform *vis-à-vis* the European elections. He lacked the strategic and tactical awareness to achieve tangible concessions on this issue which might have been forthcoming with a more collegiate approach. It is hard to avoid the conclusion that, irrespective of a broader political strategy, if Steel had placed greater emphasis on electoral reform as a key objective in his negotiations with Callaghan, or been more cognisant of the views of the two larger parties with regard to the electoral reform, he might have sought, and more importantly achieved, significantly greater concessions on this issue in 1977. Steel's emphasis on 'co-operation' and the desire for policy concessions on this issue were not mutually exclusive aims. While, in retrospect, even Steel saw his actions as politically naive, the most immediate consequence of not demanding a 'cast-iron' assurance on this issue, as the Tordoff Report had demanded, was that Steel explicitly placed the co-operation strategy above policy fulfilment. In doing so, Steel was in direct variance with a large section of his Party and Liberal supporters.[42] The results of this divergence in priorities were to prove to be very significant in the Liberal intra-party discussions during the lifetime of the Pact, as will be discussed later. The next chapter will assess the other aspects contingent in the Lib–Lab Agreement: the consultative mechanism and Liberal policy influence.

6
The Lib–Lab Consultative Mechanism

In the previous chapter it was noted that Steel chose to prioritise 'consultation' ahead of policy influence. Steel himself recalls that 'influencing policy was not really the point of the Pact, it was really about being consulted'.[1] This strategy notwithstanding, even Steel envisaged that policy influence would be an important consequence of the Pact. He saw this influence being exacted through negotiation, via the consultative mechanism. The origin and structure of this consultation framework, together with the extent to which it enabled policy influence, will be the focus of this chapter.

Origins of the consultative mechanisms of the Lib–Lab Pact

As has been noted, the demand for a formal consultative mechanism emanated almost solely from David Steel. The Liberal leader had repeatedly emphasised to the Prime Minister and his colleagues the significance which he placed on consultation as a prerequisite for any cross-party understanding, and for any broader 'co-operation strategy'. To recap, in the first Lib–Lab negotiations on 21 March 1977, Steel had stated that 'there was no point discussing policy issues'; rather, his priority was a formal agreement through which his primary aim was 'to be consulted...to be seen to be consulted'.[2] It should be emphasised that few other Liberals viewed a consultative mechanism *per se* as a precondition for an agreement. Most simply assumed a consultation mechanism would be a necessity to administer any cross-party understanding.[3] Perhaps because of this broad assumption, there was little conception within either the parliamentary Liberal Party or the wider Liberal Party as to how 'consultation' might operate in practice. Equally, Steel concedes, 'there was no working paper on how it would

operate, just the Llandudno speech' – referring to the first speech Steel had given at the Liberal Assembly held in Llandudno in 1976.[4]

While Steel consulted widely on whether to enter cross-party discussions with Labour in March 1977, he did not, in the period between 18 and 21 March 1977, consult with any Liberal MP or officials within the Liberal Party on how a 'Lib–Lab consultative committee' would be structured or operate. This lack of consultation was acknowledged by Steel in his first meeting with the Prime Minister, when he confessed that the concept of the 'consultative committee' was largely his own idea, and admitted that 'he had not yet put this to his colleagues'.[5] John Pardoe, the only other Liberal MP involved in direct negotiations with the Government in March 1977, later confessed that 'I certainly don't know who invented the consultative committee, I was never quite sure. I certainly was not in on the discussions. I think I rather assumed that it had come from their side'.[6]

As noted in Chapter 5, having achieved a 'concession' from James Callaghan that a formal mechanism would be adopted, Steel agreed to defer the negotiations on how it should operate until after agreement had been reached on other policy issues, most notably the Government's approach to the voting system to be adopted for the direct elections to the European Parliament. In a press conference on 24 March 1977 Steel stated that 'we have not taken this very far; we have not attempted to seek detail on this or how the committee will be shaped'.[7]

Without a formal structural template the structure and function of the consultative committee were largely the product of the discussions between David Steel, acting alone on behalf of the Liberals, and the Labour Party negotiator, Michael Foot, along with important contributions from Kenneth Stowe. For his part, Steel did not regard the decision to defer discussions on consultation as of any material importance, primarily because he considered he had achieved exactly what he sought from the negotiation process: namely, a formal Pact with an agreement for consultation at its core. However, Steel's decision to defer these discussions did have significance. It influenced both the perceived purpose of the consultative mechanism and its effectiveness as a means to influence Government policy. The absence of a Liberal Party working paper, and Steel's decision to defer discussions on this issue, allowed the Labour Party to control the narrative as to the purpose and extent of the consultation process.

The first document to outline the function and remit of the consultation mechanism originated from the work of Kenneth Stowe and Tom McNally during the Lib–Lab negotiation process. Together they

produced a 'draft accommodation on consultation' on the 21 March 1977; in it they envisaged that

> The machinery of consultation . . . is designed to allow Government to take full account of the views of the Liberal Party at the appropriate time in the decision process, and to ensure that the Liberal Party is fully briefed before taking its decisions on issues that are before the House.[8]

It was this outline of the limits of consultation which was to act as the template for subsequent discussions.

Formation of the consultative mechanism

The negotiations which established the structure and remit of the consultative mechanism were conducted by David Steel and Michael Foot between 24 and 26 March 1977. Steel began by outlining a template for how consultation might operate, the structure of which will be discussed in detail shortly. Foot acquiesced to each one of the Liberal leader's demands, only seeking to confirm that the Liberal Party would support the Labour Government's forthcoming legislative programme. In response, Steel asserted that the Liberal Party would look at each policy on an *ad hoc* basis, but he did not envisage any issues that would jeopardise the Pact.[9]

Foot's apparent equanimity can be explained by the fact that he concurred with Stowe's earlier assessment of the purpose and remit of the consultative mechanism: namely, that it should be viewed in a very limited sense, simply as a more formal mechanism than the *ad hoc* understandings previously employed in the parliament to enable the Labour Government to continue with its legislative programme. The need to legislate was particularly important to Foot, given his position as Leader of the House, in which capacity he was charged with orchestrating the Government's legislative programme. Both men were content with the mechanism as conceived – Foot considered the framework, to be a largely anodyne instrument, not able or designed to compel the Cabinet to adopt Liberal policies. Steel, meanwhile, was content that his proposals had been accepted without significant amendment.

The structure of the consultative mechanism

Steel's template for the consultative mechanism of the Lib–Lab Pact saw inter-party discussions subdivided into three strands: Liberal

spokesman–Government Minister; the Consultative Committee; and finally bilateral meetings between the Liberal leader and the Prime Minister. At each level, Steel envisaged discussions would be conducted on an issue-by-issue basis. They could be initiated by either Party, and should function as informally as was practicably possible.

First strand of consultation: Liberal spokesman–Government Minister

Interaction between Liberal spokesmen and Government Ministers was regarded by Steel as the most important, and potentially most productive, aspect of the consultation process. In acknowledging the structural constraints of a parliamentary Pact, he concluded that familiarity and close personal interaction were the only ways in which the Liberal Party could credibly promote policy priorities or achieve policy concessions. Liberal spokesmen were encouraged to act on their own initiative, only reporting back to the parliamentary Liberal Party on a weekly basis.

The emphasis Steel placed on interaction between Liberal parliamentarians and Government Ministers necessitated an immediate review of the shadow departmental portfolios of Liberal parliamentarians. A rudimentary structure of Liberal departmental spokesmen already existed, and in most cases Liberal MPs retained their erstwhile responsibilities. However, Steel formalised this structure into a self-styled 'Shadow Administration' (Table 6.1).

Before finalising this process, Steel felt obliged to liaise with Foot to ensure there were no 'personality clashes'. Consequently, under Foot's direction, Cyril Smith and David Penhaligon swapped portfolios so that the more amiable Penhaligon shadowed the Social Security Secretary, Stan Orme, while Smith liaised with the Employment Secretary, Albert Booth. With only limited powers of patronage Steel was obliged to call on all Liberal MPs to 'hold office', the only reshuffle occurring when both Cyril Smith and Jo Grimond resigned from their posts in October 1977, to be replaced by Baroness Seear and Lord Avebury respectively, with Penhaligon taking on their portfolio responsibilities from the House of Commons.

With a mere 12 Liberal MPs, assisted by an even smaller contingent of politically active Peers, shadowing the portfolios of 24 Secretaries of State and a further 32 Junior Ministers, rather predictably the task facing the shadow administration was overwhelming. David Penhaligon, for example, was Liberal spokesman in the House of Commons for Transport, Social Security and (from October 1977) Employment and Energy, positions he was forced to retain despite suffering from viral pneumonia in the summer of 1977. Moreover, as most issues were to

Table 6.1 Liberal Party shadow administration

Lord Avebury	Race Relations, Energy (after July 1977)
Lord Banks	Social Services
Alan Beith	Chief Whip and Education
Rt. Hon. Lord Frank Byers	Leader in the House of Lords
Clement Freud	Northern Ireland, Broadcasting and the Arts
Rt. Hon. Jo Grimond	Energy (until July 1977)
Emlyn Hooson QC	Defence and the Law
Geraint Howells	Wales and Agriculture
Russell Johnston	Scotland
Lord Mackie	Without Portfolio, Devolution
John Pardoe	Treasury
David Penhaligon	Transport, Energy (after July 1977) Employment (after October 1977)
Stephen Ross	Housing and Local Government
Baroness Seear	Employment, Prices and Consumer Protection
Cyril Smith	Employment (until October 1977)
Rt. Hon. David Steel	Party Leader
Rt. Hon. Jeremy Thorpe	Foreign and Commonwealth
Richard Wainwright	Trade and Industry
Lord Wigoder	Chief Whip in the Lords
Lord Winstanley	Health

some extent inter-departmental in character, Liberal spokesmen were often compelled to liaise with numerous departments. One example was Richard Wainwright, who as Trade and Industry spokesman orchestrated the Liberal Party's submission for changes to the Post Office (Industrial Democracy) Bill. The Liberals sought the inclusion of two consumer representatives on the Post Office Board. This process involved liaising with the Chief Secretary to the Treasury, Joel Barnett, with Roy Hattersley on Prices and Consumer Protection, as well as with the Secretary of State and Minister for Trade and Industry, Eric Varley and Gerald Kaufman respectively.

Under such constraints, Liberal spokesmen were required to work collectively: for example, Richard Wainwright was assisted by Emlyn Hooson and John Pardoe, while Wainwright in turn assisted Pardoe in his often fractious discussions with the Chancellor of the Exchequer, Denis Healey. Similarly, Jeremy Thorpe, while nominally spokesman on Foreign Affairs, was an important intermediary in the discussions on direct elections. One consequence of the Pact was that it improved Liberal parliamentary Party relations, as good communication between Liberal MPs and their colleagues in the House of Lords were essential.

Second strand of consultation: Consultative Committee

The 'Consultative Committee' had two key functions: first, in keeping with the priorities of the Labour Government, it was to facilitate the passage of the Government's legislative programme, acting as a forum in which forthcoming legislation could be discussed and any conflicts debated and resolutions sought. In this sense, it might be viewed as a formalisation of the 'usual channels' between respective Party Chief Whips. Second, the Committee was to act as an arbiter in disputes which arose within the spokesman–Minister strand.

On the basis of this dual role, it was agreed that Michael Foot (as Leader of the House) should chair discussions, with the Liberal Chief Whip, Alan Beith, a constant attendee. The Home Secretary, Merlyn Rees, and Labour Chief Whip, Michael Cocks, also attended, and at Steel's suggestion John Pardoe and Emlyn Hooson finalised the core management group. Sir Freddie Warren, in his capacity as Permanent Private Secretary to the Chief Whip, advised the Committee on parliamentary procedures. Each Wednesday the government announced the parliamentary timetable, the parliamentary Liberal Party would then meet to establish their response to the forthcoming legislation. It was agreed that a Lib–Lab consultative committee meeting would then be convened to discuss the respective Parties positions (Table 6.2).

It was anticipated that Labour Ministers, Liberal spokesmen and departmental officials would attend on an issue-by-issue basis. As with the spokesman–Minister tier, Steel stressed that the Consultative Committee should function on the premise of co-operation and flexibility. Furthermore, he insisted that Ministers should not be overburdened; 'it should not require a lot of time from busy people', although, as Russell Johnston observed, this concession largely seems to have been an accommodation to Government Ministers rather than to Steel's parliamentary colleagues, many of whom would have welcomed the opportunity to hold the Government to account.[10]

It is worth noting that all previous academic analysis on the Pact has used the term 'consultative committee' to encompass the entire consultative framework; in fact the term technically referred to only this second strand of consultation.[11] Equally, some, such as Michie and Hoggart (1978), have misinterpreted the avowed function of the Consultative Committee as envisaged by Steel. Michie and Hoggart state, also quoted in Marsh (1990): 'The main demand, the one which to Steel mattered more than any other, was the joint consultation committee . . . this was the vehicle for achieving the array of policy initiatives.'[12] In fact, as stated above, of greater significance to Steel was the establishment of

Table 6.2 List of meetings of the Lib–Lab Consultative Committee

Date	Liberal attendees	Labour attendees	Civil Service attendees	Topics discussed
30 March 1977	Pardoe, Beith, Hooson	Foot, Cocks, Rees	Warren	Consultative Committee structure, legislative programme
7 April 1977	Pardoe, Beith, Wainwright	Foot, Cock, Varley (S of S DTI) Kaufman (Minister DTI)	Warren, R. Williams (Dept of Industry)	Post Office Bill
20 April 1977	Pardoe, Beith, Wainwright, Smith, Hooson	Foot, Rees, Cocks, Varley, Kaufman,	Warren, R. Williams	Post Office Bill
25 May 1977	Pardoe, Beith, Hooson	Foot, Cocks, J. Smith	Warren	English devolution, British Leyland, defence spending, S. Ross Homeless PM Bill
15 June 1977	Pardoe, Beith, Thorpe	Foot, Rees, Cocks	Warren	Direct Elections Bill
18 October 1977	Pardoe, Beith, Hooson	Foot, Rees, Cocks	Warren, J. Stevens, C. Morrison	Queen's Speech
26 October 1977	Pardoe, Beith, Hooson	Foot, Rees, Cocks, S. Williams	Warren, J. Stevens, C. Morrison	Education, Queen's Speech
7 December 1977	Pardoe, Beith, Hooson	Foot, Rees, Cocks	Warren, C. Morrison	Direct Elections Bill, fire fighters' strike, pay policy
18 January 1978	Pardoe, Beith, Hooson, Howells	Foot, Rees, Cocks, J. Silkin, J. Barnett	Warren, J. Stevens, C. Morrison	Green Pound

Table 6.2 (Continued)

Date	Liberal attendees	Labour attendees	Civil Service attendees	Topics discussed
19 January 1978	Pardoe, Beith, Howells	Foot, Rees, Cocks, J. Silkin,	Warren, J. Stevens, C. Morrison	Green Pound
26 January 1978	Pardoe, Beith, Seears	Foot, Cocks, Booth	Warren, C. Morrison	Defence, Employment
14 February 1978	Pardoe, Beith, Howells, Penhaligon	Foot, Rees, Cocks	Warren	Electricity Bill
20 February 1978	Pardoe, Beith, Howells,	Foot, Rees, Cocks	Warren	Electricity Bill
22 February 1978	Pardoe, Beith, Howells, Penhaligon	Foot, Rees, Cocks	Warren	Electricity Bill

Notes:

No further meetings of the Consultative Committee are recorded in the literature, although it was not officially disbanded until August 1978.

1 Steel, D. (1980) A House Divided: The Lib–Lab Pact and the future of British politics (Appendix 1).
2 NA PREM 16/1400 minutes Consultative Committee (7 April 1977).
3 NA PREM 16/1400 minutes Consultative Committee (20 April 1977).
4 NA PREM 16/1400 minutes Consultative Committee (25 May 1977).
5 NA PREM 16/1400 minutes Consultative Committee (15 June 1977).
6 Steel, D. (1980) *A House Divided: The Lib–Lab Pact and the Future of British Politics* (Appendix 6).
7 Steel, D. (1980) (Appendix 6).
8 NA PREM 16/1400 minutes Consultative Committee (7 December 1977).
9 Steel, D. (1980) (Appendix).
10 Steel, D. (1980) (Appendix).
11 NA PREM 16/1294 minutes Consultative Committee (26 January 1978).
12 Steel, D. (1980) p.126.
13 Steel, D. (1980) p.127.
14 Steel, D. (1980) p.126.

the spokesman–Minister strand. Steel envisaged that the Consultative Committee should be 'more of a symbol than a working organisation, exercising oversight of how the thing is going, not trying to do the work itself'.[13]

The Consultative Committee did fulfil its remit, in so much as it met regularly throughout the Pact, discussions were cordial, as Steel has envisaged, and it did centre on forthcoming legislation and areas of dispute. There is also some justification in claiming the Committee did enable Liberal MPs to exert policy influence, although this was largely reactive – as a check on Government policy – rather than a matter of proactively instigating Liberal policy. For example, the series of meeting in February 1978 which focused on Tony Benn's Electricity Bill resulted in the Liberals deciding to withdraw their support for the Bill. This was a key factor in its eventual removal from the legislative programme. Similarly, the Liberals' refusal to support the Dock Work Regulation Bill and the reversal of cuts in defence spending were confirmed in the Consultative Committee. As with other aspects of the Pact, though, it might equally be argued that these changes would have occurred if the Liberals had opposed these policies from a position of formal opposition.

It might, however, equally be noted that this process did gave the Liberal Party the opportunity to promote their own favoured policies, such as the Land Bank, devolution to the English regions, an Efficiency Audit and an Official Secrets Act. However, none of these proposals was adopted in the legislative programme. There were occasions when, through discussion in the Committee, the Liberals achieved concessions which led to legislation being enacted. Richard Wainwright, for example, compelled the Government to agree to the Liberal proposal to include two consumer representatives on the reconfigured Post Office Board as part of the Post Office (Industrial Democracy) Bill. In response to this concession Steel commented to Callaghan he was 'almost embarrassed about how well the Consultative Committee was functioning'.[14] Likewise, John Stevens, Principal Private Secretary to the Lord President's Office, observed:

> Industrial Democracy in the Post Office was perhaps a classic example of how the Consultative Committee should work. Talks between departmental Ministers and Liberals had run into difficulties and the discussion moved into the Consultative Committee which ultimately achieved a solution.[15]

However, in some ways this issue encapsulates one of the structural problems of a parliamentary arrangement only the lines of the Pact.

Unaware of the Conservative Party's position on this issue, the Labour Government agreed to Liberal concessions, on the assumption that the Conservative Party would vote against the Bill and that Liberal support was thus essential. In the event, the Conservative Party supported the legislation in full, so the Government's compromise to the Liberals was an unnecessary concession.[16]

Furthermore, the role of the Consultative Committee as an arbiter of disputes was somewhat undermined by the fact that decision-making authority on policy ultimately resided with the respective Party leaders, or necessitated formal intra-party discussions. As such, on a number of issues, such as discussions on defence spending, direct elections and help for small businesses, the Consultative Committee either deferred to the Callaghan–Steel strand or was circumvented by events. This structural weakness frustrated Steel, who resented the fact that 'everything ended up on [his] desk'. Despite his earlier statement, noted above, praising the work of the committee, he subsequently confided in Foot that the Consultative Committee had not functioned as effectively as he had hoped. Nevertheless, Steel decided not to attempt to amend the working practices of the Committee as part of the renewal process in July 1977.[17]

Third strand of consultation: Callaghan–Steel

The third strand of consultation was the meetings between the Prime Minister and the Liberal leader. This had three principal functions: it acted as a forum in which the leaders could discuss the wider tactical and strategic aspects of the cross-party agreement; it allowed forthcoming legislation to be discussed; and it operated as the final arbiter in inter-party disputes unresolved in the Consultative Committee.

Steel embraced the prospect of discussing strategy and policy with the Prime Minister. He also envisaged that he could utilise the privilege this afforded him to persuade Callaghan of the merits of cross-party co-operation as a method of Government. Simultaneously he hoped to achieve minor policy concessions. Kenneth Stowe attended almost all the meetings, in his capacity as Permanent Private Secretary to the Prime Minister, although Philip Wood, the Prime Minister's Private Secretary, occasionally took the place of Stowe in late 1978.

The Liberal leader had initially suggested that meetings should take place after Prime Minister's Questions (twice a week), to ensure unanimity in approach to forthcoming policies. Callaghan, however, viewed this as unworkable on both a political and practical basis, reasoning that the Liberal leader should not be consulted more frequently than either

the Cabinet or the Parliamentary Labour Party. In response, Steel then seems to have changed his negotiating position markedly, suggesting that they should meet 'only when necessary'. As with the other aspect of consultation, Steel envisaged these discussions should be as informal as possible. He later observed: 'the Prime Minister's life was hell enough without the leader of the Liberal Party darting in and out every other day.'[18] In practice, meetings took place on average every two weeks while parliament was in session, mostly at the behest of the Prime Minister. The exception to this was times of political crisis, when meetings were much more numerous: examples include the build-up to the renewal of the Agreement and prior to, and in the aftermath of, the parliamentary vote on the direct elections (PR). In the latter case, seven meetings took place over five days. On certain issues the Callaghan–Steel axis was the principal forum for debate and decision-making, with the lower tiers taking an ancillary role, examples being the renewal of the Pact, the Queen's Speech, the termination of the Pact and that most controversial measure, direct elections.

Contemporary commentators such as Kenneth Stowe, Bernard Donoughue and Tom McNally have noted that, despite his early misgivings, Callaghan came to have a high regard for the Liberal leader, and a good and personable relationship developed based on mutual respect. John Stevens characterised this relationship as 'Uncle and nephew', a description Steel accepts without demur.[19] Like his political mentor Hugh Dalton, Callaghan was a keen advocate of promoting youth. Steel, at 39, was of the same generation as the Prime Minister's close aides Tom McNally and Tom McCaffrey, both of whom were in their mid-30s, while Callaghan had recently appointed David Owen as Foreign Secretary, the youngest holder of the post since Anthony Eden.

Meetings between the two men were largely cordial, and often good-natured, in keeping with the style of leadership Callaghan had adopted since becoming Prime Minister. He was happy to converse openly on a number of issues, often going beyond the remit of the Lib–Lab Pact.[20] However, it should be observed that Callaghan was not averse to using his discussions with Steel for political advantage:

I often took him into my confidence; speaking on Privy Council terms . . . I wanted him to have as complete a picture as possible of the Government's overall situation so that he would better understand our limitations. He quickly grasped this, much earlier than some of his colleagues . . . Steel toned down their demands into a manageable package.[21]

Callaghan's comments attune with the observations of Jo Grimond. The former Liberal leader had warned his colleagues that Steel's rationale, 'that through familiarity the Liberals could achieve concessions', might have unintended consequences which would be detrimental to the Liberals' strategic objectives:

> What this arrangement overlooks is the value of ignorance. It's all too easy to begin to sympathise with Ministers if you know all the arguments they know...How can you attack the Government so strongly if you know why they are doing what they are doing?[22]

It was Steel's very reasonableness in discussions with Callaghan which at times infuriated his colleagues. Emlyn Hooson (Defence Spokesman), for example, clashed with Steel over the Liberal leader's desire not to cause inter-party conflict over the issue of defence spending. Hooson asserted to Michael Foot in May 1977 that, unless proposed cuts in defence spending were reversed, the Pact would not be renewed. Indeed, Callaghan confided in colleagues that he feared this issue might lead to the termination of the Pact. Steel, in contrast, did not prioritise it as a 'breaking point', and actively sought to reduce inter-party tensions. Later a belligerent Hooson, with Conservative Party support, forced Steel to act on his behalf in achieving concessions on this issue.[23]

Steel did raise issues with Callaghan on behalf of Liberal MPs: Geraint Howells, for example, concluded that on the changes to small business tax relief 'it was only through David Steel's ability to press James Callaghan that anything was achieved'.[24] However, because the leaders' axis was the final arbiter of disputes on some, often more controversial issues, Steel was able to act on his own initiative. On occasion this process resulted in him coming to an accommodation with Callaghan and subsequently supplying the parliamentary Liberal Party with a *fait accompli*. Examples of this were often significant and included, to various degrees, decisions on the Direct Elections Bill, the Finance Bill, the renewal of the Lib–Lab Agreement and the Queen's Speech in 1977.

Implementation of the consultative mechanism and reasons for the limitations in Liberal policy influence

Structural/institutional issues

The Lib–Lab Pact, as has been numerously observed in this book, was not a full coalition. Many of the structures which might have existed in a more formal arrangement were absent from the Pact. For example, there was no 'joint programme' of Government. Furthermore, the fact

that the Pact was formed in the middle of the 1976–1977 parliamentary session meant that the Labour Government's legislative programme was already in place and the Liberals were only able to influence policy on the margins. Moreover, Labour managers were not compelled to give either their own time or parliamentary time to Liberal Party initiatives other than those specifically outlined in the Joint Agreement. Many of these limitations on influence would have been of any consequence had the Liberal Party activists not expected more from the consultation process constructed by Steel.

During the Lib–Lab negotiations (20–23 March 1977), Liberal activists speculated eagerly that the loss of the Devolution legislation on 17 February 1977 had left room in the parliamentary timetable for 'Liberal measures' to be introduced. In fact, this was not the case. Indeed Sir Freddie Warren, Permanent Secretary to the Chief Whip, had warned Michael Foot that, far from freeing up the Government programme for the introduction of more policies, the loss of the Devolution Bill had only relieved the strain on an already congested legislative programme.

The 'Lib–Lab Joint Statement' had explicitly stated the Pact would be concluded (and reviewed) at the end of the parliamentary session. This in practice meant that the first period of the Pact extended over only 61 parliamentary days; this clearly offered Liberal MPs little opportunity to instigate policy change. The short duration of the first period of the Pact also meant that Liberal MPs were not in a position to discuss the proposals for the legislative programme for 1977–1978 (The Queen's Speech) until and unless the Pact was renewed at the end of the parliamentary session. Indeed, Kenneth Stowe had specifically warned Ministers against discussing forthcoming legislation with Liberal spokesmen.[25] Furthermore, the fact that the Pact was only renewed at the very end of the parliamentary session meant that Liberal policy influence after this period was diminished by the almost immediate summer recess. When the new session began in the autumn, October was taken up with the Party conference season, followed almost immediately by the Queen's Speech, by which point almost the entire Government programme for 1977–1978 was already agreed without significant Liberal input.

When considering Liberal objectives in influencing government policy two priorities might be noted: first, to act as a restraint on policy proposals they considered 'illiberal'; second, to oblige the Government to include in its legislative programme specific policies which could be seen as explicitly originating from the Liberal Party.

With regard to the notion of acting as a block on Labour policies, the Liberal Party might be considered only marginally successful. This is

partly because many of the more controversial measures of the Labour Government had either already been enacted in the period 1974–1976, before the Government had lost its parliamentary majority. Similarly, Labour Party parliamentary managers had taken the pragmatic decision to jettison measures which might not receive all-party support, such as nationalisation of the water industry and the imposition of a wealth tax. This process had already taken place on 3 March 1977, following the loss of the guillotine motion. Furthermore, even when items were included in the legislative programme which might be considered 'radical', often at the behest of the Labour Party National Executive – such as the Post Office Bill, Occupational Pension provision and the Civil Aviation Bill – these measures were not prioritised. The Cabinet sought to be seen to be acquiescing to the radical elements in the Party but then subsequently being prepared to quietly accept defeat at the committee stage. This approach had the consequence of preventing the Liberals from promoting the Pact as a mechanism for 'stopping socialism' except in the more abstract sense that more radical measures were not enacted.[26]

The second area in which Liberal spokesmen might influence policy was by utilising the consultative mechanism to promote policies. This too was problematic for the Liberals to either achieve or be seen to achieve because of the structural weakness inherent in the 'Joint Agreement'. The Pact only compelled the Labour Government to act on four areas of policy: devolution, direct elections, Stephen Ross's Homeless Persons Bill and the Local Authority (Works) Bill. Beyond this list the Government was required only to consult with Liberals or 'take account' of their position. This structure led to two problems for the Liberals. First, how could they compel the Government to act when Ministers were not compelled or inclined to do so? Second, how could they establish decisively in the public mind that, when the Government did act, it did so specifically because of Liberal pressure or persuasion rather than because of a combination of other factors? The attitude of Liberal spokesmen to this dilemma and their respective responses will be discussed below.[27]

Human resource issues

During the Lib–Lab negotiations Steel and Pardoe had suggested to Foot that 'Liberal experts' outside parliament might be utilised in place of Parliamentarians (mirroring the preparations undertaken by Grimond in 1965, as noted in Chapter 1). Steel had intended to involve, among others, Christopher Mayhew, Menzies Campbell, Ralph Bancroft and Cornford, the latter part of the Liberal Outer Policy Unit. However, Foot

insisted that, as it was a parliamentary Pact, outside agencies could only be seconded in an advisory capacity – at the Liberal Party's expense. This proved both financially and logistically difficult for the Liberal Party. Almost immediately after the formation of the consultative mechanism the Party's Standing Committee complained that there were practical difficulties with this aspect of the consultative structure.

Among the key concerns were the fact that the Liberal Party remained officially in opposition in parliament, meaning that Liberal spokesmen often found it difficult to maintain effective contact with Government Ministers. Meetings with Ministers were also often convened at very short notice, meaning it was difficult for the Liberals to retain a continuity of attendance, or ensure they were fully prepared. This issue was especially acute when Liberal spokesmen were faced with a large and often obstinate Government delegation consisting of both Ministers and civil servants. Russell Johnston, spokesman on devolution, recalls, 'there would be three or four us, facing the entire Civil Service and half a dozen Ministers'.[28] Vernon Bogdanor notes: 'the Liberals proved utterly unable to match the technical sophistication of the Treasury and the Inland Revenue.'[29] The response to this might very well be: how could they be expected to, with such limited resources?

While Steel did raise the issue of structural and institutional difficulties with Callaghan, he nonetheless simultaneously felt compelled to complain to his colleagues that 'it was no use taking vague Liberals [to meetings] on humanitarian grounds . . . these are not group therapy sessions, but hard political negotiations'.[30]

Financial issues

The Liberal Party's ability to participate effectively in the consultation process was also affected by financial constraints. Under the terms of a parliamentary pact no additional financial assistance could be provided by the state for the Liberals such as would have been forthcoming under a full coalition. Steel was thus compelled to lobby the Prime Minister repeatedly for an increase in the level of 'Short money' (the mechanism whereby opposition political parties are allocated money relative to their electoral performance). The Liberal Party received £33,000 through this process, but Steel argued that inflation had diminished this figure. This argument was accepted as reasonable by the Government, but no new money was provided during the lifetime of the Pact.

The parliamentary Liberal Party only had a very small secretarial team: in 1979 it numbered eight full-time and two part-time staff.[31] Steel had attempted to gain political capital from this situation, stating in *The*

Times that he had a bigger workload than the Leader of the Opposition but 'I shall not ask for the salary, the car, the offices, the staff which are hers by right, let alone Ministerial jobs for myself and my colleagues.'[32] However, for all Steel's bluster, this situation clearly undermined the ability of the Liberal Party to hold the Government to account and to formulate coherent alternative policies.

Again Steel raised these problems over resources with the Prime Minister; however, unprepared for the logistical and administrative novelty of the Pact, an impasse developed within Whitehall over how this issue might be resolved. While sympathetic to the Liberals' plight, the Government was concerned not to be seen to be supplying official assistance to the Liberal Party. A solution was arrived at via a proposal suggested by Geoffrey Smith of *The Times*. In an editorial piece he suggested secretarial staff might be seconded from the Lord President's Office to administer the Consultative Committee and thus 'unofficially' work for the Liberals. Kenneth Stowe, having read the article, commented to the Prime Minister, 'I rather like the suggestion', and in September 1977 Carolyn Morrison was seconded to work as secretary to the Consultative Committee, although in effect she administered the Liberal Party side of the consultative framework.[33] This episode was emblematic of the *ad hoc* nature of the Lib–Lab Agreement, as both the two political parties and Whitehall took time to adjust to the new situation. While Steel welcomed the appointment of Morrison, the limitation on resources remained a structural weakness of the Pact. It was also a contributory factor in Cyril Smith's conclusion that a cross-party agreement could not function with such an unequal distribution of power and resources and informed his decision to resign from his role as Employment spokesman in September 1977.

Aptitude and attitude of key participants

Steel's decision to place the spokesman–Minister axis at the fulcrum of the consultative mechanism meant that the ability of Liberal parliamentarians to negotiations with Labour Party counterparts was clearly going to be critical if the Liberal Party was to be seen as successfully influencing Government policy. The ability of Liberal spokesmen in this regard was far from uniform. In some respects the Liberal spokesmen acquitted themselves well: Steel, Pardoe and Wainwright, for example, were considered by Labour counterparts as of Ministerial calibre, while David Penhaligon, Stephen Ross and Alan Beith were all seen to be effective negotiators. Conversely, Cyril Smith resigned his post in September 1977, and Clement Freud, while taking a keen interest

in some aspects of the Pact, such as his own Private Member's Bill on Official Secrets, was an infrequent attendee of meetings with Ministers.

Of the former Party leaders, Jeremy Thorpe and Jo Grimond, Thorpe enjoyed good relations with David Owen and gave constructive advice on foreign policy, especially with relation to Southern Rhodesia. As noted above, Thorpe also assisted in the negotiations undertaken in the Consultative Committee, although his effectiveness was clearly mitigated by his involvement in the political scandal that was to resurface in September 1977. By 1977 Jo Grimond, an erstwhile political heavyweight and now sceptical of the merits of the Pact and suffering from increasing deafness, was largely ineffectual in his role as Energy spokesman shadowing Tony Benn. Reporting back to colleagues on his discussions with Benn, he commented 'we had a very nice chat, we had five biscuits and tea'.[34] Grimond confided in Hugo Young that he was 'working no harder now than he was before'. He also complained that 'if I am expected to work like a Minister "I want £10,000 a year and a good staff" '.[35] Steel was largely dismissive of the role played by Liberal peers, but the archives and subsequent literature suggest that all of them played a productive role in their respective negotiations, notable examples being Lord Mackie, who assisted in negotiations on devolution, and Nancy Seear, who was instrumental in raising Liberal objections to the Dock Work Regulations. Lord Banks was also active in preventing changes to the appointment of trade union members to the boards of pension funds.[36]

In assessing the spokesman–Minister axis in practice, Alan Beith observed that while this was the most constructive aspect of the Pact, the consultation process was *ad hoc*, relying on individual spokesmen to press the Liberal case.[37] Particular criticism in this regard was directed from various quarters at Russell Johnston, the lead Liberal negotiator on devolution, facing Michael Foot and John Smith on behalf of the Government. Cross-party discussion on this issue had pre-dated the Pact and continued during its existence. Unlike most spokesman–Minister relations, therefore, formal meetings were convened and full minutes taken. These negotiations might thus be regarded as running in parallel to the consultative mechanism, rather than as integral to the process. Significantly, cross-party discussions on this topic would have continued even without the formation of the Pact, and the Lib–Lab Agreement did not afford the Liberal Party any new privileges in this regard.

Professor James Cornford, who assisted Johnston in these discussions, is dismissive of Johnston's negotiating style. He concluded that, at every

impasse, 'Johnston responded "well if they won't they won't"...he didn't even go outside and say "what are we going to do about it?", he just gave way'.[38] Johnston acknowledges this criticism, but blames the structural weakness of the consultative process for his equanimity, stating, 'our negotiating position was very weak, we couldn't force the Government to agree to our demands without bringing down the whole thing'.[39] The fact that the two parties held a shared objective, namely, to see the legislation reintroduced, militated against the Liberals exerting influence on this process. In the final analysis, for all his negotiating limitations, Johnston is correct: the Liberals could not achieve their key objectives because they could not feasibly threaten the ultimate sanction – to veto the legislation.

Nevertheless, it might be observed that the Liberals did not achieve either of their primary objectives: tax-raising powers for the Scottish Assembly, and the adoption of a proportional voting system. Liberal 'improvements' to the Bill were negligible and on the margins: separate Bills for Scotland and Wales, a judicial review over the Assemblies' powers, a reduction of the powers of the Secretary of State and a change in the title of the leader of the Scottish Assembly from Chief Executive to First Secretary (in fact, Callaghan had vetoed Steel's original suggestion, First Minister).[40]

One issue that was to prove significant, but which drew little comment at the time, was the adoption of the block grant based on population size rather than need, later to be referred to as the 'Barnett Formula' after the Chief Secretary to the Treasury, Joel Barnett. In fact much of the rationale for this policy can be traced back to the Liberal Outer Policy Unit.[41]

Finally, it should be noted that the concessions achieved by the Liberals on this issue were ultimately to prove irrelevant when the Cunningham '40% rule' Amendment (stating that if less than 40% of the electorate voted 'Yes', then the Scotland Act granting devolution should be repealed) was introduced, making it highly unlikely that the devolved assemblies would be introduced. This point in turn raises an important issue when discussing the extent of Liberal policy influence. While the Lib–Lab Pact was the only formal agreement entered into by the Government, it was by no means the only or, it has been argued, the most significant process whereby the Labour Government was forced to amend policy. The Ulster Unionists received concessions as noted in Chapter 4, while Plaid Cymru also achieved some policy concessions on pneumoconiosis compensation for miners. According to Vernon Bogdanor, the Cunningham Amendment has 'some claim to be

the most significant back-bench initiative in British politics since the war'. Equally, changes to the Finance Bill 1977, imposed on the Government at the committee stage by left-wing Labour MPs Audrey Wise and Jeff Rooker, had a greater affect on Government economic policy than anything enacted through the Lib–Lab Pact.[42]

The difficulty Liberal spokesmen had in holding the Government to account while simultaneously demonstrating the virtues of collaboration, noted by Johnston, were also observed by Nancy Seear: 'we could modify certain things they did . . . we could get individual things . . . and that was really about all we could do. If we pushed much further than that, the Pact would have been broken.'[43] In this regard, Tony Greaves likened the Lib–Lab Pact to the revising function seen in the House of Lords, amending but unable to initiate legislation.[44]

While the limitations to the spokesman–Minister strand have been noted, in most areas Lib–Lab consultation was productive and conducted on good terms. Joel Barnett recalls his deals with Richard Wainwright:

> I worked very well with him, enjoyed working with him, and he seemed to enjoy it. He wanted to do something practical. He was knowledgeable financially; I could have serious discussions without difficulty.[45]

However, 'working well' with Ministerial counterparts did not always result in a productive outcome for the Liberal Party. While Wainwright concurred with Barnett that their relationship was good and he enjoyed the opportunity the Pact afforded him to influence policymaking, he nonetheless lamented that there was a 'rather unhappy contrast' between Government Ministers' support shown 'on matters where our votes have been needed, and per contra, not shown on non-parliamentary aspects of the very same subject'.[46]

Nevertheless, even in such circumstances some Liberal concessions were achieved. David Penhaligon worked well with the Transport Secretary, William Rodgers. Rodgers later conceded: 'he influenced me more than he imagined, especially on rural questions, although I did not shout it from the roof tops.'[47] Penhaligon achieved the assurance from the Minster of State at the Department of Industry, Alan Williams, that the Government would supply a subsidy which ensured the survival of the Wheal Jane tin mine in Penhaligon's Truro constituency.[48] It was also Penhaligon who was most successful in using the Pact as a blocking mechanism: upon becoming Energy spokesman in October

1977, he spoke most vociferously against Benn's Electricity and Nuclear Materials Bill.

A subsidiary consequence of the Pact was Alan Beith's ability to persuade the Chief Whip, Michael Cocks, to serve the writ on the Liverpool Edge Hill by-election in February 1979. Cocks's decision was a direct consequence of the close working relationship he and Beith enjoyed, fostered by the Pact.[49] The Liberal candidate, David Alton, duly won Edge Hill, just a day after the Government was defeated in the vote of confidence. Alton's victory was instrumental in providing a boost in moral and credibility to the Liberal Party, Steel regarded it as crucial in sustaining the Liberal vote in the 1979 election. There were also more subtle consequences from the Pact with regard to the election: for example, Bernard Donoughue approached the *Daily Mirror* to ask them to suggest to Labour supporters that they vote Liberal anywhere that would help keep the Tories out (although this appears to have had little material effect). Donoughue also liaised with Steel and Pardoe prior to the election to 'help plan their election campaign'.[50]

Other areas where Liberal influence was exerted were: an inquiry into the effect on the NHS of an influx of visitors into Cornwall; an increase in the grant for teacher training; the decision not to sell arms to El Salvador; a Pricing Commission to control charges at caravan sites; input in the level of the increase in the level of the Green Pound; and the introduction of a separate National Farmers' Union for Wales.[51] As becomes evident in reviewing this list, while it might be argued that each policy concession achieved by the Liberal Party had merit in its own right, they did not constitute a coherent collection of policy concessions. In some ways this, as with other factors, was a structural weakness of the Pact. There was no coherent Liberal 'Pact manifesto'. More pertinently, because the Liberal spokesmen worked largely alone with limited resources and no significant media support, it was difficult to co-ordinate a clear political narrative to convey these 'successes' to the media or the public.

While some spokesman–Minster relationships were relatively harmonious, others experienced significant discord. These divisions were most evident in the interactions between John Pardoe and Denis Healey. While Steel had assumed that a good, if robust, relationship might have developed between the two men, in fact there was shared antipathy. Healey viewed Pardoe as 'simply Denis Healey with no redeeming features'.[52] Meanwhile, Pardoe was of the view that

> we were set up to fight...the only way which the respectability of the Liberal Party could be maintained was if Healey and I had a fight.

> The trouble was that the only way in which the Labour Party could maintain that Liberals weren't having too much influence was for Healey also to be seen fighting.[53]

The most serious confrontation between Pardoe and Healey occurred on 21 December 1977. Following disagreements over pay policy, according to the minutes the meeting 'ended abruptly'. Pardoe subsequently called Healey the 'second worst chancellor since the War'. No further meeting took place until 22 February 1978. This resulted in some difficulties when cross-party discussions were required on the Budget, due to be announced in April. The consequences of these difficulties and Pardoe's negotiation strategy will be discussed in Chapter 11.[54]

Attitude of Government Ministers to consultation

Frustration with the structure of the consultative mechanism was not restricted to the Liberal Party. Labour Ministers often found adjusting to the new political situation cumbersome. The Prime Minister's Office sent regular reminders to Ministers stressing that consultation must be maintained. At the formation of the Pact a communiqué was sent to all Cabinet Ministers by Callaghan instructing them that consultation should be 'conducted in a timely manner, but not to go to extremes'; moreover, he asserted, 'only they and not Junior Ministers should liaise with Liberal spokesmen'.[55] Although circulated to all departments, these letters were largely directed at one person – Tony Benn. As noted in Chapter 5, Benn was an avowed critic of the Lib–Lab Pact and much to the Liberal Party's frustration he chose not to liaise regularly with the various Liberal spokesmen: Jo Grimond, Lord Avebury and Grimond's successor as Energy spokesman in the Commons, David Penhaligon. However, in keeping with the 'informal' remit of the Pact no official sanction could be imposed on Benn for not fulfilling his role, other than a rebuke from the Prime Minister.

It might also be noted that Benn was not alone in not liaising effectively with the Liberals; nor was this issue restricted to the Labour left or those opposed to the Pact. Shirley Williams was chastised by Callaghan for not keeping Alan Beith informed of changes to the Green Paper on Education reform. When Williams did communicate with Beith, she simply informed him that his proposals that local authorities might employ Newly Qualified Teachers were unworkable (in fact, it later transpired Beith's suggestions were illegal).

Government Ministers, like their Liberal counterparts, were often frustrated by the structural limitations of the Pact. Joel Barnett observed that, while discussions were more frequent than he had envisaged, he

lamented that 'because I could not speak directly with the parliamentary Liberal Party, I had to rely on John Pardoe selling our various compromises. I began to suspect that they, in turn, reacted against John's highhanded manner and were not persuaded by him.'[56]

While the previous section has noted the structural, financial and human resource limitations of the Pact, focusing on the interaction between the Liberal or Labour politicians, it is important to note that the administration of the Pact was facilitated by the Civil Service. The next section of this book will therefore address the role of the Civil Service through the negotiation of the Lib–Lab Pact and its subsequent implementation.

The role of the Civil Service during the Lib–Lab Pact

Until 2010, no preparatory work had ever been undertaken by either the Prime Minister's Office or the Cabinet Office into how cross-party negotiations should be conducted, with regard to either an inconclusive general election or the necessity for the establishment of a parliamentary pact.[57] It was always assumed by successive Cabinet Secretaries that, because any discussions would be 'political' in nature, these fell outside the remit of the Civil Service. The absence of such guidelines led to difficulties for those charged with administering the negotiations and implementation of the Lib–Lab Pact, as will be discussed below.

Prior to the commencement of the inter-party discussions on 21 March 1977, Kenneth Stowe, the Prime Minister's Principal Private Secretary, sought the counsel of Sir Douglas Allen, Head of the Civil Service. Stowe required Allen's assurance that his (Stowe's) propriety as a impartial civil servant, advising the Prime Minister, would not be compromised by attending the imminent cross-party discussions, which he acknowledged were essentially 'political' negotiations.[58] Allen judged that Stowe was perfectly at liberty to take an active role in the discussions, reasoning that, as they would involve issues of policy, 'the Prime Minister should have factual advice, and any conclusions involving changes in policy (or not) be accurately recorded'.[59]

Allen's decision enabled Stowe to attend all the cross-party meetings involving the Prime Minister, with the Principal Private Secretary to the Lord President's Office (Clive Saville) attending those in which only Michael Foot represented the Government. Although Allen did not cite it in his letter to Stowe, there was in fact a precedent for Civil Service involvement in cross-party discussions; Robert Armstrong, while

Principal Private Secretary to Edward Heath, had taken on a similar role during the Heath–Thorpe discussions in February 1974.

Given Allen's assurances, Stowe subsequently played an important role in the Lib–Lab negotiations, as has been variously noted above. While the Pact might be described as an agreement between Callaghan and Steel, with Foot administering the consultation process, Stowe acted as the fulcrum for all communications within Whitehall. Through the lifetime of the Pact, Stowe disseminated information and issuing directives to colleagues within Whitehall. This involved close consultation with Sir Douglas Allen, the Head of the Civil Service, John Stevens, the Cabinet Secretary, and Departmental Permanent Secretaries, including Douglas Wass, at the Treasury. Kenneth Stowe often acted on his own initiative (without the express permission of Callaghan) to ensure the Pact functioned effectively, going to the extent of ensuring the Liberal Party was given greater access to Government documents when required. For example, he supplied Steel with all the minuted correspondence between Liberal spokesmen and Government Ministers. Similarly it was Stowe who initiated and orchestrated the secondment of a civil servant to administer the Consultative Committee and thereby assist the Liberal Party. Stowe developed a good working relationship with Steel, commenting, 'Davey [*sic*] Steel was an honourable and pragmatic man, he understood the limitations of the Pact and worked within them'.[60] However, it must be emphasised that Stowe's primary objective was not the maintenance of the Pact *per se* but to ensure the Pact enabled the smooth passage of the Government legislative programme. All his actions therefore must be viewed through this prism.

Stowe, together with John Stevens and John Hunt, advised Callaghan to take a strategic approach when negotiating with the Liberals. Where possible, meetings between Callaghan and Steel were prioritised over those between ministers and the more obstinate Liberals, such as Richard Wainwright or the 'more hawkish Pardoe'. Stevens noted: 'Steel understands the difference between negotiating and making a flat statement of the Liberal position . . . not all his members appreciate the difference; but this is probably just a question of inexperience.'[61]

Stowe's role was not restricted to maintaining the structural aspects of the Pact. On occasion he also liaised closely with Callaghan to ensure the Pact achieved a political advantage for the Labour Government. On 25 March 1977 Stowe warned the Cabinet Secretary, John Hunt, that 'there is as great a danger around Whitehall of people going overboard on consultation with the Liberals, as there is of them neglecting to do

so'. Hunt thus informed the Permanent Secretaries in all departments to be mindful of the 'limited nature of the agreement with the Liberals'.[62]

Callaghan and Stowe quickly ensured that, where possible, the Liberal leader's meetings with the Prime Minister were timed to the Government's advantage. On one such occasion Stowe suggested to Callaghan that 'it might be preferable for [Steel] to come in through the Cabinet Office door: there will be plenty of observers [press] at the front door of No. 10 over the next few days and it would help feed speculation, if by chance Steel was seen coming in'. Similarly, Stowe ensured that the delicate Callaghan–Steel discussions on the vote for direct elections, in December 1977, took place in the House of Commons to avoid 'positive press coverage for the Liberals'.[63]

While the Liberal leader's relationship with Kenneth Stowe was broadly constructive, Steel's colleagues often had a less positive experience in their liaisons with Whitehall officials. Russell Johnston and John Pardoe shared the view that the Civil Service was often demonstrably obstructive in their interaction with the Liberal Party. Johnston commented that 'there always seemed put forward some reasoned argument why [our suggestions] could not be implemented, it was like something out of *Yes Minister*'.[64] Pardoe concurs: 'they were appalling. They didn't like the idea of co-operation and they didn't like the Liberals. They did all they could to scupper each and every one of our suggestions.'[65]

There is some evidence to support claims of obstinacy on the part of the Whitehall mandarins, and again the structural aspects of the consultation mechanism were a factor. John Stevens commented to Stowe that policy information should only ever be released to Liberal members of the Consultative Committee when 'it was deemed necessary'.[66] This was linked to the long-established protocol that the most sensitive information on Government policy could only be conveyed to other parties on 'Privy Council terms': as such, it could only be related to David Steel (although in fact both Jo Grimond and Jeremy Thorpe were also Privy Counsellors). This consequently led to a number of logistical problems, particularly with regard to the Queen's Speech in 1977, when Steel was obliged to physically cut up the draft document outlining Government proposals and disseminate it piecemeal to the relevant Liberal spokesmen. Similarly, 'Privy Council protocol' prevented Steel from including Christopher Mayhew in discussions on defence procurement.

Issues also arose in Pardoe's relations with the Treasury. Without defined procedures in place, the Treasury were unsure how and when to transfer information to John Pardoe (who was not a member of the

Privy Council). While Pardoe himself never saw the need to be a Privy Counsellor, Government officials seriously considered whether the best course of action might be to appoint him a counsellor as a means of administering the cross-party discussions more effectively. In the event this did not occur; Callaghan interjected on a Treasury briefing paper: 'Pardoe should not be given any concrete proposals.' Douglas Wass later concluded that most 'relevant information' could be transferred to Pardoe without the need for 'Privy Council terms'.[67] The Civil Service were continually wary that the Liberal Party might leak sensitive information to the media; of particular concern in this regard were Cyril Smith and John Pardoe. Accordingly, Stowe advised departmental secretaries only to release information through the Cabinet Office briefing papers, although he later concluded 'there is no incentive as far as I can see for the Liberals to leak', and Liberal indiscretion was not a serious issue through the lifetime of the Pact.[68]

The Pact also required that a working relationship develop between the Civil Service and Steel's private office, for most of the Pact this constituted discussions between Stowe and Alistair Michie, Steel's chief aide. Stowe, while cordial with Michie, later commented to Callaghan 'I never trusted him', and relations were further soured when in early 1978 Michie undertook with Simon Hoggart of *The Guardian* to write *The Inside Story of the Lib–Lab Government*, an action that brought disdain from the professional civil servants who had administered the Pact. Relations improved with the appointment of the 'more straightforward' Archy Kirkwood.[69]

For all the fact that all those involved in the Pact struggled at various times because of the novelty of the process, no briefing paper was produced to be utilised should a parliamentary pact occur again. Stowe concludes: 'it was generally assumed it was a one off and we returned to business as usual.'[70]

Consultation in action: an overview

The previous section emphasised the consultative mechanism as the primary framework whereby the Liberal Party could exert broad influence on Government policy; however, there were occasions when Liberal influence was exercised outside this structure. The following section breaks away from the chronological narrative to conduct a case study into just such an occasion: the Budget of 1977. The purpose of this diversion is to assess how and in what ways Liberal priorities were expressed and influenced exerted at the start of the Lib–Lab Pact. Liberal policy influence on two other key areas of influence, the Queen's Speech of

1977 and the 1978 Budget, will be discussed in Chapter 10. In this way an assessment can be made of how the Liberal Party adapted to the experience of cross-party co-operation and how its strategy and objectives changed over the period of the Pact.

Case study 1: The Budget, 1977

As might be anticipated, given the haste with which the Lib–Lab Agreement was devised, and the absence of planning or experience of cross-party co-operation in British politics at a Westminster level, the first few weeks of the Pact witnessed a series of serious destabilising incidents. The most significant of these was an unintended conflagration over the 1977 Budget. Under the terms of the Lib–Lab Pact, both parties agreed to strive for 'national recovery'. However, as has been noted previously, the Pact was simply a 'confidence' agreement, and there was no 'supply' aspect to the agreement; there was therefore no compulsion for the Liberal Party to vote for the Labour Government's economic programme. However, the Labour Government could not remain in office if it could not maintain the confidence of the House of Commons for its economy policies. Consequently, when in the Budget, presented on 29 March 1977, the Chancellor, Denis Healey, proposed to increase petrol duty by 5 ½ pence per gallon, accompanied by an increase in vehicle excise duty of £10, the Liberal Party rejected this proposal and an impasse developed in Lib–Lab relations.

The Liberal MPs, while supportive a shift to indirect taxation and the environmental merit of the increase, rejected the change in petrol duty on the grounds that it would disproportionately affect rural motorists. (Many Liberal MPs represented rural constituencies.) Consequently, John Pardoe, the Liberal Economic spokesman, while privately supportive of the policy, was persuaded by Liberal colleagues to announce in the press that the Liberal Party would vote against the increases. Joel Barnett observed: 'the actions of the Liberal MPs had shown the naivety of the Liberals who blithely thought they could defeat us on a Budget Ways and Means Resolution – and yet we could carry on as if nothing had happened, they were soon disabused of that notion.'[71]

Likewise, Steel argued, in a meeting with Callaghan on 31 March 1977, that because economic policy was not a contingent part of the Lib–Lab Pact, the Liberals were not bound to support the proposal. He explained that 'he would be deluding the Prime Minister if he gave the impression that he thought they could abstain' on the vote on the Finance Bill.[72] Callaghan in response bluntly informed the Liberal leader

that no Government had lost a Budget resolution since the nineteenth century, and if his administration lost the vote on the petrol increase, it would be compelled to resign, thus abruptly ending the embryonic Lib–Lab Pact.

Steel was horrified by Callaghan's response; having publicly avowed to vote against the petrol price increase, he was now faced with the prospect that to do so threatened the cross-party consultation he so desired. Much to Steel's relief, he was extracted from this seemingly intractable problem by a proposal put forward by Callaghan in a subsequent meeting. The Prime Minister outlined a possible compromise: in exchange for the Liberals' abstention on the vote on the increase in petrol duty and subsequent support for all other aspects of the Budget, the Government would reverse the fuel increase via an amendment to the Finance Bill. In this way the Liberals would save face, the Government's finance bill would be passed and it would receive increased revenue until the increase in duty was reversed, possibly in August 1977. Appreciating the gravity of the situation, Steel, without informing his parliamentary Party, quickly released a statement confirming that the Liberals would abstain from the vote on the fuel increase.[73] This episode has correctly been seen as the first Liberal 'success of the Pact', to the extent that through Liberal influence a Government tax increase was reversed.[74] However, more broadly, it highlighted both the intra- and the inter-party difficulties arising out of a hastily arranged cross-party agreement. Furthermore, as a consequence of the political crisis, there was a re-examination by all key participants of how mechanism of the Pact should be function.

Steel disliked the political instability which ensued during this episode, primarily because it undermined the collegiate nature of cross-party co-operation the Pact was intended to engender. By nature he preferred negotiation to 'brinkmanship' as a method of achieving policy concessions. He was also frustrated that the media response to the impasse, the Liberal Party being roundly condemned as a 'bucket shop'.[75]

Steel learned from this experience, and his subsequent actions and strategy were informed by it. Henceforth, he emphasised to his colleagues the importance of 'collective responsibility'. He also focused on the need for a united front when negotiating with the Labour Government and dissuaded colleagues from making pronouncements in the media. In a letter to *The Guardian,* John Pardoe shared Steel's view and encapsulated his leader's opinion that the Liberal Party had been naive in their approach to this issue: 'we talked loudly to the press when we

should have been talking quietly to the Government.' He later admitted it affected his conduct in subsequent cross-party discussions.[76]

In practice, the subsequent emphasis on 'collective responsibility' often translated, according to Cyril Smith, into Steel making decisions on behalf of the Liberal Party and later providing colleagues with a *fait accompli*. It has been noted that this strategy was to some extent evident in the negotiations which led to the formation of the Pact and the structure agreed for the consultative mechanism. Steel would subsequently employ the tactic during the renewal process, in negotiations over the content of the Queen's Speech as well as minor policy issues related to defence, agriculture, official secrets and education.[77]

It should be noted that the Labour Party did lose a Budget resolution (on income tax) in the 1978 Budget and did not feel compelled to resign. However, this episode is important within the context of Lib–Lab relations as it led to an increase in the level of consultation undertaken by Steel with Government Ministers and the Civil Service, these discussions often circumventing the Liberal parliamentary Party. It might be concluded that, in attempting to avert a crisis over the 1977 Budget, which might have jeopardised the Pact, Steel became 'embedded' in the policy process, acquiescing to Government demands for Liberal compromise at the expense of promoting Liberal Party policy influence. The extent of his involvement is exposed by the fact that prior to Steel's confirmation that the Liberal Party would abstain on the Budget vote, he suggested to Callaghan that 'Joel Barnett might supply some helpful phrases' in his speech in the House of Commons.[78] Briefing notes were subsequently provided by Government representatives to Steel, together with a copy of a pre-drafted response by Denis Healey.[79]

From a Labour Government perspective, after the petrol duty crisis, Ministers ensured they did not provide the Liberal Party with a similar opportunity to achieve policy concessions. Thus, on a series of issues – for example, the timetabling of legislation on direct elections to the European Parliament, the introduction of policies on profit-sharing, defence spending and the appointment of Harold Lever, the Chancellor of the Duchy of Lancaster, to act as a quasi-Minister for small business – the Labour Party actively sought to minimise evidence of Liberal Party influence.[80]

The petrol duty crisis was also emblematic of the difficulties which the Liberal Party experienced in establishing, in the public consciousness, that the Lib–Lab Pact had delivered substantive changes to Government policy. Despite a Liberal Party media campaign highlighting that the reduction in petrol duty was as a result of Liberal pressure, the Party saw

no material benefit in public support. Again, this would be a recurring theme throughout the period of the Pact as either poor media management or an unsympathetic press thwarted Liberal attempts to promote the virtues of the Pact.[81]

Conclusion

Institutional and structural issues were important limiting factors on Liberal policy influence. However, these limitations were exacerbated by further structural weakness inherent in the consultation mechanism as constructed as part of the Lib–Lab Joint Agreement; financial and personal and attitudinal problems were also key constraints. As with other aspects discussed when discussing the formation of the Pact, these problems were in part a by-product of the poor planning and preparation undertaken by the Liberal leadership. However, it should also be noted the Pact was not a full coalition, and in the absence on the part of Liberal MPs of an understanding of government or coalition politics Liberal parliamentarians were at times naive in their expectations as to what might reasonably be obtained by a minor party involved in a parliamentary pact. The role of the Civil Service, and particularly Kenneth Stowe, in constructing and implementing the Pact was noted, and the constitutional imperative for the Civil Service to act in the interest of the government further limited Liberal Party influence under the terms of a parliamentary pact rather than a full coalition. Yet it should also be observed that the Civil Service and particularly some Whitehall mandarins, such as Stowe, John Stevens and Douglas Wass, did adapt to this new dynamic and at times extended Liberal involvement in the policymaking process beyond the limited structure of the Lib–Lab Agreement.

The focus on the Budget 1977 case study has highlighted the first 'crisis' which hit the Lib–Lab Pact and the responses of the key protagonists. It has been noted that Steel's emphasis on co-operation and conciliation was central to this process, as was his desire to maintain control of the Liberal side of the understanding. Later in this book the events of the Queen's Speech of 1977 and the Budget of 1978 will examine specifically how the intra- and inter-party relations developed through the Pact with relation to key areas of policy influence.

7
Liberal Party Reaction to the Lib–Lab Pact

Overview

Academic analysis of the response to the Lib–Lab Pact has focused almost exclusively on the Liberal Party.[1] There has been no in-depth analysis of the Labour Party's response to the Pact.[2] Of those studies which have commented on Labour's response, the broad conclusion has been that while there was hostility within the left wing of the Parliamentary Labour Party (PLP) about the concept of cross-party co-operation, more generally the Party was ambivalent about the Agreement.[3]

While this analysis is largely correct, with regard to the period from summer 1977 to the demise of the Pact in August 1978, documents held at the National Archives show the extent to which, between March 1977 and June 1977, efforts were made by some sections of the PLP to undermine the Agreement, if not necessarily to destroy it. Even the most militant Labour MPs understood that the Agreement's early demise would make a general election inevitable which, at that time, would almost certainly have resulted in the election of a Conservative Government. The very fact that such destructive efforts were taking place at all adds to the narrative of the extent of conflict which existed in the Labour Party in the late 1970s.

As seen in Chapter 5, the Labour Cabinet was largely supportive of Callaghan's decision to enter the Pact. Three of the four Ministers who had spoken out against it – Stan Orme, Peter Shore and Bruce Millan – acquiesced in the notion of collective responsibility and broadly acted constructively in administering the Lib–Lab Agreement. As such, the only exception to Cabinet unanimity was Tony Benn, who was to act as a fulcrum for much of the subsequent Parliamentary Labour Party opposition to the Pact.

Reaction to the Lib–Lab Pact: the Parliamentary Labour Party

The majority of the PLP, on hearing the defeat of the no-confidence motion, joined Neil Kinnock in singing *The Red Flag*. When Ron Thomas, a member of the Tribune group, spoke out against the Agreement, he was shouted down by fellow Labour MPs. Even some left-wing MPs, such as Judith Hart and Audrey Wise, both of whom had small parliamentary majorities, were supportive of any deal which averted a general election. Wise told a Labour Whip she would 'support a deal at any price'.[4] Meanwhile, many Labour MPs with safer parliamentary seats were sympathetic to the plight of less secure colleagues. Others on the left, such as Neil Kinnock, concluded the Pact was an anodyne agreement, concluding 'the Party had simply agreed to continue with policies it was obliged to legislate on and desist on policies it had long since realised were undeliverable'.[5]

Opposition from within the Parliamentary Labour Party changed over time. Initial hostility can be characterised as largely symbolic, followed by a more clandestine attack, over the period April–May 1977. This dissipated over the summer of 1977 into a general acquiescence for the remainder of the Pact. The first formal example of discontent from within the PLP was the interventions by Dennis Skinner during the Prime Minister's presentation of the Pact to parliament. Skinner's primary concern, like Benn's in the earlier Cabinet discussions, was the extent of consultation afforded to the Liberal Party *vis-à-vis* the Parliamentary Labour Party. Over the following week, left-wingers such as Bob Mitchell, Leslie Spriggs and Arthur Lewis wrote to the Prime Minister expressing similar sentiments.[6] While these were little more than token gestures of discontent, Kenneth Stowe instructed the Lord President's Office to give clear answers to each point raised, rather than giving a 'comprehensive brush off'. In so doing, he sought to avoid accusations that the Government disregarded these grievances. This proved to be a successful tactic and intra-party conflict was largely averted.[7]

As noted in Chapter 5, Callaghan was aware that 'consultation' might be an area of internal dispute. In some respects he was fortuitous in how he addressed this problem. Soon after becoming Prime Minister, in response to a deteriorating relationship between PLP and the Cabinet, he initiated two internal reviews of how intra-party consultation operated. The first, produced by the Labour parliamentary liaison committee, looked into the functionality of the Labour back-bench subject committees. The second, by Geoff Bish, Research Secretary of the Labour

Party, reviewed the interaction between the Parliamentary Labour Party, the Cabinet and the National Executive. Both reports showed poor engagement of PLP members with the Party's consultative mechanism. Callaghan acted on the recommendations and was thus able to point to his own prioritising of the intra-party consultation process, diffusing much of the discontent on this issue *vis-à-vis* the Lib–Lab Consultative Committee.[8]

The effectiveness of these changes was noted in May 1977, when Callaghan received an unsolicited report from Stan Orme, Secretary of State for Social Security. Orme outlined how the PLP's Social Security Committee was functioning, and commented to the Prime Minister that 'Barbara [Castle] said they were the "most open and frank discussions she had ever experienced"'. Orme continued: 'I feel it is this sort of development which is essential if we are to ward off the criticism that we are treating the Liberals in a different manner from our own members.'[9]

Kenneth Stowe, also mindful that 'consultation' might be an area of intra-party conflict, advised the Prime Minister to 'maintain and indeed uplift consultation with the PLP'. In this regard, Stowe instructed all Private Secretaries to keep a running tally of all occasions when they consulted the PLP and to note the topics discussed. In this way Callaghan had information readily available should any member of the PLP raise concerns about the extent of consultation *vis-à-vis* the Liberal Party.[10] In the same vein, Callaghan stressed to his Cabinet Ministers that 'consultation with our colleagues [in the PLP] will be a prior and essential step in forming Government policy and should in no way be prejudiced by, or overlooked in consequence of, the new arrangement for consulting the Liberals'.[11]

The most significant attempts to undermine the Lib–Lab Pact were undertaken by left-wing Labour MPs, most notably by Tony Benn and his cohorts, but also and separately by Eric Heffer. Benn's position as the fulcrum of much of this opposition is worthy of particular analysis. His opposition can be characterised as follows: a fundamental opposition to cross-Party co-operation; a belief that a deal with the Liberal Party would undermine the power of Labour's National Executive Committee and marginalise the left wing in the parliamentary Party; and a concern that a parliamentary understanding with the Liberal Party would act as a catalyst for an alliance between the Liberals and the social democrats in the Labour Party. In his *Diaries* he commented, 'that is what it's really about', going on to comment that 'the National Executive now becomes of supreme importance . . . I shall work like anything on the NEC for a really radical programme'.[12]

Tony Benn acted as a conduit for a small number of MPs included Michael Meacher, Ian Mikardo and Brian Sedgemore, who sought to destabilise the Pact. Having secretly retained his copy of the Lib–Lab Agreement from the special Cabinet meeting which ratified the Agreement, Benn convened a series of meetings with colleagues to inform them of its content. He subsequently constructed a strategy to undermine the Pact. This process began with Brian Sedgemore, Benn's Political Private Secretary, drafting a series of written submissions to the Prime Minister on the Lib–Lab consultation process; as noted above, Stowe ensured that each query was addressed.

Benn's first formal action against the Pact was to produce, in conjunction with Ian Mikardo, an anonymous and largely anodyne statement, which was circulated among the PLP, pointing out that that the PLP was not being given an opportunity to vote on the Pact directly:

> We, the undersigned, will support the Government in the lobby this evening, but do not consider ourselves bound in any way to the implementation of the whole or any part of the agreement entered into by the Cabinet and the Liberal Party.[13]

Benn had hoped the statement would receive between 60 and 80 signatures, but in the event only 48 Labour MPs signed, most of whom may be considered 'the usual suspects' – almost all of them members of the Tribune group. Benn also instigated a letter signed by 12 Tribune MPs sent to Cledwyn Hughes expressing their opposition to the Agreement, again to very little effect.[14] Unfortunately for the conspirators, Bernard Donoughue, Head of the Policy Unit in No. 10, had overheard Benn and Mikardo discussing their plans while he stood outside Roy Mason's office, which adjoined Benn's, whereupon he reported back to the Prime Minister. Callaghan chose not to act immediately on this information, but Benn's disloyalty was noted by the Prime Minister, as will be explained shortly.

While Benn's actions are noteworthy because of his position in Cabinet, the most significant attempt to undermine the Pact was made by Eric Heffer, MP for Liverpool Walton. Curiously, as noted in Chapter 4, Heffer had been one of the facilitators of the early negotiations between Labour and the Liberals, acting as a conduit in discussions between Michael Foot and John Pardoe. However, following the formation of the Pact, he became one of its most fervent critics. Heffer disliked the formal nature of the agreement. In an interview in *The Times* he complained that

> The Government could have stood absolutely firm. They could have had some form of agreement, each understanding the other Party's point of view. We had had to do that on numerous occasions, but I do not think it was right to enter into a formal agreement. It is a movement towards a coalition, which could be very dangerous for the Labour Party.[15]

Heffer, as a member of Labour's National Executive Committee (NEC), attempted to instigate a special meeting of the NEC in order to discuss, and ultimately vote on, the merits of the Lib–Lab Agreement. His ultimate objective was to compel the Government to allow the PLP to vote on the Pact. Paradoxically, Steel too repeatedly requested the PLP vote on the Pact to 'avoid sniping'. Callaghan never agreed to this process, reasoning that, while a vote would almost certainly have resulted in an affirmation of Callaghan's actions, it might also have crystallised back-bench opposition. Nevertheless the absent of a vote of the PLP remained a structural weakness of the Pact.

Returning to the actions of Heffer, in order for him to place the issue of the Lib–Lab Pact on the agenda paper of the NEC, he was required to obtain the backing of 15 NEC members. Initially Heffer was successful in securing 16 signatories, but over subsequent days two names were withdrawn and the resolution failed. One of those who withdrew their name was Sam McCluskie, National Secretary of the National Union of Seamen, and later Treasurer of the Labour Party. In a letter to Ron Hayward, General Secretary of the Labour Party, he warned that 'ignoring the National Executive Committee on this important issue … will have the NEC and the PLP, including the Government, in internal dispute'.[16] McCluskie's concerns were conveyed to the Prime Minister. While McCluskie's reasons for removing his name from the Heffer list remain unclear, Callaghan later sent a note of thanks for McCluskie's loyalty in supporting the Government.[17] Tony Benn was the second signatory to remove their name. As already highlighted, Benn's professed opposition to the Pact was primarily based on the absence of consultation with the PLP and NEC. Although he had accepted the majority will of the Cabinet, in accordance with the doctrine of collective responsibility, he now sought to reopen this debate using the NEC as a vehicle to achieve this. By signing the Heffer resolution Benn was in breach of the doctrine of collective responsibility and thereby provoked a confrontation with the Prime Minister.

On the evening of 24 March 1977, Callaghan telephoned Benn to demand an explanation for his actions. In a heated discussion,

Callaghan asserted that Benn had previously 'sailed close to the wind in the past, but this time he had gone to the limit', and that Benn could not 'criticise Government policy from his position in Cabinet without first consulting the Prime Minister'. In the absence of any such consultation Callaghan now insisted that, unless Benn removed his name, he would have to resign from the Cabinet. Benn retorted angrily: 'to get Steel in and me out would certainly complete it.' The minutes note that the conversation then ended 'abruptly'.[18]

Callaghan subsequently instructed Kenneth Stowe and Tom McCaffrey to draft a press release announcing Benn's resignation from the Cabinet.[19] Callaghan's frustration with Benn was clearly compounded by knowledge of Benn's earlier actions, including the information he had received from Donoughue regarding his involvement in the PLP statement critical of the Pact. Callaghan further suspected that Benn was the source of a leak to the media suggesting that the Cabinet had been split over the merits of the Lib–Lab Agreement.[20] Following the conversation with Callaghan, Benn immediately contacted Michael Foot to establish if Callaghan might be appeased. Foot made it clear that Callaghan's main frustration lay in Benn's wider disloyalty. Faced with Callaghan's ultimatum, Benn withdrew his name from the Heffer resolution and retained his place in Cabinet for the remainder of the parliament. This was the last clandestine operation which Benn instigated against the Lib–Lab Pact, although he remained obstructive as Energy Secretary in his interaction with his Liberal counterparts in the consultation mechanism.

Frustrated by the failure of his resolution to receive the requisite signatures, Heffer attempted to have the question of the Pact placed on the agenda of the next NEC meeting. He pleaded his case to Ron Hayward, claiming that 'In view of the fact that a large minority signed the letter, and others withdrew their names, although agree with the need for the NEC to discuss the situation, it is clear that the parliamentary Lib–Lab Agreement must be discussed by the NEC at the next meeting'.[21] Hayward rejected Heffer's request. In his last salvo against the Pact, Heffer eventually succeeded in putting forward a somewhat antiseptic resolution to be discussed by the NEC in June 1977, that 'whilst recognizing the Government had every right to conclude an agreement with the Liberal Party the National Executive Committee make it clear that it was not involved in drawing up the agreement'. Yet even this resolution was rejected by the NEC.[22] The NEC simply noted the existence of the Pact and accepted Callaghan's argument that it was a parliamentary arrangement, and thus not in the remit of the NEC.

In May 1977, the last significant parliamentary opposition to the Lib–Lab Pact was articulated in the form of a letter to the Prime Minister from left-wing Labour MP James Lamond, calling for the 'left' to:

> have the same facilities as you have given the Liberals (who are smaller than we are), namely, regular prior discussions with Ministers on the Government's intentions and proposals ... [If the demands are not met] we do not commit ourselves to vote for any Government motion on which we have not had discussions satisfactory to us.[23]

This letter was signed by 67 Labour MPs. As was the case with previous examples, the signatories were mostly members of the Tribune group. Once again, the effectiveness of the Lamond letter was negligible since, as noted above, Callaghan was able to cite the mechanisms through which the PLP could discuss specific areas of policy with Government Ministers before any consultation with the Liberals could take place.

The actions of the left did not go unnoticed by those on the right of the parliamentary Party. Tom McNally condemned the Lamond letter as 'clearly more of Mikardo's dirty tricks' and asked the Prime Minister, 'isn't this an opportunity to put him on the defensive for organizing this mischief virtually on the eve of local elections ... I do not see why we should take this lying down.'[24] Callaghan, mindful of the balance he had to maintain between left and right in the Labour Party, chose not act against Lamond or any other MP over the letter.

To return briefly to the suspicions of Tony Benn that Steel and the social democrats within the Labour Party might use the Pact to facilitate realignment in British politics, this view was shared by the Chairman of the PLP, Cledwyn Hughes, who believed that some on the right of the Labour Party saw the Pact as 'a way towards their big dream – a realignment of the parties and a drop of the ultra left'. In Hughes's view, David Steel was 'indistinguishable' from the social democrats in the Labour Party.[25] The focus of the Labour MPs who subsequently formed the SDP through this period was on achieving internal reform of the Labour Party, rather than aligning in any way with the Liberal Party. Steel confirms that there were never any clandestine discussions between the Liberals and the social democratic wing of the Labour Party with regard to how the Agreement might facilitate realignment.[26] The 'gang of three' (David Owen, Shirley Williams and William Rodgers) certainly did not, at the time or subsequently, regard the Pact as a conduit for either the formation of a Social Democrat Party or an alliance with

the Liberal Party. Rodgers, in particular, for all his involvement with the formation of the Pact, was strongly opposed to an alliance with the Liberal Party. He had no involvement with Steel or any other Liberal on how the Pact might be used to reform the British political system.[27]

The largely pragmatic response of the Labour Party to the Agreement nonetheless masked an underlying despondency within the PLP (and the grassroots) at the fact that the Party had been ignominiously compelled to enter into a cross-Party agreement. As highlighted earlier in this book, the Labour Party was by inclination anti-coalitionist, and the memory of Ramsay MacDonald's decision to enter the National Government in 1931 still resonated with many. Barbara Castle, speaking at the TUC–Labour Party Liaison Committee meeting on 20 March 1977, warned: 'There was a danger of perpetual Government by minority groups...it is wrong that these groups should be the final arbiter of policy.'[28] Callaghan himself shared many of these views: for example, during discussions with the Ulster Unionists and the Liberals, the Prime Minister had insisted that he would 'not be another MacDonald', and then during the Lib–Lab negotiations he warned Tom McNally, 'don't get too close to this Tom – they never forgave MacDonald'. Over the Easter recess, after the formation of the Lib–Lab Pact, Callaghan read the recently published biography of Ramsay MacDonald by David Marquand. However, it should be noted that Callaghan, unlike Wilson, did not articulate anti-coalitionist sentiments in the period 1974–1977 and thus retained the political authority to initiate the Pact.[29]

Finally, it should be noted that, for all the opposition to 'consultation', not even Benn criticised the terms under which the Pact was agreed when it came to policy concessions. The Lib–Lab Pact was utilised by Benn and others as a device in their overall strategy to undermine the social democratic wing of the Labour Party, but in the final analysis the Pact in itself did not instigate, nor was it designed by the Liberals to instigate, significant intra-party dispute within the Parliamentary Labour Party.

Reaction to the Lib–Lab Pact: the wider Labour movement

The reaction to the announcement of the Lib–Lab Pact from the wider Labour movement might be characterised as broadly positive and at worst ambivalent. The majority of the extra-parliamentary Party were unprepared for the development of Lib–Lab discussions. There were no protocols or mechanisms, within the limited time frame available, to establish a general opinion. As noted above, TUC representatives, on

21 March 1977, signalled that in their opinion the decision to enter into discussions with minor parties was the 'proper responsibility of the Prime Minister', although it confirmed it did not favour a general election.[30] This neutrality was important, as Eric Heffer observed: 'if the Unions do not come out against the agreement, the possibility is it will continue.'[31]

During the period of the Pact only peripheral issues were of significance to the TUC, most notably the Liberals' calls for profit-sharing in business. They were also exercised by the demand for changes to the composition of the Post Office board. However, in both cases union leaders were largely ambivalent to Liberal demands. As noted in Chapter 5, Callaghan was resolute in his view that a shared desire for 'national recovery' did not constitute Liberal involvement in the Government's industrial policy, and that any Liberal involvement in this matter was merely based on the Government consulting the Liberals rather than compulsion by the Government to change policy. Trade union officials – notably Jack Jones and Len Murray – met with Liberal MPs, at the behest of Callaghan, to ensure that the Liberal Party received a 'dividend' from the Agreement.

The reaction from the Constituency Labour Parties (CLPs) was also broadly supportive. Callaghan noted that the 'overwhelming volume of mail from Party activists' showed they 'understand well the reasons and necessity for the arrangement'.[32] Nevertheless, some of the CLPs took a more critical view. Of the 22 resolutions on the Pact submitted to the NEC, 15 condemned it outright, with only five stating unambiguous support for Callaghan's actions. However, the fact that the vast majority of CLPs did not express a view either way suggests a degree of acquiescence from the Labour grassroots.[33] Significantly, there was no correlation between those constituencies which opposed the Pact, and the concurrent infiltration of constituencies by Militant, which was increasingly a factor in local Labour Party politics from the late 1970s (through to the mid-1980s).

The opposition which was expressed by CLPs was broadly based on a view that they would have preferred greater consultation in the decision to form the Agreement, combined with some anxiety that the Pact undermined Labour's socialist principles. The Tottenham CLP was typical of this latter concern: 'The Labour/Liberal pact is the culmination of a retreat from the Labour Party Manifesto. There was no mandate for such a coalition. We therefore call on the NEC and the TUC to convene a special Labour Party and TUC conferences.'[34] Callaghan in response wrote an open letter, published in *Labour Weekly,* in which he emphasised three key points: 'the Pact was not a coalition;

that no Labour principles were abandoned; that the agreement did not downgrade the Government's links with "various branches of the Labour movement" '.[35]

After the initial opposition to the Pact, the Labour movement broadly accepted the pragmatic reality. This was exemplified in the decision of the Cabinet, meeting at Chequers on 26 June 1977, unanimously to endorse the Pact's renewal. Furthermore, the Labour Party Conference held in Brighton in October 1977 (in stark contrast to the Liberal Assembly held in the same location a week before), did not discuss the Pact in any of the main debates. Callaghan, in his leader's address, felt in a strong enough position to thank the Liberals publicly for their support. Stan Orme, an opponent of the Pact during the Cabinet discussion in March, explained to conference the reasons for his subsequent decision to vote for its renewal: 'to have done otherwise would have been criminal. We would have let down all the people who supported us in 1974.'[36]

The acquiescence of the delegates at the Labour Party Conference to the Pact must also be placed in the particular political context of autumn 1977; by this time unemployment and inflation were falling, and the Labour Party had regained a position of parity with the Conservatives in the opinion polls. Equally, it might be noted this unanimity between the Cabinet and the wider party is in contrast to the increasingly abrasive relationship between the centre and periphery of the Labour movement through this period. The fact that Labour's grassroots chose not to make the Lib–Lab Pact an issue of conflict with the Labour Party leadership highlights the extent to which they felt Callaghan had been successful in negotiating a deal which had proved beneficial to all factions of the Labour Party.

Two subsidiary aspects of long-term significance of the Lib–Lab Pact on Labour intra-party relations might be observed. First, this period saw a marked deterioration in the relationship between Tony Benn and Michael Foot – Foot's loyalty to Callaghan led to a break with the disruptive influences of Benn and the Tribune group. A corollary of this was the crucial role Foot played as a guardian of the Agreement. As Lord President of the Council and *de facto* Deputy Prime Minister he was responsible for the administration and implementation of the Pact. As a consequence, this former maverick of the left consolidated his position at the centre of Labour politics. Foot's involvement in the Lib–Lab Pact enhanced his standing in the Labour Party and was a subsidiary factor in his successful bid for the Labour Party leadership in 1980.

Reaction to the Lib–Lab Pact: the parliamentary Liberal Party

The following section will review the response of the Liberal Party to David Steel's decision to enter into cross-party discussions and its attitude to the subsequent Lib–Lab Agreement. It will begin by returning to an issue touched on in Chapter 5, namely, the issues which motivated the members of parliamentary Liberal Party to agree to Steel's desire to enter into discussions with the Labour Party. An important aspect of this study will be an analysis of the extent to which the Liberal MPs were motivated to accept the terms agreed by Steel by a desire to avoid a general election.

As noted briefly in Chapter 5, when the parliamentary Liberal Party met to discuss the agreement late on 22 March 1977, and again at lunchtime on 23 March 1977, several MPs expressed reservations, but only two MPs openly rejected the deal: David Penhaligon and Jo Grimond.

Penhaligon, while by inclination a collegiate character, with friends in all main political parties, was convinced that any agreement with the Labour Party must be dependent on securing tangible Liberal policies. Specifically, he argued that the minimum required from the Pact was an assurance that a majority of the Labour Party would endorse the use of a proportional voting system for the European elections. Unconvinced by the prospect of this been achieved via a free vote for Labour MPs, Penhaligon concluded that the Liberal Party would get no credit from either its own supporters, or the wider electorate, by entering into a Pact under the terms agreed by David Steel.[37] Jo Grimond shared this view: 'electoral reform was the prize . . . the only prize which could justify the Pact.' Similarly he concluded this could not be achieved via a free vote. Furthermore, Grimond feared that Liberal voters might ask 'what happened to Liberal values' in forming a pact with a Labour Government whose legislation he viewed as been 'very illiberal'. However, Grimond's opposition was altogether more nuanced than Penhaligon's, expressing a conviction – first articulated as Party leader in the 1960s, and again during the Heath–Thorpe negotiations – that while the Liberal Party should not rule out working with others as a matter of principle, anything short of a full coalition should not be considered.[38]

Moreover, Grimond believed, in direct variance with Steel's strategy, that the Liberal Party was simultaneously ensuring that the Labour left wing remained within the Labour Party, thereby decreasing the prospect of a schism, which consequently made realignment in British politics

rather less likely. In discussion with Hugo Young of *The Sunday Times,* Grimond laconically observed: 'How can we bust the system if we're part of it?...the best thing would have been an election with a Tory landslide.'[39]

Despite their serious misgivings, Penhaligon and Grimond accepted the notion of 'collective responsibility' as well as the fact that Steel held a mandate to lead the Party as he saw fit. They concluded that formally to reject the Pact strategy would have split the parliamentary Party. The loyalty of Penhaligon and Grimond was important to David Steel: first, it exhibited unanimity within the parliamentary Liberal Party; second, neither man would act as a focal point for those opposed to the Pact. It also meant that Steel could utilise Penhaligon and Grimond as Liberal spokesmen in the Liberal 'shadow administration' established to administer the Liberal side of the Lib–Lab Consultative mechanism – an important factor, given the limited resources of the parliamentary Liberal Party.

What, then, persuaded the remainder of the parliamentary Party to support Steel? The following section will review the declared motives of the Liberal MPs before focusing on the so called 'elephant in the room' – the extent to which avoiding a general election was central to each Liberal MP's decision to endorse the terms agreed by Steel and enter the Lib–Lab Pact.

All of the remaining 10 Liberal MPs shared Penhaligon and Grimond's scepticism that the adoption of PR for the European elections could be achieved through a 'free vote' for the Labour MPs. However, this scepticism was outweighed by various factors. There was a widely held belief among Liberal MPs, shared by Penhaligon and Grimond, that Steel had a legitimate mandate to lead the Party as he saw fit. As Alan Sked has noted in his appraisal of the Pact, 'the Party could not be seen to have been compelled to elect a fourth leader within eighteen months'.[40] Most significant in this regard were the actions of John Pardoe. Pardoe was 'astonished' at the terms agreed by Steel and concluded that 'if David had come to the Party on Monday with the terms he finally agreed on Wednesday I do not think he would have got it through'. He nevertheless concluded, as noted in Chapter 2, that following his defeat in the leadership election he should act as a 'loyal lieutenant' and thus support Steel.[41]

Many of the MPs welcomed the potential for influencing Government policy through the consultative mechanism. Russell Johnston, for example, was determined to see the revival of the devolution legislation. Likewise, Richard Wainwright relished the opportunity to engage with

the policymaking process and the opportunity to argue his case with the Government. He also expressed a sincere desire to put 'Country before Party' and work for 'National Recovery', and hoped the Liberals might be rewarded for doing so.[42]

There was a desire from some to do all in their power to prevent a Conservative majority Government. Steel, Smith, Wainwright and Pardoe each cited the lack of policy proximity between the Liberals and the Conservatives as a factor in their decision-making. John Pardoe stated during the Lib–Lab negotiations, 'One of the few terrible things in the world would be a Government led by Margaret Thatcher.'[43] In discussions with his colleagues, Pardoe further asserted that 'I didn't leave the Labour Party and join the Liberals in order to bring down a Labour Government . . . and I would hate to have to live the rest of my life believing that I had done so.' Cyril Smith, similarly a convert from the Labour Party, defended his decision to support the Pact on the basis that the large Liberal vote in 1974 was based on the electorate rejecting Edward Heath and the Conservative Party. This perspective was shared by Stephen Ross, MP for the Isle of Wight.[44] Smith, in contrast to Grimond, believed a deal with Labour would, rather than bolster the left, actually undermine its rationale. These contrasting views highlight the difficulties the Party faced in trying to construct a coherent narrative as to the purpose of the Pact and how realignment might be achieved.

Emlyn Hooson was more circumspect, a vociferous defender of an independent Liberal Party in the 1960s and early 1970s. He took the view that if he were to resign it would undermine the whole Party. He concluded: 'If one individual resigned, which I did consider doing . . . Cyril Smith would have done and David Penhaligon would have done and Richard Wainwright would have done.'[45]

Structural and financial issues also influenced the thinking of Liberal MPs, especially about their preparedness to fight an election in 1977. Hugh Jones, in a review undertaken upon his appoint as Chief Executive Officer of the Liberal Party in March 1977, concluded that while many constituencies were *prepared* to fight, 'Few constituencies were anywhere near ready for an election'.[46] On 16 February 1977, little over a month before the formation of the Lib–Lab Pact, the Liberal's Chief Agent reported to the National Executive Committee that 'only 150 associations had appointed honorary agents and over 200 constituencies had yet to appoint prospective parliamentary candidates'.[47] A General Election Management Committee had not been established, and, according to Lord Banks, a review of constituencies in which the Liberal Party might have a prospect of electoral success had yet to take place.[48]

Funding the two general elections in 1974 had resulted in the Liberal Party incurring a considerable overdraft. The loss of Jeremy Thorpe as Party leader in early 1976 had seen the Party lose his significant, if somewhat questionable, fundraising talents. The situation was so grave by 1977 that Hugh Jones reported to Clement Freud, chairman of the Finance and Administration Board, that 'to all intents and purposes the Party was insolvent'.[49]

There was also the intangible issue of the 'Thorpe scandal'. Although the resignation of Jeremy Thorpe as leader had stabilised the Party internally, it was considered the most sensational political intrigue since the Profumo affair of 1963. Liberal MPs dismissed any suggestion that the Thorpe affair did any lasting damage to the Party. For example, John Pardoe, whose North Cornwall constituency bordered Jeremy Thorpe's constituency, always maintained that it had little effect on the doorstep. This conclusion was endorsed by Annette Penhaligon in her biography of her husband, and Cyril Smith claimed that there was public loathing of the press's treatment of Thorpe.[50] However, in March 1977 the Liberal Party could not be certain that more damaging revelations would not be disclosed – potentially during an election campaign. Indeed, a by-product of the Lib–Lab Pact was that it ensured that the Labour Government had a vested interest in mitigating the impact of the Thorpe scandal on the Liberal Party. According to Bernard Donoughue, the Labour Party attempted to slow down some of the legal proceedings, 'giving support when the flak really started to fly'.[51]

On this basis, the motives of the Liberal MPs were clearly manifold. However, it is only right that we should now turn to the most enduring perception, in both contemporary and historical analysis, of why the parliamentary Liberal Party endorsed the Pact: namely that they were motivated by self-interest and the desire to avoid a general election in which they might lose their seats.

The psephological predictions of the fate of the Liberal Party should an election be called in March 1977 varied, with figures ranging from the loss of four or five seats to an almost complete rout, in which all but Jo Grimond and David Steel would be unseated.[52] Some Liberal MPs themselves subsequently acknowledged that there was some truth in the charge that they were at least concerned at what the result of an election might be for their own position. John Pardoe confesses that:

> The accusation on everyone's lips, outside of the immediate Liberal Party was that we had simply done this in order to save our necks.

That was what the press thought and there was a degree of truth in that, but I didn't want the truth to be too obvious.[53]

Andrew Phillips, the Liberal Party candidate in the Saffron Walden by-election held on 7 July 1977, was of the view that 'if Callaghan had called an election, I hate to think what would have happened to the Liberals'.[54] Similarly within the Liberal grassroots, Chris Foote-Wood, a member of the Liberal Council and councillor in Bishop Auckland at the time of the Pact, concluded that an election would have been disastrous for the Party.[55] However, some Liberal MPs were more sanguine, among them Russell Johnston, who argued that, 'We've often gone into an election at a low level and done relatively well ... in my view we would have come out of an election [in 1977] better than we did in the forthcoming election after the Pact.'[56]

Steel was certainly aware of the perception that his prime motivation was to avoid an election. Over the negotiation period, between 17 and 23 March 1977, he repeatedly stated he did not fear an election.[57] However, perhaps his comments to William Rodgers on 18 March 1977 are most telling: 'he did not want an election but his honour was at stake and he could not be seen to duck one.'[58]

Two factors were most prescient in Steel's thinking with regard to forming the Pact in order to avoid of an election in March 1977. The first was the experience of the 1970 general election, when only six of 13 MPs were retained, and three seats, those of Thorpe, Pardoe and Steel were held with majorities of under 1,000 votes. He confessed later that, had these three seats not been retained, 'it was hard to see how the Party could have survived at all ... this night was one of my darkest hours.'[59]

Second, Steel was concerned about the resurgence of the two Nationalist parties, particularly the Scottish National Party. Having already supplanted the Liberals as the third Party in Scotland at local government level, the SNP had won 11 seats at the October 1974 general election. In Wales, three Plaid Cymru MPs were elected, making a combined total already greater than the Liberals' 13. Further Plaid Cymru gains were unlikely, with a swing of over 16% required to win even one more seat. However, the barriers to further SNP success were less onerous. In February 1977, the SNP 'cheerfully predicted success in half the seats in Scotland'.[60]

Setting aside such apparent hyperbole, even moderate success for the SNP would have had serious, perhaps fatal, consequences for the position of Liberal Party in the House of Commons and in British politics. With 13 MPs in 1977, the Liberals were the third largest Party in the

House of Commons. By convention they enjoyed some distinct privileges not afforded the other minor parties. Most visibly, the Liberal Party leader was guaranteed the right to ask one question at Prime Minister's Questions. Privileges also extended to membership of committees and other areas of parliamentary business. Clearly, if the SNP returned more MPs to the House of Commons than the Liberal Party, these rights would be lost. Furthermore, should the SNP, a Party naturally contesting only seats in Scotland, have a greater representation than the UK-wide Liberals, it would undermine the Liberal Party's (admittedly aspirational) claims that one day it might credibly become a governing Party at Westminster.

Clearly we cannot know for sure what the result of an election in spring 1977 would have been, but a number of assumptions can be made based on the political situation, past performance and the result of the subsequent general election in 1979.

First, Steel's concerns over a resurgent SNP might very well have been realised. At a national level the most serious threat to Liberal fortunes was a resurgent Conservative Party. A significant national swing to the Conservatives, which seemed the likely outcome of a 1977 general election, would almost certainly have had serious electoral repercussions for the Liberal Party. The Conservatives had seen their standing in opinion polls improve from 35 to 49.5% since the October 1974 general election. In the same time scale Liberal support had fallen from 18.3 to 13%. As Table 7.1 shows, eight Liberal MPs had the Conservative Party as their main challenger. A uniform swing to the Conservatives of 10% would have seen at least five of the 13 Liberals lose their seats. Meanwhile, a resurgent Conservative Party also threatened the prospects of many prospective Liberal parliamentary candidates. Where the Liberal candidates finished second in October 1974, all but ten were in seats won by Conservatives; there seemed little prospect under such circumstances that the Liberal Party would gain these seats and thus offset the likely losses.[61]

However, figures based on opinion polls of a 'uniform swing' do not necessarily reflect the reality for the Liberal Party in the 1970s. Party Chairman Geoff Tordoff argues that immediately prior to the formation of the Pact, the Liberal Party's polling figures compared favourably with both 1970 and 1974.[62] There was also the incumbency factor. David Butler, writing in *The Sunday Times* on 20 March 1977 (the day before Lib–Lab discussions commenced), concluded that Liberal support historically held up well where it was already strong, and Liberal MPs were often able to buck national trends.[63] The increased media exposure

Table 7.1   Threat to incumbent Liberal MPs in the general election of October 1974 (swing required to be unseated)

Member	Constituency	Majority	Challenger	% swing
Beith	Berwick	73	Conservative	0.2
Penhaligon	Truro	464	Conservative	0.8
Johnston	Inverness	1134	SNP	2.8
Ross	Isle of Wight	2040	Conservative	3.1
Wainwright	Colne Valley	1666	Labour	3.3
Freud	Isle of Ely	2685	Conservative	5.1
C. Smith	Rochdale	2753	Labour	5.8
Hoosen	Cardiganshire	2410	Labour	6.9
Pardoe	Cornwall N.	3856	Conservative	9.2
Thorpe	Devon N.	6721	Conservative	11.5
Howells	Montgomery	3859	Conservative	14.7
Steel	Roxburgh et al.	7433	Conservative	16.2
Grimond	Orkney & Shetland	6852	SNP	39

acquired by the Liberal Party during a general election campaign had traditionally resulted in improved polling for the Party on election day.

The results of the 1979 general election bear comparison in this regard. On this occasion the Liberal Party did (as in February 1974) experience resurgence in their poll rating during the election campaign, although it might be noted that this was in part because of the by-election success at Liverpool Edge Hill. Moreover, Butler was vindicated in his observations. In 1979 the Liberal Party's national share of the vote fell by 4.5%, a decline which, if replicated in constituencies where a Liberal was the incumbent, would have resulted in only five Liberal MPs being returned to Westminster. However, only two sitting Liberals saw a decline in their share of the vote in 1979. Of those who were defeated, Emlyn Hooson lost in Montgomeryshire, but acknowledged this was largely because of a poorly run local campaign. Jeremy Thorpe, somewhat inevitably, lost in North Devon. John Pardoe, as he had anticipated, was defeated in North Cornwall (but attributed the loss of the leadership election rather than any effect from either the Thorpe scandal or the Pact). While there was more tactical voting by erstwhile Labour voters in 1979 than in 1974, it was only a slight increase, and in this regard the Pact itself was not a significant factor in the 1979 result. As an aside, the absence of tactical voting in 1979, much anticipated by Liberals, was one of the most depressing aspects of the Pact for the Party.

It is important not to take this projection of possible scenarios had an election been called in March 1977 too far. Nonetheless, it could

be argued that, as Russell Johnston suggests, an election in 1977 might have been no worse for the Liberal Party than in 1979. The Liberal Party might have retained seats already held but not advanced in other areas. For a Party which had experienced near extinction in its recent past, this would hardly have been regarded as a disaster, or a reason in itself to avoid a general election.

There were significant structural, financial and political reasons why the Liberal Party might have chosen to avoid a general election in 1977, and these did play a part in the thinking of both the Liberal leader and the Party's MPs. However, overriding all these issues was the significance which Steel attached to the opportunity to enact cross-Party co-operation. As Richard Holme observed, 'for Steel this was the real prize'.[64] The Liberal Party's failing was in not successfully articulating to their own supporters, the Labour Party, the media and the wider public the emphasis which Steel placed on the establishment of co-operation as the key motive in forming the Pact. The fact that Steel's motives were dismissed or ignored resulted in a narrative being allowed to develop, especially in the Conservative-supporting press, that the Liberal MPs were 'saving their own skins' rather than putting 'country before Party'.

Reaction to the Lib–Lab Pact: Liberal constituency parties and Party activists

The following section examines the response of the Liberal Party constituencies and Party activists to both the prospect of cross-Party negotiation in March 1977 and the subsequent deal agreed by Steel and Callaghan. As noted above, the Party leadership consulted as widely as was practicable prior to entering into discussions with Labour. The most significant example of such consultation was Steel's instruction to the Party President, Geoff Tordoff, and its Chief Executive, Hugh Jones, to take soundings from as many Liberal constituency parties and associations as possible in the time available.

Accordingly, Tordoff and Hugh Jones made contact with 31 individuals, many of whom were regional officials on the Liberal NEC, who in turn had themselves consulted constituency officers and members. The Tordoff/Hugh Jones report was consequently viewed as a thorough and comprehensive appraisal of the opinions of the Liberal Party outside Westminster.[65]

It highlighted a number of key observations: first, the extra-parliamentary Liberal Party accepted unanimously that it was Steel's prerogative, as leader, to negotiate on behalf of the Party; second, his decision-making thus far was met with approval; third, the prospect of

a general election was not viewed with anything other than 'moderate optimism', although 'only thirteen constituency officers expressed anxiety about an election'; and fourth, there was a resolute belief that the Liberals should be 'pushing the Government to the limit'. Out of 75 London constituencies surveyed, 62 favoured pressing for specific assurances from the Government on Liberal policies.[66] The report continues:

> Liberal MPs should vote against the Government unless 'cast-iron' assurances are given by the Prime Minister to David Steel...the message from Liberals all over the country is 'bend or be broken'.[67]

Tordoff outlined three Government assurances that *must* be achieved in order to ensure subsequent grassroots support for any deal: first, the Government must enact the direct elections legislation; second, a proportional system should be employed for those elections; and finally, any deal should include (a non-specific) 'economic element'. In his conclusion, Tordoff explicitly reiterated that it was the view of the Liberal grassroots that 'without such concessions, the parliamentary Liberal Party should vote against the Government in the forthcoming no confidence vote'. Steel could thus clearly infer from Tordoff's report that the extra-parliamentary Liberal Party's focus was on specific policy concessions as a prerequisite for any deal with the Government.

Tellingly, two issues which were central to Steel's negotiating tactics and wider strategy, as noted in Chapters 3 and 4, were absent from the Tordoff report. First, there was no emphasis on an explicit requirement for a 'consultation mechanism' *per se* or that the Party should be 'seen to be consulted'. It was assumed that this was a self-evident requirement in any understanding. Second, there was no explicit reference to broader strategic objectives, such as using the Pact as a conduit for a realignment of British politics. Therefore, there was a clear divergence between Steel's strategy-focused approach and the policy-centric approach of the Liberal grassroots. The implications of this divergence would prove important in the intra-party conflict which developed during the Pact.

One of the most striking aspects of the Liberal grassroots response to the prospect of a deal with the Labour Party was how accommodating they were compared with the strident opposition evident during the aborted coalition talks between Jeremy Thorpe and Edward Heath in 1974. As noted in Chapter 2, this can in part be explained by the pragmatism with which the Party was imbued after the events of February 1974. However, it suggests a left-of-centre orientation within the

wider Liberal Party. This made a deal with Labour somewhat more attractive than a deal with the Conservatives had been in 1974. At the very least, as the comments of some of the Liberal MPs noted above indicate, there was an antipathy towards the Conservative Party, especially under Margaret Thatcher's leadership.

These sentiments was highlighted in a questionnaire sent to 855 Liberal Party officials, regional chairpersons, treasurers and officials in spring 1977, the results of which were published in *New Society*. It showed that Liberal Party officials were significantly better disposed towards the Labour Party than to the Conservatives. When asked which Party would be their second preference, 43% said Labour, while only 19% favoured the Conservatives. Likewise, when asked about the Party leaders, James Callaghan was given 5 out of 10 (compared with Steel's 8.9), while Margaret Thatcher only achieved an average of 2.2, with over 30% of responses awarding the Conservative leader a zero mark.[68] *The Guardian* also highlighted the same ideological inclinations among Liberal Party activists, reporting on 23 March 1977 that a local Liberal Party chairman claimed that 'only 10 per cent of his local Party would view a Thatcher Government with equanimity'.[69]

Despite the broad inclination towards the Labour Party within the grassroots, a number of strands of dissent can be identified. These might be classified as follows: those whose outright disagreement with Steel's broad strategy of 'co-operation' meant they would reject any cross-Party accommodation; those who believed that, by entering a deal with Labour, the Liberal Party undermined its opportunity of winning seats held by the Conservatives where the Liberals were the main challengers; and those who rejected the Pact on the grounds that to co-operate with a socialist-orientated Labour Party was incompatible with Liberal ideals.[70] However, assessing individual constituency responses to the prospect of an agreement and then extrapolating these views to establish a broader opinion across the Party is problematic. Only a small proportion of Liberal constituency parties expressed their views on the Pact directly to Liberal Party Central Office, and sadly, unlike the Labour Party archive, the Liberal Party did not formally record all of these correspondences.

Only 11 constituencies can be identified as having written to Steel expressing their support for the Pact, but, as with Labour, the absence of a great number of responses may imply a largely acquiescent, or supportive, constituency base. Equally, it should be borne in mind when assessing this data that significant numbers of Liberal 'constituency parties' were either 'dormant' or had a very small core membership; Hugh

Jones points out that large numbers of constituency branches were 'little more than a handful of well meaning individuals'.[71]

Some of the most vehement opposition to the deal was expressed by the cluster of Liberal constituency parties in East Sussex and Surrey: most notably, Eastbourne, Epsom and Orpington. In each case, the incumbent MP was a Conservative, and there was concern from Liberal activists that a Pact with the Labour Party would result in 'soft Tories', who might otherwise have considered voting Liberal, being driven back into the Conservative Party – although in truth none of these seats might be considered Conservative/Liberal marginals. Nevertheless, feeling were such that the Eastbourne Constituency Party went so far as to threaten to establish an 'Independent Liberal Party', while the Epsom Liberal Party condemned Steel's decision to 'save the Government . . . for a bribe'.[72] The opposition expressed by the Orpington Constituency Party is perhaps the most instructive in explaining why this specific location was the centre of such strong opposition. Having been the scene of Eric Lubbock's stunning by-election victory in 1962, it viewed itself as the embodiment of Liberal independence. Consequently, the local Party, and those in the immediate vicinity, were particularly ill disposed to the concept of a pact. Liberal associations in the traditional heartlands of North Wales, Manchester and Yorkshire also expressed their opposition to the Pact on the grounds that it 'undermined traditional Liberal values'.

Strident opposition also emanated from Liverpool and the North-East of England. Unlike in the South of England, the Liberals' main opponent in these regions was the Labour Party, so here entering the Pact reduced any chance of securing support from the 'Tory rump' via tactical voting. Again, though, this should not be overplayed; more important was the fact that these were areas where 'community politics' had resulted in significant electoral successes. Many activists were emphatic in their opposition to 'co-operation' *per se*. In Liverpool, the community politics strategy had seen the Liberals, under the leadership of Trevor Jones, become the largest Party on the City Council. While supportive of the concept of 'national recovery', Jones was a critic of Steel's 'co-operation strategy', as was David Alton, the prospective parliamentary candidate for Liverpool Edge Hill. By 1977 Trevor Jones was leader of the Association of Liberal Councillors, and while in March 1977 his opposition to the Pact only manifested itself in correspondence in the *Liberal News,* he would subsequently become an increasingly important figure in the anti-Pact wing of the Liberal Council.

The North-East of England, and especially Newcastle upon Tyne, had also seen a significant Liberal revival, again partly as a consequence of a focus on community politics. Andrew Ellis, who had increased the Liberal share of the vote by 17% in the Newcastle Central by-election in November 1976, spoke against the Pact from his position on the Liberal Council at the Liberal Assembly in October 1977, and again at the Special Assembly in January 1978. He was also a key figure in the fringe group 'Liberals against the Pact'. The North-East saw the only instance of a parliamentary candidate resigning as a direct consequence of the decision to enter the Pact.

In reviewing the opposition within the grassroots it might therefore be observed that opposition at the start of the Pact was disparate both in geographical and ideological terms. However, significantly, in each case the opposition might be characterised as scepticism at the strategy, rather that direct dissent; it did not at, this early stage at least, manifest itself as a formal or co-ordinated 'anti-Pact movement'.[73]

There were also those, particularly in Scotland and Wales, who were supportive of the Pact on the basis that the policies included in the 'Joint Statement', most particularly the reintroduction of the Devolution Bill, were of particular importance to their members. While some, such as David Penhaligon, argued that 'devolution meant nothing to England', there was also support among some English Liberals for the introduction of devolution, and consequently for the Pact as a means of achieving a long-term Liberal policy objective. It was also, somewhat optimistically hoped, that this process might eventually lead to English devolved government.[74]

There were some notable (and particularly vocal) Liberal opponents of the Pact. Roy Douglas, Liberal academic and author of *The History of the Liberal Party, 1895–1970,* was one of these. In a series of letters published variously in *Liberal News*, *The Times* and *The Guardian*, he condemned Steel's negotiating strategy as outlined at Llandudno, as well as his subsequent decision to enter the Pact with Labour. Douglas even questioned Steel's leadership abilities:

> The parallel with the situation in 1924 and 1929–31 is in many ways close, and I do not think that David Steel can handle such a position with more skill than Asquith exercised on the first occasion or Lloyd George on the second. In both cases the Liberals suffered utter disaster ... but if the choice lies between losing him and continuing the pact there seems little doubt what the answer should be.[75]

Meanwhile, some individual Liberal members who objected to the Pact were particularly trenchant in their views. A letter sent to Emlyn Hooson from a constituent condemned him as a 'Judas' for agreeing to the Pact and asked 'how he wanted his pieces of silver'.[76] Of the affiliated bodies within the Liberal Party, the most prominent opponents were the National League of Young Liberals. At their conference at Weston-super-Mare in April 1977, Steel's actions were roundly condemned. However, uniquely among opponents of the Pact, their criticism, under the leadership of Peter Hain, Simon Hebditch and Chairman Steve Atack, was based on the premise that the Liberal Party should not enter into agreement with Labour but instead attack Labour from the left.[77] However, it is important not to overemphasise the importance of the Young Liberals within the wider Liberal Party in 1977. Their influence, particularly on policy development and strategy, had greatly diminished from a high point in the early 1970, and by 1977 they were widely regarded as outside the mainstream of Liberal politics.

In an interesting aside to this process, Tony Benn, mindful of the Young Liberals' opposition to the Pact, attempted to recruit Peter Hain to the Labour Party. Benn hoped that such a defection 'would also add a new dimension to the Lib–Lab Pact because if Steel thought that Liberals were joining the Labour Party it would be a great counter-balance to the formal, slightly shoddy parliamentary arrangements'.[78] Hain did resign from the Liberal Party to join Labour, but not until late in 1977, and not in response to the Lib–Lab Pact. His defection did nothing to destabilise the Liberal Party, or the Pact, and was met with relief by many Liberals, who felt that his radicalism was no longer compatible with Liberal Party policy or strategy.[79]

There was no demand from the leadership for opponents of the Pact to resign from the Liberal Party, and no sanctions were imposed on those constituencies who criticised Steel's decision to enter the Pact. David Alton, who criticised the decision in *Liberal News*, remained the parliamentary candidate for Liverpool Edge Hill, and went on to win a famous by-election victory in March 1979. Even when a more formal opposition movement developed in the autumn of 1977, led by John Pick and Andrew Ellis and operating under various titles, including 'Liberals against the Pact' and 'Liberals against the Strategy', there was no compulsion for them to resign their positions. Ellis worked prominently in by-election strategy co-ordination, notably at the Saffron Walden by-election in July 1977, and later became Chief Executive of the Liberal Party.

An internal Liberal Party report conducted in 1978 into the effect of the Pact on Party structures concluded that only a handful of Liberal activists left the Party at the announcement of the Pact, and there was no significant reduction in Party membership over the duration of the Pact.[80] No constituency parties seceded from the Liberal Party, and although one, Beckenham and Penge, did vote to do so, this was later rescinded.[81]

In the immediate aftermath of the formation of the Pact, David Steel received over 2,000 letters, the vast majority in support. Indeed, he admitted to the *Liberal News* that he was 'frankly astonished' by the lack of formal opposition to the Pact.[82] After the Pact was formally announced, on 23 March 1977, Geoff Tordoff conducted a second round of consultations of constituencies, whereupon he concluded that the Party 'generally approved' of what had been agreed.[83] A readership survey of *Liberal News* by Richard Davies found overwhelming support.[84] The other Liberal publications *Radical Bulletin* and the *Liberator* magazine, while viewing coalition-forming as 'community politics writ large' before the Pact, were far more critical of the Agreement, mirroring their more radical readership. However, according to Hugh Jones, their influence within the Party should not be overemphasised.[85]

There is some evidence that a number of local constituency parties felt detached from the parliamentary developments; hence, there was a degree of anguish at what it might mean for local politics. However, according to Chris Foote-Wood, most activists continued their work without passing comment: 'for the most part we just had to grin and bear it, we didn't like it but you had to make a choice, accept it or get out . . . most of us kept our heads down and stayed loyal.'[86] Hugh Jones concurs with this assessment, observing that, while there was some apprehension at the terms agreed, the Party broadly decided to 'trust the leader'.[87]

Reaction to the Lib–Lab Pact: Liberal National Executive Committee and Liberal Council

The three most important organs of the Liberal Party were the Standing Committee, the National Executive Committee (NEC) and the Party Council. The Standing Committee, chaired by Richard Wainwright and comprising parliamentarians, prospective candidates and Party officials, was the most Westminster-centric of the three bodies. The National Executive Committee had a wider membership: namely, elected officials and representatives from the regional and national Party and affiliated

bodies. Finally, membership of the Party Council, which comprised 275 delegates, included all members of the Standing Committee and the NEC; it also incorporated a significant number of Liberal councillors and Party activists. This latter group were more radical in their policy orientation and less familiar with the machinations of Westminster politics. Such members saw themselves as the bastions of an independent Liberal Party espousing distinctive 'Liberal values'. Historically the NEC had been responsible for policy formation, although by 1977 this role had been grudgingly transferred to the Standing Committee. Consequently, conflict often arose between the two bodies, or more specifically between the leadership in Westminster and the NEC. Difficulties in achieving a co-ordinated response to political change, reviews of tactics and strategy were exacerbated by the fact that pronouncements on policy between the annual Liberal Assembly were the preserve of the Liberal Council.[88]

While acknowledged to be a better committee man than either Jo Grimond or Jeremy Thorpe, Steel was often frustrated by this cumbersome structure. He was particularly disparaging of the Party Council, which he viewed as 'full of members who were deposit losers, meeting in obscure locations'.[89] Officially, all three institutions readily endorsed David Steel's decision to enter the Lib–Lab Pact, with each passing a resolution to this effect at the first meeting of their respective bodies. These were held on consecutive days at the National Liberal Club, London, on 1–2 April 1977. The NEC resolution, passed unanimously, was indicative:

> This Executive notes with approval the content of the joint memorandum from the Prime Minister and the leader of the Liberal Party and congratulates the leader and the parliamentary Party on achieving a breakthrough in the British political scene.[90]

However, having made these unequivocal endorsements, each body then passed a second resolution. First, the Standing Committee resolved that 'The continuation of the agreement between the Liberal and Labour parliamentary parties will be impossible if PR is not used for the UK elections to the European Parliament.'[91] Likewise, the National Executive passed two further resolutions both of which focused explicitly on how it expected the Labour Government to proceed with its legislative programme. The first resolution emphasised the significance of the voting method to be employed in the direct elections to the European Parliament:

In the event of the Government not legislating for PR in the European elections, this executive urges the [Liberal] parliamentary Party not to negotiate any extension of the agreement with the Government beyond the present parliamentary session.[92]

The second resolution was even more specific, stating that the NEC 'very strongly' held the view that the system of proportional representation to be used for the European Parliamentary elections should be the Single Transferable Vote (STV) and not the 'List System'. The Liberal NEC's demand for Single Transferable Vote to be the voting method for the European elections was based on the fact that the Liberal Manifesto of 1974 had explicitly stated the Liberal Party's desire for STV to be introduced for all elections in the UK.[93] The strength of feeling within the Party on this issue was such that, in 1976, the Liberal Assembly considered whether it should refuse to put up candidates if a plurality system was adopted for the European elections.

At first glance it might appear that the resolutions, in demanding concessions from the Government not explicitly defined in the Lib–Lab Agreement, were intended to criticise the deal struck by David Steel in his negotiations with the Government. Undoubtedly there was some frustration that the wording of the Agreement was not more prescriptive on the issue of PR, especially in the context of the Tordoff report, which, as noted above, unambiguously stating that without 'cast-iron' commitments on this and other issues no deal should be forthcoming. However, it should be observed it was not the intention of the Standing Committee or the NEC to undermine the Liberal leader in passing these motions. Instead, it was envisaged that by taking a robust stance on this issue at an early stage, it would emphasise to the Government the importance placed by the Party on two clauses in the Lib–Lab Agreement, namely: 'the Liberal Party re-affirm their strong conviction that a proportional system should be used as the method of election . . . [and] . . . the Government's final recommendation will take full account of the Liberal Party's commitment'. Thus, by presenting themselves as an apparently belligerent Party Executive, threatening to terminate the Pact if there was no commitment on STV, they hoped to make a sceptical Labour Party more inclined to acquiesce to Liberal demands. It was also hoped this action would strengthen David Steel's position when discussing with Callaghan the contents of the White Paper on direct elections, which was to be published imminently.[94]

While this rather nuanced strategic approach was designed to assist David Steel in his subsequent negotiations, it was not conducted in

co-ordination with Steel or even with his support. Indeed, he did not appreciate their interjection in what he perceived to be an exclusively parliamentary arrangement. When James Callaghan raised concerns about the implications of the Liberal NEC resolutions in a meeting with Steel on 21 April 1977, rather than use the resolutions as a bargaining tool (as the Executive had envisaged), Steel dismissed it out of hand, insisting that

> he did not regard [the resolutions] of any great significance, the fact was his parliamentary colleagues would come to an agreement in due course...their resolution was in fact nonsense as it was not in the Government's gift to legislate, they could only bring forward proposals.[95]

There was some justification for Steel's comment that the NEC resolutions were 'nonsense'. The Labour Government was not in a position, either politically or in terms of the parliamentary timetable, to pass the legislation on direct elections before the end of the current session, and thus not before the Pact was to be reviewed. However, Steel's dismissal of his own NEC's unsolicited attempt to bolster his negotiating position highlights an underlying dislocation between the Liberal Party leader and the Party's Executive. Steel only attended four of the monthly NEC meetings during the lifetime of the Pact, and according to Hugh Jones, a more collegiate approach from Steel, with more regular attendance at the NEC meetings, would have ensured a more constructive working relationship with the elected officials. This might also have allowed Steel to explain, with greater clarity, his decision to prioritise the longer-term aim of 'realignment', rather than the more specific policy issues, such as devolution or electoral reform. Without a clear appreciation of Steel's strategy, evidence of Labour concessions on devolution and electoral systems became a fixation for many of the NEC membership.

Steel's official response to the NEC's demand for STV was to confirm that it was the parliamentary Liberal Party's intention to press the case for STV. However, he emphasised, tellingly, that 'it would be unreasonable to abandon the Agreement if it were only possible to secure...regional list PR which itself could represent a breakthrough in changing the electoral system'.[96] The archive evidence is instructive. Steel did emphasise in his meetings with Callaghan that STV was the preferred option of the Liberal Party. However, there is no evidence in any of their negotiations, during either the Lib–Lab discussions in March 1977 or the subsequent discussions on renewal of the

Pact, or in negotiating the terms of the respective White Papers on the devolved Assemblies of Scotland and Wales and the European Parliamentary elections, that Steel pressed for STV to be the electoral method employed.

Steel's decision not to demand STV seems to have been based on his preconceived notion of what would and would not be acceptable to the Parliamentary Labour Party, and thus what might act as an impediment to forming, renewing and sustaining the Pact. His conclusion that STV was not attainable seems to have emanated from his discussions with Callaghan during the inter-party talks on devolution in early March 1977. As highlighted in Chapter 2, Callaghan had made clear that the Cabinet was sceptical of STV but somewhat more amenable to the Regional List system.[97]

As with other aspects of the negotiating process, a subsidiary factor in Steel's stance seems to have been his discussions with William Rodgers prior to the Lib–Lab negotiations. Rodgers had conveyed to Steel, in their discussion on 20 March 1977, the Cabinet's positive reaction to the Regional List system, whereas 'the STV system was little known and little understood by the Cabinet'. Rodgers had promoted, with some success, the Regional List in Cabinet as a PR system which would be of electoral benefit to the Labour Party in the European elections. Rodgers used Michael Steed's published analysis to highlight the fact that, under a plurality system, Labour was predicted to lose a significant number of its current dual-members in the European Assembly.[98]

Rodgers also highlighted to Cabinet colleagues the fact that there were some administrative issues which made the Regional List system preferable to STV, most notably that the latter would require boundary changes, which would necessitate delaying the date of the European election to late 1978. This was not the case with the Regional List option. Thus, by adopting the latter method, the Government would be seen by European colleagues to be undertaking its 'best endeavours' to meet the deadline of May/June 1978.[99]

Conclusion

The Lib–Lab Agreement was not viewed by any section of the Labour Party, or in the academic literature on the Labour movement through this period, as anything other than a pragmatic response to a particular political situation. Intra-party opposition to the Pact was broadly centred within the Parliamentary Labour Party and largely dissipated by the summer of 1977. It was focused on a minor disagreement, namely,

'consultation', and had no significant influence on the Party's tactics or strategy, either at the time or subsequently. Nonetheless, it was for a short time of such intensity that it threatened the Cabinet career of Tony Benn. In contrast the Liberal Party saw broad support for the decision to enter the Pact and no corresponding concern over consultation. It has been noted, however, that there were underlying concerns over the policy concessions which might be achieved under the terms of the Pact. Steel's dismissal of the Liberal NEC initiatives in April 1977 was emblematic of his largely unilateral negotiating strategy and his decision to emphasise formal cross-Party co-operation above 'cast-iron' policy outcomes. This approach had a number of consequences for intra-party relations within the Liberal Party. Chapters 8–11 will in part focus on the dynamics of this intra-party relationship with regard to the implementation, renewal and demise of the Lib–Lab Pact.

8
Policy Implications of the First Phase of the Pact

Under the terms of Lib–Lab Agreement, it was agreed that the Pact would terminate at the end of the current parliamentary session, after which both parties would review their positions. Initial internal discontent with the Pact within the Labour Party had almost totally abated by the summer, and at a meeting of the Cabinet held at Chequers on 26 June 1977, the renewal of the Pact was unanimously approved. With the Labour Cabinet taking a consensual approach, and almost no opposition to their decision emanating from the wider Labour movement, this chapter will focus on the Liberal Party's attitude to the renewal/renegotiation of the Pact. It will be divided into two parts: first, a review of the Liberal Party's attitude to the Government's fulfilment of key policy areas outlined in the Pact, with particular emphasis on the direct elections to the European Parliament Bill; second, an analysis of how the renewal process was undertaken by the Liberal Party, and specifically the extent to which David Steel acted unilaterally to achieve his strategy objectives.

In stark contrast to the Labour Party, and much to David Steel's frustration, almost from the moment the Pact was announced, all levels of the Liberal Party were subsumed in discussion on what policy concessions might be garnered and the terms under which the Pact might be renewed. In April 1977, Steel had made it clear both to his parliamentary Party and to the press, that the Pact would be renewed unless the Liberals could 'blame the Labour Party for its failure'.[1] However, as with other aspects of the Lib–Lab Agreement, terminology was of critical importance; in this case, the Liberal leader's precise definition of 'failure' deviated somewhat from how it was understood by some of his parliamentary Party and Party activists.

As noted in Chapter 6, the Lib–Lab Agreement, as constructed by David Steel, was primarily build around a consultative mechanism.

However, consultation was, in turn, dependent on the maintenance of three policy pillars: evidence of the Government's economic competence, albeit under the rather vague terminology of 'economic recovery'; reintroduction of the Devolution Bill; and the introduction of the Direct Elections Bill, with an explicit acknowledgement of the Liberals' preference for PR. As the renewal date approached, a series of crises impacted on each of these policy areas and had the potential to make renewal unlikely. More pertinently, they could have been used by the Liberal leadership as justification for not renewing the Pact.

Economic policy

On 14 June 1977, two of the three pillars noted above came under severe scrutiny. The economic competence of the Government and its ability to maintain the discipline of its MPs were seriously threatened when Audrey Wise and Jeff Rooker, left-wing Labour members of the House of Commons Finance Committee, voted with the Conservative Party to raise the levels of income tax allowances and partially index them against inflation, thereby incurring an additional cost to the exchequer of £450m. On the same day, the Leader of House, Michael Foot, facing pressure from Labour back-benchers, finally conceded that the devolution legislation would not be passed in the current parliamentary session.

While the loss of the devolution legislation naturally frustrated the Liberals, and might in theory have destabilised the Pact, discussion remained constructive, and there was little prospect that the Pact would end as a consequence of an administrative delay. Moreover, from a Liberal perspective, Foot's announcement ensured that the Nationalist Parties maintained their official opposition to the Government, thus ensuring the Liberal support remained critical to the Government's survival. In theory, this event strengthened the Liberals negotiating position *vis-à-vis* the forthcoming renewal of the Pact.

The actions of Wise and Rooker were altogether more serious, for both the stability of the Government and the maintenance of the Pact. *The Economist* commented that 'only two British Governments this century have been subjected to pressures and uncertainties comparable to those recently experienced by Mr Callaghan's ministry – neither saw out their term of office'.[2]

Throughout his discussions with Callaghan, David Steel had stressed that the Pact, and therefore its renewal, was based on evidence of the Government's economic competence. Therefore the actions of Wise and

Rooker had the potential to destabilise one of the key tenets of the Lib–Lab Agreement.[3] Liberal frustration with the actions of Wise and Rooker was exacerbated by the fact, as noted in Chapter 6, the Liberal Party had agreed to vote with the Government on all aspects of the Finance Bill, in exchange for the reversal of the increase in Petrol Tax, announced in the Budget. Consequently, John Pardoe, a fellow member of the Finance Committee, was compelled to vote with the Government on policy rejected by two of its own MPs. Pardoe subsequently declared that he saw no point in continuing the Pact under such circumstances.[4]

David Steel likewise stressed, in a Party Political Broadcast later that week, that 'if the Labour Party do not pull themselves together, we may have to have an election in the autumn'.[5] However, in contrast to Pardoe's characteristically more impulsive response, Steel chose not to act on this threat, and continued negotiations with Callaghan over the renewal of the Pact. Steel subsequently highlighted the more 'sobered' response of the Parliamentary Labour Party in parliament in the subsequent weeks as justification for his decision.[6] However, this episode exposed a number of issues in the strategy of Steel. The Pact was not a traditional Confidence and Supply agreement, as noted in Chapter 4; there was no official 'supply' component. Furthermore, Steel's decision to prioritise a 'co-operation strategy' over short-term policy influence meant that bringing down the Government under almost any circumstances was not compatible with his strategic aims.

A further threat to the Pact on economic grounds also arose on 6 July 1977, when both the Transport and General Workers' Union and the National Union of Miners voted against the previously declared TUC decision to abide by the Government's pay policy (Phase III). A Treasury Minister later described the notion that pay policy was being adhered to as 'ridiculous', and stated that the actions of the unions undermined the Government's entire economic strategy.[7] The Liberal Manifesto in 1974 had highlighted the need for a mechanism of wage constraint. John Pardoe and Richard Wainwright had repeatedly stated that the retention of Phase III was of critical importance in exhibiting the Government's economic competence, and thus should be considered a deciding factor in whether the Pact should be renewed.[8]

In spite of pressure from colleagues, Steel chose not to make the apparent collapse of Phase III a breaking point in the renewal process. Again, it was Steel's desire to retain the Pact and the terminology and phrasing of the original Agreement that was a factor in Liberal actions. In discussions with Steel, Callaghan noted that the Pact only demanded the Government strive for 'national recovery'. He further stated that he

would 'not give an inch' on his economic policy'. Steel, in response, chose to reassure the Prime Minister that the Liberals would scrutinise the Government's 'pay policy', but that the Agreement would be renewed, 'so long as inflation was controlled'. Given that constraint on inflation was the primary economic objective of the Chancellor at this time, this can hardly be considered an arduous, or Liberal-orientated demand. To an increasingly incredulous parliamentary Liberal Party, Steel argued this demand constituted the shared aim of 'economic recovery'.[9]

Steel's reluctance to base the initial agreement on specific economic targets which, as noted in Chapter 4, had been outlined in the original Liberal communiqué (22 March 1977), frustrated Liberal MPs such as Russell Johnston, Emlyn Hooson, Richard Wainwright and John Pardoe. However, having not demanded specific economic objectives in the original Joint Agreement, and without their leader placing an emphasis on economic targets, they were not able to demand these as part of the renewal negotiations. Furthermore, it seems likely that, had they done so, Callaghan would have rejected the idea of renewing the Pact under such terms.[10] In the event, while not reaching a formal agreement with the Government on pay norms, the TUC did reaffirm the '12-month rule': i.e., that pay increases would only be reviewed on an annual basis. However, this agreement was not in fact reached until after the Pact was renewed. Steel's decision not to make the collapse of pay policy a 'breaking point' of the Pact, and his acceptance that the Government would reintroduce the Devolution Bill in the next session, meant that the Liberal Party, particularly Liberal activists, increasingly focused on the progress of the direct elections legislation as a benchmark of the effectiveness of the Pact, and a determinant for its renewal.

Direct elections to the European Parliament

This focus on direct elections legislation was intensified by the fact that key aspects of the legislative process coincided with the renewal process in June–July 1977.[11] The White Paper was published on 1 April 1977. Unusually, it was largely a consultative document. Oonagh Gay describes it, 'a white paper with green edges' – on the basis that the Government had already conceded that it could not pass the legislation before the end of the parliamentary session, and in the 1970s legislation could not be carried over.[12] As highlighted earlier in this book, the 'principle' of a Direct Elections Bill was a hugely contentious issue within both the Labour Cabinet and the wider Labour Party. Disagreements

in Cabinet resulted in repeated delays in the publication of the Bill. The Liberals argued that by making the enactment of the Direct Elections Bill a prerequisite of the Pact, they had ensured the passage of the legislation. However, two points should be noted. First, Callaghan was compelled to legislate for direct elections because to do otherwise would have resulted in him reneging on a commitment made to European counterparts at the European Council in September 1976. Furthermore, in reality the contingent of pro-Marketeers Labour MPs combined with support from Conservatives and Liberals would ensure the Bill would comfortably pass its Second Reading without the imposition of the Lib–Lab Agreement.

The effect of the Pact therefore, somewhat paradoxically in the context of hasten realignment in politics, was to strengthened Callaghan's hand against a belligerent anti-EEC left wing. Indeed, as Joel Barnett observed, without the Pact, the Labour Party might have split on this issue and thus hastened realignment.[13] Certainly this scenario was a genuine concern of Callaghan, as expressed in numerous Cabinet meetings in 1976 and 1977. Internal conflict was such that Callaghan had twice threatened to resign if the Party did not support its implementation. On 14 June 1977 (the same day as the Rooker–Wise incident and Foot's announcement on devolution, as noted above), he was compelled to break with the convention of 'Cabinet responsibility' by allowing a free vote for Ministers on the principle of the Bill.[14] Although the Liberals were frustrated by Callaghan's capitulation on this point, rather than making this an area of inter-Party conflict, they, and particularly David Steel, were sympathetic to the Prime Minister's predicament.

In May 1977 the two Party leaders met repeatedly to discuss both how the White Paper on Devolution would progress in the current session and how the legislation would be configured when it had to be reintroduced in the next session (October 1977). The Lib–Lab discussions had two strands: how to navigate the original Bill through the House until the end of the session in July; and second, establishing the extent to which the White Paper, to be introduced in the autumn 1977, would explicitly accede to the voting system preferred by the Liberals. As a corollary to this, discussion focused on how this 'recommendation' should be incorporated into the Bill *vis-à-vis* the other options. (The original White Paper on elections to the European Parliament delineated four possible options with regard to the electoral system to be employed, albeit without making a recommendation.) In practice this was to be a choice between plurality and a proportional system, the dual-mandate options outlined in the original White Paper being disregarded.

As highlighted earlier in this book, most Liberal activists expected Steel to lobby for, and indeed achieve, a formal commitment from the Government in favour of some form of PR: preferably the Single Transferable Vote method.

The significance attached to this issue by the Liberal Party, with particular reference to the renewal process, is exemplified by Steel's comments to the Prime Minister on 3 May 1977, which was, according to Steel, the most bad-tempered meeting between the two. It also highlighted the extent to which Liberal grassroots opinion had by this stage permeated the process. While Steel had been disparaging of the actions of his own NEC in April 1977, as noted in Chapter 7, he now felt compelled to stress to Callaghan that

> Liberal Party attachment to PR for the European Elections was so strong that if they did not get it, they could not go on with the agreement with the Government in the next session. He personally would like to carry on in the next session but the Party activists were committed on this issue and he could not go on without his Party's backing.[15]

In reply, and in a repeat of his statements in the latter stages of the Lib–Lab negotiations, in March 1977, Callaghan was adamant that while he acknowledged the Liberal leader's difficulties, he was sure the Parliamentary Labour Party would not vote for PR, and to attempt to force the Cabinet to do so would undoubtedly lead to resignations.

Lib–Lab negotiations on the Direct Elections to the European Parliament Bill, May–June 1977

As in March 1977, Steel accepted Callaghan's assessment that the Labour Party was emphatically opposed to PR and that any form of compulsion to vote for it would split the Cabinet and the Party. Steel also accepted the Prime Minister's contention that, given the Lib–Lab Pact had explicitly offered a 'free vote' on the voting system to be employed, the Liberal Party could not now demand that the Parliamentary Labour Party be 'compelled' to vote for PR. Steel reassured the Prime Minister that, from his personal perspective, the central justification for forming the Pact, and its subsequent renewal, was to establish 'cross-Party consultation'. Furthermore, the Liberal leader agreed with Callaghan that there was mass indifference in the country on this issue and it would be a great pity if the agreement fell apart because of it.

Steel was nonetheless mindful that his Party needed evidence of some form of Government concession on this issue, as a symbol of 'acknowledging the Liberal Party views' *vis-à-vis* the Agreement. On this basis, Steel demanded that the Bill should be amended to ensure that the Government explicitly supported the adoption of a proportional voting system by 'commended' this system to the House. This had been the original Liberal position as outlined in the communiqué sent to the Prime Minister 21 March 1977. Steel was, of course, aware that this position would be complemented by Callaghan's personal assurance that he would support the PR option. It was at this stage that Steel specified that his preference would be the use of the Regional List system – as has been noted, there is no evidence in the archives that Steel even suggested the STV system should be employed.

To recap, 'commending' a Bill simply demanded that the Government express a preference – there was no compulsion for Labour MPs to vote for the commendation, and thus the 'free vote' was retained. In Steel's opinion, this was as much as could reasonably be demanded from the Labour leadership. He reasoned that, if this concession could be achieved, it would show the merits of 'consultation' as a mechanism to achieve policy concessions. Furthermore, despite increasing evidence to the contrary, such as an editorial in *The Times*, 16 May 1977, Steel was still hopeful that about 100 Conservative MPs would support PR, and thereby secure a parliamentary majority.

The Callaghan–Steel discussions on direct elections in the period May–July 1977 also addressed some procedural aspects of the Bill. The Liberals were deeply concerned that if a vote on the electoral system took place in the current parliamentary session, the PR option would be defeated. In such circumstances, even though the Bill would not be enacted before the summer recess and thus would fall, a precedent would be set, making it less likely that parliament would vote for a proportional system when the Bill was reintroduced in the autumn. Similarly, Steel was keen to ensure that the vote on electoral systems was still 'in play' at the Liberal Assembly, to be held in Brighton in the autumn of 1977.

Documents held in the National Archives show the extent to which both Labour politicians, such as Foot and Merlyn Rees, together with Whitehall mandarins liaised to ensure that Steel's demands on this issue were met. Kenneth Stowe, John Stevens (the Permanent Secretary to the Lord President's Office) and John Hunt (the Cabinet Secretary), together with the Parliamentary Council, were engaged in this endeavour. The Civil Service intervention on this issue was such that Stowe, Callaghan

and Rees, who as Home Secretary was designated to present the Bill to the Commons, were mindful that they should not be seen to be, in Rees's words, 'too clever by half' in their manipulation of parliamentary timetabling to avoid the vote on the electoral system before the recess.[16]

The timetabling of the Bill was also choreographed to maximum political advantage for both Steel and Callaghan. Michael Foot was instructed to confirm to the House of Commons, on 17 June 1977, that the re-drafted Direct Elections Bill would be introduced before the summer recess. This announcement ensured that the next day, at the Scottish Liberal Conference, Steel was able to show a 'Pact dividend'.[17] It is important to note that, while both the concession over the process of the Bill and the timing of the first reading were tangible concessions to the Liberals, they had no impact on the legislative process *per se*. They were easily accommodated by the Government and were primarily motivated by Callaghan's own political need to retain Liberal support.

Moreover, Callaghan had his own motives for influencing the timetabling of the Bill. First, he wished to ensure that the redrafted Bill was published before a meeting of the European Council, on 31 June 1977, whereupon he could show that the Government was pursuing its 'best endeavours', after the loss of the original Bill. Second, Callaghan wanted to ensure that the progress of the Bill did not coincide with meetings of the PLP. Consequently, at a meeting of the PLP on 16 June 1977, he reiterated to MPs the crucial importance of proceeding with the Bill in maintaining the deal with the Liberals, thus utilising the Pact to mitigate internal dissent to the Bill. In the event, whereas previously there had been serious discontent, at this meeting there was 'a general recognition [in the Cabinet] that the proposed solution was ingenious'.[18]

There then followed intense inter-party discussions as to how the rein-troduced Direct Election Bill would be drafted to ensure that the House of Commons voted directly on whether or not the Regional List should be adopted (there was concern that the Conservative Party, through a supply-day debate or a 'wrecking motion,' might attempt to pre-empt the vote on electoral systems). In this process of inter-party discussions the Consultative Committee took an active role. Jeremy Thorpe, on behalf of the Liberals, argued that the most obvious solution was to exclude any reference to other voting options. He argued that 'to include first past the post as an alternative to PR, whilst not against the terms of the Agreement, ran counter to the "spirit of the agreement"...putting the renewal of the present accord with the Liberals in jeopardy'.[19] Steel

likewise wished to ensure that the Bill would be framed to show explicitly that the Government 'recommended' Regional List PR above the plurality option. With protracted political discussions on this issue continuing throughout May and June 1977, John Hunt took the pragmatic decision to draft two parallel Bills, one placing the first-past-the-post option as a clause within the Bill, the other placing it as a schedule to the Bill. In this regard, the Civil Service were clearly reacting to the needs of the Liberal Party as much as the needs of the Government on this issue.[20]

The eventual structure of the Bill placed the Regional List PR in the body of the proposed legislation, and the first-past-the-post option as a clause to the Bill, to be inserted should the PR option be rejected. The rationale ran thus: during the debate an as yet undesignated Labour MP would table an amendment, prior to the clause on the voting system being debated. This amendment would call for the Regional List option to be struck from the Bill. This was procedurally important in two regards: first, it avoided the prospect of a Conservative amendment being tabled, which might demand that an explicit vote on PR take place. Second, it ensured that, if the amendment failed, the Government would proceed with legislation, employing the Regional List option. Conversely, if the amendment was passed, the plurality system would be seamlessly inserted. This mechanism 'was probably unprecedented in British parliamentary history'. Steel admitted to Callaghan that he did not fully understand how the mechanism ensured the House of Commons would vote on whether or not to adopt PR, but nonetheless he assented to the procedure on the assurance of the Prime Minister that 'he would get his vote'.[21]

Conclusion

While the Pact, as envisaged by Steel, was based on 'being seen to be consulted' for many others in the Party, the three policy pillars of the economic recovery, devolution and direct elections were potential 'red lines'. For Liberal MPs, most notably but not exclusively John Pardoe, the failure to deliver on any one of these policies could threaten the continuation of the Pact. The period March–May 1977 is instructive as it shows the extent to which Steel, in contrast to his colleagues, was prepared to maintain the Pact without the necessity of the Labour Party to be seen to explicitly deliver on any of these policy areas. The focus on both the original Direct Elections White Paper and the reintroduced document does show extent to which the Prime Minister and

Whitehall mandarins were prepared to accede to the political demands of the Liberal leader; however, on the fundamental issue of compelling the Labour Party to put the weight of the Labour Parliamentary Party behind a proportional voting system, Steel manifestly failed. However, the seeds of this failure were sown when the Lib–Lab Agreement was signed, and while in March 1977 Steel had appeased his Party by advising them to 'ignore the textual analysis of the agreement...it is what we do with it that matters', on this most salient issue for Liberals, he was not in a position to deliver. This combination of seeming capitulation on economic policy and a failure to secure 'cast-iron' promises on voting reform intensified the Liberal intra-party conflict of the maintenance and renewal of the Pact, which will be the topic of the next chapter.

9
The Renewal of the Lib–Lab Agreement

The broader political context

Before assessing the process for the renewal of the Lib–Lab Agreement it is important to place it in the context of the wider political events of summer 1977. National Archives records for this period show the Cabinet grappling with a congested legislative programme. Meanwhile, it was attempting to maintain a credible economic policy in the face of trade union agitation. In response to the threat of the collapse of the Government's pay policy, following the actions of the Transport and General Workers' Union and National Union of Miners noted in the previous chapter, Callaghan concluded that a White Paper to be entitled *The Attack on Inflation* was to be produced and presented on 31 July 1977. In the event, the document was never published; nevertheless, for the period May–July 1977, much of Whitehall and the Parliamentary Labour Party was focused on the protracted discussions which took place, all of which took precedence over the Lib–Lab renewal. Indeed, it is important to remember when examining the Lib–Lab Pact that for Callaghan, as he later commented in his autobiography *Time and Chance* (1989), it was economic issues, and specifically trade union negotiations, which took up most of his energy, and not discussions with the Liberal Party.[1]

Political impact on renewal

Stechford, Ashfield and Grimsby by-elections

The previous chapter noted the three main policy issues which threatened the renewal process (economic factors, devolution and direct elections to the European Parliament); however, there were also political and electoral factors which affected the likelihood of renewal. The first electoral test of the Pact, if not necessarily a verdict on it, came

soon after its formation; the (Birmingham) Stechford by-election on 31 March 1977. Steel had asserted in early March 1977 that preparation for Stechford had been the best since the Sutton and Cheam by-election, which had been won for the Liberals by Graham Tope in 1972. However, at Stechford the Party lost its deposit, finishing in fourth place behind the National Front. The Liberal candidate was sceptical of the Pact and complained that the whole campaign was a complete 'cock-up'.[2] The two other by-elections pending when the Pact was announced, in Ashfield and Grimsby, were held on 27 April 1977. Both witnessed a decline in the Liberal vote of almost 10%. It should be observed that these three by-elections, while disappointing, did not significantly influence Liberal attitudes to the Pact. In part this was because they were set in the context of poor by-election performances since 1974, when the Liberal vote fell by an average of 5.5%. Nevertheless, Liberals were dismayed that there was no discernible evidence of either support for the Pact or tactical voting taking place as a result of the parliamentary deal. More worryingly, an ITN poll showed that in Stechford a majority of both Liberal and Labour voters who had switched to the Conservatives cited the Pact as a factor in their decision.[3]

Local elections, 5 May 1977

The first national electoral test of the Pact was the local elections held on 5 May 1977. In what were the worst election results for the Liberal Party in the ten years from 1972 to 1981, over two-thirds of Liberal councillors (94) up for re-election lost their seats.[4] The fact that the Liberals were defending seats won at the height of the Liberal revival in 1973 merely magnified the scale of the reversals. The most important aspect of the results for Party morale was the fact that the scale of the Liberal Party losses was completely unexpected.[5]

Although Hugh Jones and Tony Greaves (the latter, an influential 'Pact-sceptic' representative on the National Council) argued that the Pact was not a contributory factor in the results, many grassroots Liberals were in little doubt that the Pact had been an electoral liability, particularly where Liberals faced Conservative opposition.[6] This perception was exemplified by the results for Leicestershire County Council, where the entire sizeable contingent of Liberal councillors was defeated. Meanwhile, Denis Holt, a Liberal who left the Party over the decision to form the Pact, subsequently stood as an Independent and retained his seat.[7]

As a direct consequence of the local election results, the Association of Liberal Councillors, along with a number of Liberal National Executive

members, came out decisively against the Pact.[8] It was also in response to these results that the group 'Liberals against the Pact', under the leadership of John Pick and Andrew Ellis, was formed. Although it remained a largely dormant group, it would later become a focus for dissent.[9] The magnitude of the losses was such that Chris Cook calculated that if they were repeated in a general election the parliamentary Liberal Party would have been decimated: Beith, Freud, Howells, Johnston, Pardoe, Penhaligon, Smith, Thorpe and Wainwright would all have lost their seats.[10] On this basis there was significant disquiet from Liberal MPs, and while they felt obliged publicly to support the Pact, a number, such as Richard Wainwright, David Penhaligon and Cyril Smith, now felt there would come a time when a differentiation strategy should be adopted. In many ways it was these poor election results and the Liberal MPs' subsequent decision to renew the Pact which confirmed widely held suspicions that the MPs merely supported the Pact for personal electoral advantage, namely to forestall an election.[11] In response to these election results, Steel was contrite;

> I accept that the agreement between the Liberal Party and an unpopular Government was bound to have some effect in the short term, especially because until now there have been no political gains from the agreement for Liberals to point to.[12]

However, in May 1977 Steel remained resolute in his belief that the renewal process should not be derailed or ditched. Hugh Jones concludes that because Steel's primary interest and focus remained on national politics, he lacked empathy with the Liberal councillors who had lost their seats. According to Bartram, Steel did not view local councillors as central to his tactics or strategy, and as a result he was less attuned to the opposition to the Pact which developed through 1977 and was unwilling to respond to the grievances that emanated from the Association of Liberal Councillors.[13]

   In many ways it was reasonable for Steel to argue that the unpopularity of the Labour Government was a contributory factor in explaining the magnitude of the Liberal Party losses in May 1977. The Liberal Party's record in by-elections and standing in opinion polls were quantifiably worse during the period of the Pact than they were either before its formation or after its termination. While there are innumerable variables in explaining party performance in by-elections, the bare numbers show the Party's share of the vote in by-elections fell by an average of 10.1% during the Pact, compared with 5.5% before the Pact, and 6.0%

after its termination. The difference is even more pronounced if the two results in Newcastle Central on 4 November 1976 and Liverpool Edge Hill on 29 March 1979 attributable to 'community politics' are included.

The standing of the Liberal Party in opinion polls for the period of the Pact also seems to corroborate Steel's analysis. As Graph 9.2 shows, from a high in February 1977 of 14%, Liberal support fell to an average of 8% during the period of the Pact. It continued after the ending of the Pact, to a low of 6–7%, between August 1978 and January 1978. The Party's support only recovered during the 1979 general election campaign, returning to a final figure of 14% in the election result itself.

However, closer analysis of Table 9.1 and Figure 9.1 highlights a more nuanced electoral position: namely that, in contrast to Steel's assertion that 'the Labour Party had outstayed its welcome' during the period of the Pact, Labour's electoral performance and standing in opinion polls markedly improved. By August 1978, while the Liberal Party languished on 7%, the Labour Party led the Conservative Party in the opinion polls for the first time since April 1976. In response Callaghan contemplated calling an autumn general election, with the possibility of securing an overall majority.

Opinion polls also suggest that the Pact per se, and cross-party co-operation generally, were considered to be a 'good thing' by almost half the electorate.[14] The decline in the Liberal vote was not therefore wholly due to an unpopular Labour Government but rather a result of erstwhile Liberal voters rejecting the political strategy developed by Steel.

In contrast, the Labour Party – which also fared extremely badly in May 1977, losing over 450 councillors, as well as control of Greater London Council – was far more circumspect. Ron Hayward did not regard the Pact as a factor in the result, citing instead the country's ongoing economic difficulties, combined with 'mid-term blues'.[15]

The build-up to the renewal of the pact

Despite the magnitude of the losses in the local elections, and the fact its membership included a large number of defeated local councillors, the Liberal Council voted overwhelmingly (on 21 May 1977) to con-tinue the Pact. Like their Party's MPs, they accepted that there was little alternative. At this meeting the Council once again attempted to press for concessions on the direct elections voting system in exchange for a renewal. According to Michael Steed, in the wake of the local election result, there was a sense that the Party wanted to see an acknowledge-ment from Labour that they at least recognised Liberal feelings on this issue.[16]

Table 9.1 Swing in support of the Labour and Liberal Parties, 1974–1979 (period of the Lib–Lab Pact highlighted)

Date	Constituency	Change in vote share Labour swing %	Change in vote share Liberal swing %	Election result
26 June 1975	Woolwich West	−5.0	−9.0	Con gain
4 March 1976	Coventry NW	−4.2	−4.4	Lab hold
11 March 1976	Sutton, Carshalton	−10.4	1.7	Con hold
11 March 1976	Wirral	11.3	6.2	Con hold
24 June 1976	Rotherham	−13.9	5.5	Lab hold
15 July 1976	Thurrock	−10.3	−7.8	Lab hold
4 November 1976	Newcastle Central	−24.2	+17.3	Lab hold
4 November 1976	Workington	−10.4	−5.6	Con gain
4 November 1976	Walsall North	−27.85	−13.1	Con gain
24 February 1977	City of London and Westminster	−12.35	−5.64	Con hold
31 March 1977	Birmingham Stechford	−19.6	−6.4 (4th place)	Con gain
28 April 1977	Ashfield	−20.2	−4.7	Con gain
28 April 1977	Great Grimsby	−0.2	−13.9	Lab hold
7 July 1977	Saffron Walden	11.36	−5.13	Con hold
18 August 1977	Birmingham Ladywood	−11.34	−8.49 (4th place)	Lab hold
24 November 1977	Bournemouth East	−5.64	−11.85	Con hold
2 March 1978	Ilford North	−4.4	−11.62	Con gain
13 April 1978	Glasgow Carscadden	−5.5	Not contested	Lab hold
20 April 1978	Lambeth Central	−10.5	−7.2 (4th place)	Lab hold
27 April 1978	Epsom and Ewell	−2.84	−13.84	Con hold
27 April	Wycombe	−2.31	−11.94	Con hold
31 May 1978	Hamilton	+3.5	−1.4	Lab hold
13 July 1978	Manchester Moss Side	−0.7	−9.24	Lab hold
13 July 1978	Penistone	−8.7	−0.2	Lab hold
26 October 1978	Berwick and East Lothian	+4.1	−2.3	Lab hold
26 October 1978	Pontefract and Castleford	−4.6	−5.4	Lab hold
1 March 1979	Clitheroe	−2.8	−14.2	Con hold
1 March 1979	Knutsford	−7.0	−10.0	Con hold
29 March 1979	Liverpool Edge Hill	−28.1	+36.8	Lib gain
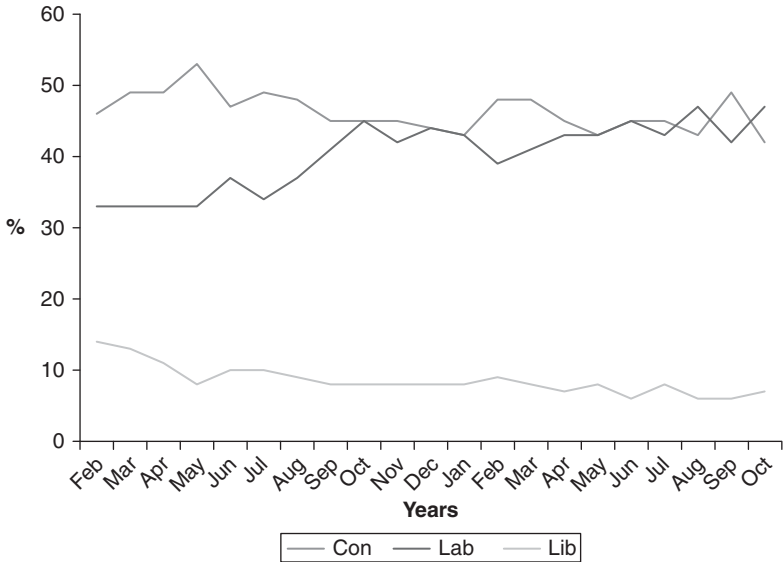
Figure 9.1   Opinion polling during the period of the Lib–Lab Pact (Gallup) (Butler and Butler, 1994) p. 255

The Liberals' growing sense of frustration with the Labour Party's attitude was articulated by Geoff Tordoff, a strong defender of Steel's strategy up to this point. In a speech to the mid-Oxfordshire Liberal Association Tordoff argued:

> we must insist that they [the Government] produce a Bill includ-ing PR and we must insist that they put the full weight of their pay-roll vote in the Commons behind the Bill...I warn the Gov-ernment solemnly that unless they are prepared to put that level of commitment into the Euro-elections Bill then David Steel will find it impossible to continue to hold the Party in the country fully behind him. For Liberal activists this is the crunch issue...one certain way to make it impossible for us to continue, is for the Government not to live up to the spirit as well as the letter of the Agreement in the matter of PR for Europe.[17]

Tordoff articulated a perception among Liberals that the Labour Party had acted in a partisan way in its reaction to the legislation process on this issue. Average quorums in the House of Commons for debates on

direct elections were between 40 and 60 MPs, and much of the filibustering which had delayed its enactment had been orchestrated by Labour MPs. Both Jeremy Thorpe and Russell Johnston were concerned that Labour were not taking full account of 'Liberal attitudes on this issue'. The phrase 'the Government to fulfil the spirit of the Agreement' would become increasingly utilised in Liberal literature on the Pact.[18]

Tordoff's statement also reveals an important shift in the strategy of Liberal activists. Rather than simply calling for the introduction of a Direct Election Bill with STV, as had been the case in the NEC resolution passed in April and May 1977, the focus now moved to calling specifically for the Parliamentary Labour Party to back Regional List PR. The reason for this change in emphasis was rather nuanced. Tordoff (and others) believed that Steel's strategy – namely, that at least 100 Conservative MPs would vote for PR and thus the Labour Party could be offered a free vote – was fundamentally flawed. The Conservative Party had very quickly concluded that, if they were to vote against PR, they might destabilise the Pact. This analysis proved correct, as evidenced in a letter from Shadow Home Secretary Willie Whitelaw to David Owen on 24 July 1977. Whitelaw stated that Margaret Thatcher had 'stiffened the Tory Party considerably over opposition to the Regional List system'. In Whitelaw's judgement this change meant 'it could not be carried'.[19]

Under such circumstances, a House of Commons majority in favour of PR could be achieved only with the support of almost the entire Parliamentary Labour Party, an extremely unlikely outcome without a level of compulsion. Consequently Liberal activists, under the leadership of Christopher Mayhew, Chairman of the Liberal Action Group for Electoral Reform (LAGER), argued that Steel should now demand a firmer commitment from the Prime Minister as part of the renewal negotiations.[20] Mayhew and others, such as Michael Steed, reasoned the 'renewal' process should be a *renegotiation* process. They argued the original agreement had by necessity been quickly agreed and now the Liberal Party could achieve further concessions from a Labour Party which was still unable either to govern effectively as a minority Government or to hope to win a general election.

Steel reasoned that he had achieved all the policy concessions he could feasibly expect from the Labour Government in the original negotiations. His objective in entering the renewal process, as with the discussion on direct elections, was not to try and demand 'unacceptable' legislation from the Labour Party. Renewal was simply an opportunity to ratify Liberal support for the Government's legislative programme, to outline 'shared objectives'. He considered negotiation should only

extend to outlining minor policy objectives which might be included in that autumn's Queen's Speech, and discuss some administrative modifications to the functioning mechanics of the Pact.[21] In retrospect, Steel is more conciliatory to his detractors in the Liberal Party, expressing the view that 'Perhaps I was too close to the day-to-day business of the Pact in parliament to have the necessary perspective to rethink the whole basis of the agreement'.[22]

There was also disagreement within the Liberal Party over when the decision to renew should be made and who should make that decision. Michael Steed argues that Steel might have deferred renewal until the autumn; this would have allowed discussion to take place at the Liberal Assembly. The parliamentary team could then have used resolutions passed by the Assembly as leverage, particularly with regard to the imminent reintroduction of the Direct Election (European Parliament) Bill. However, Steel insisted that the Pact should be renewed before the end of the parliamentary session, to avoid uncertainty, and that, as it was a parliamentary agreement, it should be the preserve of the parliamentary Party to decide the terms under which it might be renewed. Therefore, as with the original negotiations, Steel actively sought to retain elite level control of the renewal process.

Despite Steel's insistence that the parliamentary Party should decide on the renewal process, the Liberal Party Council, meeting on 21 May 1977 (a full two months before the end of the parliamentary session), attempted to influence the renewal process by passing a resolution outlining what it considered should be included in a renewal agreement. In addition to reiterating the objectives in the original agreement, it proposed what might be considered a 'shopping list' of measures. In total, over 40 measures were to be considered for inclusion in a renewal document, including: the repeal of the Official Secrets Act; the introduction of a minimum income wage through tax credits; a national minimum wage; closure of the Polaris submarine bases; and removal of nuclear weapons from the UK.[23]

The Council then resolved that a Steering Committee be established to review what specific policy areas should make up 'Pact II'. Much like the Council resolution, the conclusions of this committee might be characterised as a list of Liberal 'hobby-horses', demanding Government concessions in over 50 areas of policy.[24] Steel's 'pragmatic' approach to negotiating meant that, during discussions with the Prime Minister, he once again did not raise any of the Party Council or Steering Committee recommendations.

Formal discussions within the parliamentary Liberal Party as to the form that renewal should take commenced in June 1977. However, Steel concluded that, 'naturally' as the Pact was a parliamentary agreement, the Liberal peers, while able to contribute to the discussions, should be prevented from voting on the final decision. The Liberal peers in response complained that they were being treated as third-class citizens. As noted above, Nancy Seear, Desmond Banks, Eric Lubbock and Frank Byers had each taken an active role in the 'shadow administration'. As with other aspects of the Pact, this anomaly highlights one of the administrative problems of conducting a Pact without a formal template in place. It might be concluded that, while Steel later claimed that the issue of peers' rights came 'out of the blue', better planning would have avoided the internal conflict which arose out of his unilateral decision-making.

Meeting of the Parliamentary Liberal Party, St Ermin's Hotel, 26–27 June 1977

Following some preparatory discussions, the formal process through which the Liberal Party establishing under what terms the Pact might be renewed took place on 26–27 June 1977, when the Liberal parliamentarians met at the St Ermin's Hotel, Westminster. Coincidently, on the same day, the Labour Cabinet was meeting at Chequers to discuss the Labour Party's approach to renewal. In contrast to the acquiescence of the Labour Cabinet, noted above, the Liberal discussions were drawn out and robust.

Michie and Hoggart (1978) outline in detail the course of the Liberal MPs' discussions. They point out that Cyril Smith was the most vociferous opponent of renewing the Pact. Although he had been supportive in March, by the summer he argued that circumstances had changed. He now believed that 13 MPs was too small a number to administer such an arrangement. 'He could not win votes in Rochdale through it ... whatever they decided he would not be supporting it.'[25] Aware of Smith's stance and in an attempt to mitigate his influence on proceedings, Steel placed Smith to his immediate left in the discussions, and ensured he was the last contributor, thus attempting to avoid the prospect of an anti-Pact sentiment developing among the group.

In the event Smith was joined by Grimond and Penhaligon in opposing the renewal Pact. Once again, Grimond accepted the majority

decision to continue with the Pact but resigned his post as Energy spokesman (this decision was not announced until after the Liberal Assembly in September 1977). David Penhaligon, despite his misgivings, remained loyal to the project. He voted with the majority to maintain the Pact and, even though he was suffering from viral pneumonia, subsequently took on the Energy portfolio relinquished by Grimond, later acquiring the Employment portfolio of Smith after the latter's formal resignation in September 1977.[26] The remainder of the parliamentary Liberal Party agreed to continue the Pact. Emlyn Hooson perhaps encapsulated their thinking commenting: 'we must hang together, we were on a hiding to nothing before the Agreement, and the only difference now is we are on an even bigger hiding to nothing.'[27]

Steel requested each Liberal MP to compile a list of demands which might be part of any renegotiation. The final tally totalled 46 clauses. While there was inevitably some overlap with the Standing Committee's demands, there were also areas of policy in which the Liberal MPs had a specific interest. Two such examples were Steel's desire for a profit-sharing scheme (employee share ownership in private sector businesses), and Geraint Howells's proposal of a Land Bank. Howells had chaired a Liberal committee on this policy, which had sat for over a year and reported back to the Standing Committee in February 1977. Michie and Hoggart (1978) conclude that the proposals were 'probably workable, would genuinely have helped farmers and would have received all Party support'. Nevertheless, the Land Bank policy was rejected by Steel, on the grounds that the Government legislative timetable was already too congested. The Liberals would go forward with one key policy objective, Steel's own profit-sharing policy. This was to be combined with a more 'manageable' list; collectively there were ten policy areas. Perhaps the most significant aspect was the rather tepid caveat added to the final point, which called for progress on European Elections by PR 'if possible'. When the list of ten proposals was leaked to the press, allegedly by Cyril Smith in an attempt to destabilise the Pact, they were caricatured as the 'Ten Commandments':

1. Tax reform involving tax cuts
2. Employee profit-sharing
3. Help for small businesses and the self-employed
4. Reform of the Official Secrets Act
5. Grants for first-time home buyers
6. A national efficiency audit

7. A youth employment programme
8. Better consumer protection by strengthening the Monopolies Commission
9. Assemblies for Scotland and Wales with PR an option
10. Progress on European elections, also by PR if possible.

While accepting the ten policy areas outlined above, the MPs also demanded that there should be further renegotiation in 12 months, rather than accepting Steel's preference of 18 months. Steel expressed his desire that the Parliamentary Labour Party should formally endorse the Pact.[28] On this latter point, Callaghan accepted that in terms of legitimacy this might be desirable, and discussed the matter with Michael Foot and Kenneth Stowe. Stowe advised the Prime Minister 'this may not be the best move tactically'. The PLP was thus only ever 'informed' of the renewal of the Pact, and no formal vote took place. Steel was to conclude later that this was a structural weakness of the Pact, which allowed Labour MPs to snipe from the sidelines and thus undermine the Pact.[29]

Following the leaking of the 'Ten Commandments' the Liberal MPs' list of demands was criticised by a significant section of their own Party. The document was considered too vague in tone, offering 'something for everyone', and indeed many of the issues raised would have gained all-Party support.[30] Callaghan's response to the Liberal demands is instructive in this regard – he accepted all the suggestions but equally 'did not feel compelled to act', pointing out that the Government had already legislated on issues such as youth unemployment, first-time buyers and official secrets. Steel, in a response indicative of his emphasis on consultation rather than policy, concluded that although on issues such as the Official Secrets Act his Party was committed, he himself was fairly ambivalent.[31] It might be noted that Steel's desire for action on profit-sharing meant that he pressed for this policy to be specified in the renewal document and, as will be discussed later, included in the Queen's Speech, as well as in the Finance Bill 1978, and eventually enshrined in legislation.

In addition to the policy areas outlined above, Steel suggested a number of 'improvements' in the mechanics of the Pact: as previously noted, these amounted to office space and secretarial assistance. Kenneth Stowe commented to John Stevens that this constituted a 'substantial change in gear in the management of the Agreement'.[32]

In the intervening period, between the St Ermin's meeting on 26–27 June 1977 and the end of the parliamentary session in July, a number

of issues had combined to make it more likely that the Liberal MPs would support the renewal of the Pact. As discussed above, the revised Direct Elections Bill had been published, with the inclusion of the Government's assurance that it would commend PR. Russell Johnston, the Liberal Party's key negotiator on devolution, was largely content that discussions with the Government on this issue were continuing on amicable terms. The Chancellor's mini-budget, held on 15 July 1977 (which circumvented the need for the White Paper on pay policy noted above), removed the immediate threat of a public sector pay explosion. Denis Healey also announced a number of measures designed to appeal to the Liberal Party, such as a 1% cut in income tax. He also confirmed the reduction in petrol duty that had been agreed with the Liberals as part of their agreement to support the Finance Bill. Steel meanwhile attempted to show his colleagues the 'dividends of the Pact': one such example was a private meeting with Len Murray, General Secretary of the TUC, organised by Callaghan, which according to Steel was well received by Liberal MPs.

While the local elections in May 1977 had threatened the longevity of the Pact, the case for renewal was aided by the positive result for the Liberals at the Saffron Walden by-election, held on 7 July 1977. It was a seat in which the Liberals had previously finished second with 30% of the vote in October 1974. There had been conjecture that if the Liberal vote collapsed on a scale comparable to previous by-elections, the unrest would be such that David Steel would be unable to persuade his Party to endorse the renewal of the Agreement at the forthcoming Liberal Assembly. The Liberal electoral machine, such as it was, swung into full gear. Visits to the constituency were made by most MPs, a process welcomed by Andrew Phillips the Liberal candidate.[33]

Phillips was a strong supporter of the Pact, writing to *The Times* in April 1977 in direct response to the criticism of the Agreement from the neo-liberal economist Friedrich Hayek.[34] In the event, the Liberal vote fell but only by 5%, the best result of any by-election throughout the lifetime of the Pact. Buoyed by this outcome, Steel asserted that if others followed Phillips's lead in positively promoting the virtues of the Pact, electoral support would be forthcoming.[35] The Labour candidate, in third place, witnessed a collapse of his vote, which gave the Liberals hope – albeit not subsequently fulfilled – that the Pact would lead to more tactical voting. *The Economist* suggested, rather optimistically, that, if repeated at a general election, the Liberals might win 30–40 seats in the next parliament.[36]

Nevertheless, the Saffron Walden result undoubtedly strengthened Steel's position, and much of the antipathy towards the Pact within the Liberal Party abated.

Renewal of the Lib–Lab Pact: inter-party negotiations, June–July 1977

Inter-party negotiations, after the St Ermin's conference, focused on how the Liberal's ten demands might practically be incorporated in the Government legislative programme. This process was restricted to the Callaghan–Steel axis of the consultative framework and was conducted on Privy Council terms. Mindful that the Pact might not be renewed, Stowe had advised Callaghan that there should not be discussion on forthcoming legislation in the Lib–Lab Consultative Committee, he informed Government Ministers and Permanent Secretaries respectively not to 'involve themselves in discussions with Liberal spokesmen on Bills for the next session', adding that 'I have not told David Steel that obviously'.[37]

Discussions on the 'Ten Commandments' did take place between Liberal spokesmen and Cabinet Ministers within the spokesman–Minister axis. Callaghan called on all colleagues to pursue these discussions 'with vigour and good sense'.[38] However, spokesman–Minister discussions were largely unproductive, and Stowe, who collated their proceedings, regarded the conclusions as 'woolly'. He also noted with some concern that 'the number of policy areas under discussion has mushroomed to about 30'.[39] Stowe also pointed out to the Prime Minister that 'strategically this is helpful, in that it demonstrates the complexity of the subject . . . not even the Liberals can expect specific answers on the 10 areas of policy before the Agreement is renewed'.[40]

The extent of inter-party co-operation which took place in the formation of the renewal document is worthy of note. In *A House Divided,* Steel acknowledges that the renewal letter was written in consultation with Kenneth Stowe.[41] However, Stowe's own notes (in the National Archives) highlight a much more collaborate exercise taking place, with consultation extending to a large number of Government Ministers, including Denis Healey, Albert Booth, Joel Barnett and Peter Shore. Stowe observes, in a note to the Prime Minister, that 'the passage on consumer protection was Roy Hattersley's own words'.[42]

The involvement of Kenneth Stowe was also critical to the administration of the renewal process; he produced an advisory note for the

Prime Minister on how the renewal process might proceed. Stowe envisaged that it would run as follows: Cabinet was to be consulted in the penultimate week of the session; then parliament would be informed on 28 July 1977, when both leaders were to speak on the floor of the House, from the same 'note in [their] pockets', otherwise 'there was a real danger of Steel upping the stakes'.[43] Stowe asserted this timetable would ensure that the parliamentary session ended 'on a positive vote of confidence'.[44]

Steel, for his part, envisaged a similar situation to that which had occurred in March 197, namely, that the Prime Minister would formally present a 'Joint Document' to parliament. Callaghan in response to both Stowe and Steel's submissions was particularly assertive: he did 'not want another piece of paper' that would be 'mulled over'.[45] Steel eventually complied with the Prime Minister's wishes, accepting that the renewal should only be signified by a Liberal Party letter to the Prime Minister outlining areas of 'common interest', with a corresponding note from the Prime Minister acknowledging continued Liberal support.

As with the original inter-party negotiations in March 1977, Steel chose to negotiate the renewal process alone, reporting back to his colleagues intermittently. Accordingly, in a meeting of the parliamentary Liberal Party on the 26 July 1977, which in theory was intended to act as a final opportunity for MPs to decide whether or not to renew the Pact, Steel presented his colleagues with a pre-drafted letter to the Prime Minister confirming the renewal as well as the terms under which it was to be agreed. Not surprisingly, when Steel presented this document, half-way through their discussions on the merits of the Pact, there was incredulity from some MPs. David Penhaligon objected, stating that 'we were supposed to be debating whether the agreement was worthwhile, but this was a *fait accompli'*.[46] Despite Penhaligon's objections, and his subsequent vote against the renewal (in which he was joined by Cyril Smith), the remaining MPs agreed to renew the Pact. The prevailing view can be characterised by John Pardoe's observation that 'it was his prerogative as leader . . . we could hardly do otherwise'.[47] The Liberal NEC met the next day, and for all its previous protestations over the terms which should be agreed, specifically with regard to their demand that the Government 'payroll' should be compelled to vote for PR for the direct elections to the European Parliament, it also accepted the actions of the Party leader, again largely on the basis that there was little alternative. A resolution formally 'paid tribute to the leader, the Chief Whip and the parliamentary Party in conducting the renegotiation'.[48] The formal exchange of letters took place on 27 July 1977.

The renewal of the Lib–Lab Agreement: The exchange of letters, 27 July 1977

Dear Prime Minister,

On 23 March the parliamentary Liberal Party agreed to work with the Government for the remainder of the parliamentary session in the pursuit of economic recovery. Having reviewed the operation of this Agreement, we have decided to continue co-operation into the next session of parliament for so long as the objectives set out in the Chancellor's statement of 15 July are sustained by the Government.

We are agreed that the fight against inflation and unemployment is of paramount national importance, and stress the need for both the 12-month gap between pay increases and a limit of 10%. The Liberal Party has already supported the Government in both Houses to secure the passage of the Price Commission Bill.

We understand that in the next session of parliament:

The Government in tackling unemployment, which must be a top economic and social priority, will place particular emphasis on the problem of school leavers, and the potential for increased unemployment among small businesses. The Government has undertaken to investigate urgently further short term measures to reduce teacher unemployment. We have urged the Government to initiate an all-Party appeal to employers and Trade Unions to use the employment opportunities which are currently offered to them to help young people, with emphasis on apprenticeship and other forms of training.

The Government has agreed to consider ways of encouraging the creation of schemes for profit-sharing in private industry with a view to legislation.

So far as is permitted within the economic strategy there should be a shift within the overall level of taxation away from taxes on income, while providing a level of public expenditure that will meet social needs.

The Government will reintroduce the European Assembly Elections Bill and use its best endeavours to secure its passage through all stages in time to meet the Community target date for holding such elections.

New legislation for devolution to Scotland and Wales will be promoted in accordance with the statement by the Lord President on 23 July.

The Government will introduce legislation to provide help for first-time buyers, on the lines suggested in the Government's Green Paper on Housing Policy.

The Government will bring forward proposals for a more effective competition policy and for greater consumer protection.

The Government will continue its consultation with the Liberal Party, already begun, with a view to determining the priorities in the Queen's Speech, and on such other matters as the provision of legal assistance at major public enquiries, stricter scrutiny of public expenditure and reform of the Official Secrets Act.

Yours sincerely,
David Steel

In an informal exchange between the two leaders, Steel thanked Callaghan 'warmly for his patience and understanding during what has been a rather novel constitutional experiment'. Callaghan's reply was little more than an affirmation of Government policy, 'welcoming of Liberal support' but emphasising 'the independence and integrity of each of our parties'; it concluded by emphasising 'parliamentary stability' rather than the 'constitutional' nature of the Pact.[49]

Conclusion

The poor electoral performance for the Liberal Party in by-elections and, more specifically, the local election results in May 1977 marked a discernible shift in Liberal grassroots opinion on the Pact, from ambivalence to a more antagonistic attitude. In assessing the merits of the renewal agreement it is hard to disagree with Michie and Hoggart's observation that of the original ten points only a few were retained, and even then the language used was less assertive than in the original Liberal document. Most 'left a great deal of fuzziness around the edges'.[50] The terminology used, calling on the Government to 'place emphasis', 'to undertake an investigation', 'to agreed to consider' and 'so far as is permitted', would enable the Government to fulfil the agreement

without legislating or in some cases making any significant progress towards enacting legislation at all.

Steel argued the concessions achieved were all that was possible within the constraints of a parliamentary agreement. He ascribed particular importance to the fact that there was no defined end-date to the Pact; instead its continuance was based on the Government maintaining its industrial and economic policy as presented by Healey in the mini-budget. In this way, in theory the Liberals could continually hold the Government to account.[51] In practice this was hardly an onerous demand, for if the pay constraints, which were central to the Government's industrial policy, were broken, it would have serious consequences for the Labour Party aside from the Lib–Lab Agreement, as indeed it did in autumn 1978. Steel's decision to negotiate again with Callaghan on a bilateral basis – with important input from Whitehall officials such as Kenneth Stowe, but often deliberately circumventing both the parliamentary Liberal Party and the wider Liberal Party – both frustrated colleagues and left them with the impression he had once again sold the Party short. The following chapter will examine how this divergence in opinion between David Steel and an increasingly large section of the Liberal Party over the purpose of the Pact and the potential of achieving specific policy aims threatened the internal unity of the Liberal Party and Steel's own position as leader, and ultimately hastened the end of the Lib–Lab Pact.

10
The Second Phase of the Lib–Lab Pact, July–September 1977

An overview

The next two chapters will address the period from the renewal of the Lib–Lab Pact in July 1977 to its termination in August 1978. Focus will be placed on two areas: internal discontent within the Liberal Party, and policy implementation. This chapter will examine the reasons for the discernible shift against the Pact within the Liberal Party which took place through this period. Drawing on recently released archive material, emphasis will be placed on three specific events in explaining this process: the Liberal Assembly held in Brighton in September 1977; the subsequent meeting of the Liberal Council held in Derby in November 1977; and the House of Commons' decision not to endorse the adoption of Regional List (RL) PR for the direct elections to the European parliament. New perspectives will be offered on how Liberal intra-party conflict was articulated, assessing the affect this had on the leadership–grassroots dynamic. The extent to which it threatened to undermine the leadership of David Steel will be assessed and, finally, how it influenced subsequent Liberal/Liberal Democrat Party strategy.

Included in this analysis is a review of two aspects of cross-party consultation and policy implementation which occurred through this period. The first case study focuses on the cross-party discussions surrounding the content of the Government's forthcoming legislative programme 1977–1978 (the Queen's Speech 1977). The second addresses the discussions which preceded the 1978 Budget and the consequent negotiations on the Finance Bill. Emphasis is placed on how preparation and negotiation strategy differed in these examples from the case study into the 1977 Budget, discussed in Chapter 6 of this book. Through this process new perspectives are given on the changing attitudes to cross-party negotiations as the Pact developed and then drew to a close.

The broader political context

The Labour Government entered the summer recess of 1977 in buoyant mood. James Callaghan enjoyed success on the world stage, hosting a visit from US President Jimmy Carter and the World Economic Summit, as well as leading the national celebrations of the Queen's Silver Jubilee. In economic terms, the second half of 1977 saw significant improvements: unemployment fell; the FT 30 index hit a record high in September; and by October the balance of payments yielded in surplus. The Government's industrial policy was also largely back on schedule; although the TUC had voted to formally end the 'social contract' on 6 July 1977, it nonetheless drafted an agreement with the Government in August over 'pay norms'. It was agreed to endeavour to keep pay increases below 10%, and for pay to be set for 12 months.

The Labour Party in parliament was in a stronger position than at any time since it had lost its overall majority in April 1976. The renewal of the Lib–Lab Pact and the continuation of the agreement with the Ulster Unionists, which was still in place, were complemented by an assurance from the SNP and Plaid Cymru that they would not instigate a vote of confidence against the Government, on the basis that the devolution legislation would be reintroduced. All of this translated into higher approval rating for Callaghan personally, and by October 1977 the Labour Party was level with the Conservatives in the opinion polls. The Conservative Party research unit noted with concern that 'There was a surprising amount of euphoria about the county's economic prospects, and Labour and Mr Callaghan seem in calm control of events.'[1] Callaghan was able to speak confidently of calling an election at a time of his choosing, but perhaps not until 1979.[2]

In contrast, the summer of 1977 was a period of growing internal discontent within the Liberal Party. The parliamentary Party, while heartened by the economic recovery, was concerned that the Lib–Lab consultative mechanism had not resulted in the level of policy influence envisaged. There was also frustration that the renewal document had not contained more specifically Liberal policies, and there seemed little prospect of this position being rectified in the forthcoming Queen's Speech. Meanwhile the Liberal grassroots, while superficially interested in the Westminster-centric issues outlined above, were consumed by concerns on two inter-related issues: the poor standing of the Party in the opinion polls, and the absence of positive media coverage of the sacrifices the Party had endured in order, as many activists saw it, to facilitate the economic recovery. The Party was averaging between 6 and

8% in the opinion polls, a figure Hugh Jones considered was the Liberal 'bedrock'.[3] The press had largely maintained the view that the Liberal MPs had formed the Pact to avoid an election, and in the absence of specific Liberal economic policies, the improving economic conditions simply showed they had 'backed the right horse'. These perceptions meant the Liberal rank and file were inclined to attach increased significance to tangible policy objectives coming out of the renewed Lib–Lab settlement. This in practice meant that the most important tangible policy objectives sought by the grassroots was the government legislating to introduce a PR system for the direct elections to the European parliament.

Liberal Party Assembly, Brighton, September 1977

As noted in Chapter 9, David Steel had been eager to ensure that the renewal of the Pact was finalised before autumn to avoid grassroots agitation at the Liberal Assembly due to take place in Brighton at the end of September 1977. Nevertheless, as might be expected, given its historic significance for the Liberal Party, the Pact formed the main topic of discussion both inside and outside the conference hall. Accordingly, the Assembly debated, and ultimately voted on, the Lib–Lab Pact. This was in stark contrast to the attitude of the Labour Party Conference, held at the same location a week later. Labour delegates broadly took the view that, as a wholly parliamentary agreement, there was no requirement for the conference to adopt a formal position.

The Liberal Assembly schedule included a debate and vote on the Pact to take place on the third day of the conference. In an attempt to avoid any prospect of anti-Pact sentiment developing, Steel chose to break with tradition and address delegates both on the final day (the traditional leader's rallying-cry speech) and on the first day of the Assembly. In his opening speech Steel highlighted the successes achieved thus far. In hindsight, he considered this approach to be ill judged, not least because the Party did not view Steel's main 'achievement' – consultation with Ministers – as a key 'success'. Steel also failed to articulate effectively what he considered his key announcement of the week: the Government's decision to adopt the Liberals' demand for legislation on profit-sharing in industry.[4]

Steel used this platform to address what he saw as an issue hindering his negotiating position: the repeated interjection of Liberal activists threatening to terminate the Pact if certain conditions were not met. Quoting from a speech made by Lloyd George in 1931, when the Liberal

party held the balance of power, Steel warned delegates: 'We are a body of men whose sole sanction to enforce their behests is capital punishment. There are two objections to that. You cannot inflict capital punishment for minor offences; and you can only inflict it once for any offence.'[5] While this line of argument seemed to have some effect, for many the allusion to the Lloyd George period revived memories not of a successful coalition which facilitated a Liberal revival, but rather a period which had almost destroyed the Party as a national force.[6]

When the Lib–Lab Pact was formally debated on the third day of the conference, none of those contributing to the debate overtly criticised Steel or his decision to enter the Pact. However, a resolution was tabled by Bill Pitt, who represented the Association of Liberal Councillors (ALC) and was later to be the Liberal MP for Croydon North-West. Pitt criticised the terms under which the Pact had been renewed and called for its renegotiation. Cyril Smith, in the first public expression of discontent towards the Pact to emanate from the parliamentary Liberal Party, spoke in support of the resolution, stating that he was not an anti-coalitionist *per se*, but he was 'an anti-coalitionist unless you have enough MPs to guarantee your identity within the coalition'.[7]

According to *The Times*, Pitt's resolution received only a 'lukewarm' response. The mood of the conference seemed to be one of ambivalence. One delegate observed: 'we are very few of us in less than two minds about this agreement'.[8] Nevertheless, when David Penhaligon spoke, declaring that 'if we don't get what we want out of the Queen's Speech, we come out', he seemed to have won the support of the conference hall. According to *The Economist,* the subsequent intervention of John Pardoe was crucial. He made it clear that Steel regarded a defeat for the Pact at the Assembly as a vote of no confidence. He persuaded delegates to 'give David Steel the support that he deserves'. The ALC amendment was duly defeated by 716 votes to 385, with Pardoe's intervention influencing the margin, if not necessarily the result. Cyril Smith immediately resigned from his position as employment spokesman, and was replaced by Penhaligon.

According to Bartram (1981), David Steel attached particular significance to the margin of the Assembly vote in favour of the Pact, interpreting it as a formal endorsement of his wider strategy of co-operation. He also felt some satisfaction that the wider Party now assumed some responsibility for its continuance. However, as at Llandudno a year earlier, Steel misinterpreted the prevailing mood of delegates. The Brighton vote was not an unequivocal endorsement of Steel's co-operation or Pact strategy, as revealed by subsequent events. Delegates accepted without

demur Steel's assertion that, in order for the Liberal Party to achieve office, co-operation was inevitable. However, their endorsement can be attributed to an appreciation that it was Steel's prerogative as leader to enter and renew the Pact and an assumption that to end the Pact in September 1977 would potentially instigate a general election, which in turn would almost certainly see Liberal losses.

The Assembly also saw those who sought an alternative negotiating strategy make their case. Christopher Mayhew, in his role as Chairman of the Liberal Action Group for Electoral Reform (LAGER), intended to table a resolution stating that unless 'a majority of 100 Labour MPs' voted for PR for the European elections the Liberals would end the Pact. Mayhew's intension was to 'strengthen Steel's hand' in the subsequent negotiations with Callaghan. However, in keeping with previous attempts by the Party organs to engage in the Lib–Lab negotiations, Steel resented this intervention. He also considered the terms demanded by Mayhew both unreasonable and unobtainable. He still believed that Regional List PR for the European elections was an achievable goal, without the necessity for Mayhew's resolution. Indeed, he maintained, having made 'very careful enquiries in the House', that MPs were evenly divided in their support for or opposition to the Regional List system.[9] Not wishing to cause a confrontation with his leader, Mayhew withdrew his resolution and instead tabled an alternative resolution, calling for a 'substantial majority' of Labour MPs to vote for PR. Despite Steel letting it be known that he remained appalled that conditions should be imposed on his negotiating position, the motion was carried, notably with the support of Gruffydd Evans (the Party President) and Geoff Tordoff. During the debate Evans struck a strident tone (not endorsed by Mayhew), stating that if the Labour Party did not support PR, the '[Liberal] Party should consider pulling out of the Agreement and be on a war footing for a general election'.[10] The fact that Mayhew's resolution was adopted by the Assembly, against the wishes of Steel, was emblematic of a growing division between the mass membership of the Liberal Party, which primarily sought definable policy objectives from the Pact, and their leader's strategic focus on 'national recovery' and cross-party consultation. As will be discussed shortly, this division would deepen as the vote on direct elections approached.

Mayhew's actions and motives in 1977–1978 warrant some further attention as they have been misrepresented in the literature on the Pact. Michie and Hoggart (1978) suggest that Christopher Mayhew's objective was to kill off the Lib–Lab Pact. They state: 'activists tried to find ways of making the MPs break off the agreement. They were led by Christopher

Mayhew.'[11] However, this is to misrepresent Mayhew's motives, both at Brighton and subsequently. He was not attempting to break the Pact, but articulating the view that 'it was possible to be a warm supporter of the Pact...but instead of asking for vague assurances...demand one or two specific items of importance'.[12]

Chris Cook, in his *Short History of the Liberal Party 1900–1997*, has condemned Mayhew's tactic in demanding 'a substantial majority of Labour MPs' vote for PR as being 'naive politics', pointing out, quite correctly, that the Parliamentary Labour Party had already expressed significant hostility to PR in the devolution debates early in 1977.[13] However, Cook also misrepresents Mayhew's core motives at Brighton. As noted in Chapter 5, Mayhew was convinced that, if compelled to do so, a majority of the Labour Party would vote for Regional List PR – a position that, it has been established, was shared by Callaghan, and others in the Cabinet. On the basis of this evidence it seems plausible that including a degree of compulsion on Labour MPs in the Lib–Lab Agreement may have led to a majority of the 'payroll', if not the PLP, voting for Regional List PR.

Furthermore, Mayhew did not assume that his resolution calling for 'a substantial majority' of Labour MPs to vote for PR would result in a House of Commons majority for PR, as Cook's assertion implies. Mayhew had reluctantly concluded that the Pact, as negotiated, could not deliver PR. He assumed, correctly, that the Conservative Party would vote against it, in an attempt to hasten the end of the Pact. He also concluded that the Labour Party, having been offered a free vote, would not vote in large enough numbers to offset the Conservative opposition.[14]

On this basis Mayhew reasoned that the Liberal Party's 'breaking point' could not be whether PR was delivered but only 'whether the Government has tried hard enough to get PR'. Mayhew argued that the Liberal Party should gauge in empirical terms whether the Government had fulfilled its 'best endeavours' on this issue. It should also 'make sure Labour knew' these terms of reference, prior to the vote. The Liberal Party could then judge whether to continue the Pact if and when the terms were not met. He further reasoned that this course of action would ensure that, even if PR was not achieved, the House of Commons would have voted in 'substantial numbers' in favour of PR for European elections, and that this would act as a bridgehead to hasten future electoral reform. In this regard, Mayhew's position was nuanced, rather than naive, as claimed by Cook.[15]

At the end of the Party conference season parliament reconvened, and, as is customary, the new session began with the Government

presenting its legislative programme in the Queen's Speech. The next section will be a case study review of this process analysing Liberal negotiating positions and consequential policy influence.

Case study 2: the Queen's Speech 1977

Labour intra-party discussions on the content of the Queen's Speech (the legislative programme for 1977–1978) commenced in March 1977. In theory, because the Lib–Lab Pact was scheduled to terminate or be reviewed at the end of July 1977, there was no compulsion for Government Ministers to involve Liberals in this process. However, the Government quickly acknowledged the importance of retaining Liberal Party support for its forthcoming legislative programme whether the Pact was renewed or not, and so on 7 April 1977 Kenneth Stowe advised the Prime Minister that the Queen's Speech should include 'polices attractive to the Liberals'.[16] Consequently, numerous discussions took place between Callaghan and Steel throughout June and July 1977 concurrent with negotiations on the renewal of the Lib–Lab Pact. During this process, as noted in Chapter 9, Steel emphasised that his priority was to achieve an understanding based on 'shared objectives'.

As noted in Chapter 6, on the direction of the Prime Minister, discussion between Liberal spokesmen and Government Ministers did not formally commence until the autumn of 1977. Nonetheless, when these meetings did take place, they were both extensive and largely cordial. Some Ministers attempted to use these meetings to promote their own policy and departmental objectives, in the hope that Liberal support might improve the prospect of these policies being included in the legislative programme. Meanwhile, Callaghan, concerned that the Liberal Party might break the Pact over frustration that they had not achieved more concrete policy objectives, advised Ministers to covertly put forward policy proposals which might be 'adopted' by the Liberal Party.[17]

The informal structure of the consultative mechanism meant that Liberal spokesman largely negotiated alone with Government Ministers. As a consequence, some Liberal MPs obtained a distorted impression of the likelihood their policy proposals being included in the Queen's Speech. Pardoe, Beith and Hooson, discussing the legislative programme in the Lib–Lab Consultative Committee on 18 and 26 October 1977, had thus variously assumed that a series of Liberal-inspired measures related to, education, agriculture policy and economic policy were to be included. Steel, via his bilateral discussions with Callaghan, had

not agreed to any substantial Liberal influence in these areas. He was compelled to assuage them of their views. This episode clearly highlights the difficulties of intra-party communication under the structure of the consultative mechanism as formulated by Steel.

As with other aspects of the consultative process, Steel acted as the final arbiter on whether Liberal proposals were presented for consideration to be included in the legislative programme. In a number of instances Steel reasoned, often correctly, that policies presented by his colleagues for inclusion in the Queen's Speech were poorly drafted, and thus not in a position to undergo parliamentary scrutiny. Examples of policies rejected by Steel included: a Land Bank, education reforms, tax reform and devolution for the English regions.[18] In some cases, Steel simply chose not to promote particular policies: for example, an efficiency audit of Whitehall. This would have been relatively cost-neutral and taken up very little parliamentary time, yet Steel confided in Callaghan that 'he found the whole subject unutterably boring'.[19]

Similarly, Steel did not press the case for Clement Freud's Private Member's Bill for reform of the Official Secrets Act. Steel assured Callaghan that, 'while his colleagues would press for a Bill, he would be content with a White Paper'. Steel's colleagues considered this issue a good 'Liberal' cause, and certainly more important than Steel's own policy priority for profit-sharing. Indeed, support for the measure within the parliamentary Liberal Party was such that, following opposition to the proposal from within Whitehall, Michael Foot observed that 'it could bust the Lib–Lab Pact'. In the event, the Bill enjoyed cross-party support, securing its second reading and was only lost when the Government fell in March 1979.[20]

As has been noted, Steel chose not to explicitly demand specific policy concessions in the renegotiation process in July 1977. He retained the belief that a programme based on 'shared objectives' was the most pragmatic approach. While this limited the direct policy influence the Liberals could exert on the Queen's Speech, Steel reasoned that the legislative programme contained a large number of policies which the Liberal Party could support. For example, the Direct Elections Bill and Devolution Bills were to be reintroduced. These might be combined with more minor policies which enjoyed Liberal Party support, such as consumer protection, assistance for small business; a Bill to regenerate the inner cities, assistance for first-time home buyers and, as noted above, amendments to the Official Secrets Act presented by Clement Freud as a Private Member's Bill.

The Liberal Party did attempt to gain some credit for the inclusion of such legislation, linking them to the renewal document. However, without evidence of 'compulsion' from the Liberal Party of the Government to legislate in these areas, they were unable to gain any traction either in the media or with the public. In this sense, structural weaknesses of the Pact and the policy proximity between the Labour Party and Liberal Party inhibited the Liberals from exhibiting explicit significant policy influence.[21]

The most important factor which limited the Liberals' influence on the 1978 Queen's Speech was the parliamentary timetable. Once the Devolution (Scotland and Wales), Direct Elections for the European Parliament and essential financial and legal Bills were set aside, there were fewer than 15 days available for all other legislation. Despite Liberal MPs' objections, Michael Foot and Freddie Warren argued effectively that the primacy of the three constitutional Bills militated against greater Liberal input on the content of the legislative programme. Consequently the Labour Party, with the approval of the Civil Service, explicitly offered Steel the chance to choose *one policy* for inclusion in the Queen's Speech. Foot made the proviso that this must come from the various Liberal priorities, rather than replace a Government priority. Although, clearly, giving time to a Liberal proposal did limit Labour Ministers' having their own policy objectives realised, there was no objection to this process from within the Cabinet.[22]

It was indicative of the leader-led nature of the Liberal negotiating position that, faced with this choice, Steel prioritised 'over all other possible legislation' a Bill which he had championed during the renewal process, namely, profit-sharing. He now sought a Government commitment to 'bring forward legislation' so that it might be included in the Finance Bill.[23] There was some justification for Steel's strategy: profit-sharing had been a policy objective of the Liberal Party as far back as the 1929 *Yellow Book*. It was also the primary reason why David Penhaligon, among others, had joined the Liberal Party.[24] Nevertheless, the extent to which Steel's focus on profit-sharing resonated with the wider Liberal Party, and by extension the public, might be questioned. It was not discussed at the Liberal Assembly in either 1976 or 1977.[25] Within the context of the economic and political situation in the late 1970s it was not a key priority for much of the public. Significantly, it was considered a significant concession by Government Ministers. The Chief Secretary to the Treasury, Joel Barnett, concluded that the Government was not

ideologically opposed to the policy. He concurred with his Cabinet col-
league Harold Lever's observation that it was 'little more than a puny
little scheme'.[26]

In mitigation of Steel's prioritisation of profit-sharing, a Liberal Party
of 13 MPs could only demand the implementation of a policy which was
guaranteed to gain the support of, or at least to be met with ambivalence
by, the Labour Government; on this basis profit-sharing was a reasonable
choice. However, the opportunity afforded to the Liberal Party to have
a specific policy included in the Government's legislative programme
suggests an intriguing scenario. Steel might have urged the Cabinet to
introduce a policy on the sale of council houses. This policy, which
had been introduced by some Conservative Local Councils in the early
1970s, subsequently encapsulated the reforms of the Thatcher Govern-
ments of the 1980s. However, a version of it had also been part of the
Labour manifesto in 1974. Although it was subsequently vetoed at the
Labour Party Conference in 1976, Bernard Donoughue of the No. 10
Policy Unit had championed the sale of council houses as a possible
policy, and Callaghan was supportive of the idea. He had personally
suggested to Tom McNally in 1976 that it should be considered for inclu-
sion in future legislation. The case could have been made that Labour
had previously supported it and that it was now compelled to act in
order to retain Liberal support. Callaghan had employed this strategy in
Cabinet discussions with regard to legislation for direct elections. From
the Liberal Party perspective, the proposal had been included in a pol-
icy document produced by David Steel in 1975, entitled *Strategy 2000*,
and a policy of selling council houses had already been implemented by
Liberal-controlled Liverpool Council. It is thus not inconceivable that,
had the Liberal Party suggested this policy for inclusion in the Queen's
Speech 1977, the Liberals would have enjoyed the support of the Prime
Minister, the Policy Unit, the social democrat wing of the Parliamentary
Labour Party and, it must be presumed, the Conservative Party. In such
circumstances, the Government could have legislated on this issue with
impunity, and as a result a tangible benefit from the Pact for the Liberal
Party would have been achieved on a policy which subsequently proved
so popular with the electorate.

Conclusion

This chapter has noted the development of an alternative Pact strategy,
as articulated by Christopher Mayhew first at the Liberal Party Assembly
in Brighton and then at the Liberal Council held at Derby. The hitherto

misrepresented motives of Christopher Mayhew have been reassessed. The nuanced position of Mayhew and Michael Steed, as with other interventions by the organs of the Party, was roundly rejected by a Liberal leader as he remained intent on his broader strategy of maintaining a collegiate relationship with Labour rather than establishing specific breaking points, in the hope that long-term objectives of realignment would result. The case study of the Queen's Speech 1977 highlighted the limited ability of a small contingent of Liberal MPs to influence Government policy through the mechanism constructed to administer the parliamentary Pact. It further emphasised the predominant position of David Steel as the final arbiter of Liberal policy and strategy. It highlighted the extent to which the Liberal leader largely acted with impunity in administering the Pact, consulting colleagues when required but acting largely independently of his parliamentary Party via his bilateral communication with Callaghan. The following chapter will return to the chronological narrative, reviewing Steel's strategic focus on 'consultation' rather than policy influence and his miscalculation with regard to the parliamentary vote on PR. Internal conflict within the Liberal Party reached its zenith in this period and ultimately led to the termination of the Pact in August 1978.

11
The Final Phase of the Lib–Lab Pact, October 1977–August 1978

Political overview

Buoyed by the endorsement of the Pact by the Liberal Assembly in September 1977, David Steel's attention for the remainder of 1977 was focused on events at Westminster. Two issues took particular precedence: the inter-party discussions on the Queen's Speech and the passage of the direct election legislation, with particular importance on the impending vote on PR, scheduled to take place in December 1977. Steel's decision to prioritise Westminster politics meant that the Liberal leader was detached from the wider party and level of internal discontent, most notably from within the Association of Liberal Councillors and the Liberal National Council, which developed in the period after the Assembly.

Liberal Council meeting at Derby, 26 November 1977

Michie and Hoggart (1978) assert that the Liberal grassroots' attitude to the Pact can be categorised as a division between the membership, who largely supported the Pact, and Party activists, who were more inclined to oppose the 'co-operation strategy' and, by extension, the Lib–Lab Pact. Hugh Jones rejects this analysis, suggesting that in such a small Party most members who expressed an opinion were by definition 'activists'. Yet there is little doubt that by the autumn of 1977 a distinction had developed between the two, if not wholly distinct, groups. While the Liberal Assembly (in which the membership were in the majority) had supported the Pact, an increasing proportion of the National Executive Committee, and more particularly the Liberal Council (in which the activists proliferated), were hostile to its continuation.[1]

The extent of opposition to the Pact within the Party's structures was crystallised when the National Executive and the National Council met on concurrent days in Derby on 25–26 November 1977. The membership of both organisations was in sombre mood. On 22 November the House of Commons had voted to reject PR for the Scottish Assembly, by a majority of 183. While widely anticipated, this had been an aspiration of the Pact renewal document, and, although not directly connected to the forthcoming vote on PR for direct elections to the European parliament, the size of the defeat disheartened the Liberals. Meanwhile, on the morning of the NEC meeting, the Bournemouth East by-election result was announced. In a seat where the Liberals had hoped to attain a strong second place, they only managed a poor third, with their vote reduced to almost half that of the October 1974 election. The Thorpe scandal had returned to national media attention, and there was also dismay that the Queen's Speech, delivered on 7 November 1977, had not contained as mainly Liberal-inspired measures as many activists had hoped.

According to Hugh Jones, the NEC meeting went 'reasonably well', although there was regret that no Liberal MP was in attendance.[2] David Steel, who had attended only one meeting of either the NEC or National Council since the formation of the Pact, deliberately chose not to attend the Derby meeting. The National Council was due to deliberate on a series of resolutions related to the parliamentary vote on direct elections and whether it should attempt to impose conditions under which the Lib–Lab Pact should continue. Steel, concerned that the resolutions would pass, calculated that his non-attendance would undermine the Council's authority and any decision reached. Speaking in Rochdale, he asserted:

> pay policy and not Direct Elections was the key to the future of the Pact. A failure of a part of the Labour Party to respond to PR would certainly weaken the calm way in which this agreement has worked, but there would be no question of our pulling out on a vote of that kind.[3]

However, in assuming that the primary grievance of the Liberal Council members meeting at Derby was the demand for PR, Steel misunderstood the level of disdain some Council members had for the entire 'pact strategy'. The anti-Pact sentiment at Derby had a variety of causes: there was concern that specific Liberal policies, most notably (but not exclusively) PR, could not be delivered; and there was frustration at the Liberal

leader's apparent disregard of the Party Council's views, both on policy orientation and Party strategy. Some, especially those who were Liberal councillors, were angry at Steel's apparent lack of sympathy for their personal predicaments, having either lost their seats in May 1977 or fearful they might lose theirs in the future. There was also concern that the Pact strategy had not been articulated effectively to Party members and supporters, and a worry that the Party on the ground was 'bleeding to death'. Many Liberals, most notably local councillors, were frustrated with the negotiating ability of Steel, and believed that they 'could have done a better job' in negotiating with Callaghan. Steel's high-handed statement had only intensified some members' determination to send a message to their leader.[4]

The broad hostility towards the Pact was exemplified in a resolution, tabled by John Smithson, a member of LAGER, which made no mention of PR but expressed

> extreme concern . . . at the lack of Liberal inspired initiatives in the Queen's Speech and the continued and persistent dilution of the terms of the Agreement, particularly with respect to wage policy, and considers that the time has now arrived for the Agreement to be completely renegotiated and failing satisfactory terms, for it to be terminated forthwith.[5]

This resolution was only narrowly defeated, by 76 votes to 71. Even given the breadth of the list of the grievances outlined above, the narrowness of this vote was a surprise to many of those present, and was a portent of things to come.[6] In a testy atmosphere, a resolution tabled by Michael Steed, on behalf of Christopher Mayhew, was then debated. The resolution demanded that

> [if as a result of the failure of] a substantial majority of the Parliamentary Labour Party to support [PR], and the House of Commons failing to pass the Regional List System of PR for Direct Elections to the European Parliament, a Liberal Special Assembly should be held to discuss the future of the Pact.

This resolution was passed. Although no voting figures are given in the Council minutes, 'a substantial majority' – a seemingly ironic phrase, given the wording of the resolution in question – voted in favour.[7]

As with Mayhew's earlier motion at the Liberal Assembly, the 'Steed–Mayhew' resolution was intended to act as a mechanism to 'strengthen

Steel's hand' – it was not intended to destroy the Pact; rather, it was envisaged that should PR be lost, the resolution would enable the whole Liberal Party to discuss, in a reasoned and timely fashion, future tactics and strategy. Steed and Mayhew had worked together on electoral reform throughout the 1970s, and had recently stood against each other for the position of President of the Liberal Party, with Steed prevailing. Importantly, in campaigning for the presidency, they had reached an understanding that neither should stand as an 'anti-Pact' candidate. Indeed, according to Steed, neither was anti-Pact or pro-Pact; they simply wanted to 'improve the Pact', but both were 'vehemently pro-PR'.[8]

Mayhew had stated in the *Liberal News,* prior to the Derby meeting, that 'I am a supporter of the Agreement, but that support is conditional on PR, I think that is a widely held view within the Party'. Certainly there was significant support for the Steed–Mayhew resolution among the Liberal constituency parties. Over 100 members of the Association of Liberal Councillors wrote to the *Liberal News,* before the Derby meeting, affirming their support for the resolution.[9] However, while Steed and Mayhew may have wanted to 'improve the Pact', Steed also concedes that his tactics at Derby were' overtaken by events'. He had not detected a significant 'anti-Pact' feeling at the Liberal Assembly in Brighton, recovering from a bout of Bell's palsy; he was 'out of touch with activist opinion'. He was therefore unaware that an anti-Pact faction in the Liberal Council had utilised the Steed–Mayhew resolution as a catalyst for a 'direct assault on the Pact'. Steed concludes that 'there is no doubt that those voting for our motion at Derby were doing so in an attempt to break the Pact'. However, Steed believes that, had Steel attended the Derby meeting, he could have 'defended the Pact, confronted the wider concerns of the Party, and most probably would have defeated the resolution'.[10]

Steel himself viewed the actions of the Liberal Council as naive, and a direct attack on both his leadership and his political strategy. Accordingly, he resolutely refused either to change policy or to be seen to appease the grievances of the Liberal Party Council. Consequently, Steel did not utilise the 'Steed–Mayhew' resolution, as had been the intention of its authors, as a bargaining tool in his subsequent discussions with Callaghan. Instead he firmly maintained his erstwhile position that the Lib–Lab Pact was formed primarily to assist 'national recovery', to achieve political stability, to show the virtues of 'co-operation' and to hasten the realignment of British politics. Therefore, in Steel's view, for the Liberal Council to attempt to destabilise the cross-party

Agreement, for short-term political advantage, was inimical to the avowed longer-term strategic aims of the Liberal Party.[11]

Parliamentary vote on direct elections to the European Parliament, 13 December 1977

The Steed–Mayhew resolution, passed at the Liberal Council, obviously made the issue of the parliamentary vote on PR one of extreme significance for the Liberal Party. It should also be remembered that the reintroduction of the Direct Elections Bill on 10 November 1977, and its second reading on 24 November 1977, reopened old divisions within the Labour Party. Michael Foot, still very much an anti-Marketeer, despite his support of the Pact, warned Callaghan that, unless the Parliamentary Labour Party was offered a free vote on the principle of direct elections, as they had been in July, 'two or three resignations' from the Cabinet were possible.[12] Callaghan's reply was adamant in tone: 'I would be very sorry if any of them resigned but I think we should have to accept that, and I do not think there would be much sympathy for those who did.'[13]

The Prime Minister reasoned that, in supporting the Queen's Speech, Labour MPs had endorsed the Bill. Furthermore, he argued, the Bill was only being reintroduced because of parliamentary procedure; it was almost unaltered from the previous version, which had been timed out at the end of the last parliamentary session. In fact there were only two substantive changes. The first (Clause 3) was the Cabinet-endorsed decision to 'commend' the list system of PR, on which there was a free vote in any case. The second change (Clause 8) was a concession to anti-Marketeers: henceforth, parliament would be required to endorse all treaty changes. As such, Callaghan imposed a two-line whip on the second reading of the Bill, but, in an acknowledgement of the divisions which existed within the Labour Party and the Cabinet, collective responsibility was again suspended. In the subsequent vote, 74 Labour MPs opposed the Bill and over 90 abstained, including several Cabinet Ministers: Foot, Benn, Orme, Shore and Samuel Silkin.[14] The Bill passed its Second Reading by 381 votes to 98. While it might be argued that the anti-Marketeer Labour MPs were able to act as they did in the sure knowledge that the Bill would still progress, the vote clearly showed the extent of the division within the Labour Party on the question of Europe. The vote on the Second Reading acted as a clear signal to the Liberals of the prevailing sentiment in the Parliamentary Labour Party. It became increasingly evident that it was extremely unlikely that a 'substantial majority' of the Parliamentary Labour Party would vote in

favour of Regional List PR, especially bearing in mind that, when the House of Commons had voted on PR for the devolved assemblies in November 1977, when a Labour Party whip had been imposed, there had been a majority of 183 against.

As has been highlighted earlier in this book, as part of the Lib–Lab Agreement Callaghan had privately confirmed to Steel that 'late in the day' he would let it be known that he would vote for (RL) PR. Steel had originally hoped this would be decisive action, and so its timing was deemed crucial. However, before the Prime Minister could inform his parliamentary colleagues of this strategy, his intentions were inadvertently made public by Emlyn Hooson. Without consulting Steel, Hooson sent a letter to ten Government Ministers asking them whether, given Callaghan's private support for (RL) PR, they too would vote in favour. Only the Attorney-General, Samuel Silkin, replied – in the affirmative – before Kenneth Stowe hurriedly intervened, instructing other Ministers not to respond. A furious Steel described Hooson's actions as 'so stupid it was not true'.[15] For Callaghan, Hooson's actions were further confirmation of the possible problems of cross-party co-operation; both he and Stowe had repeatedly expressed their concern at the 'leaky Liberals'.[16] While the Hooson letter caused some embarrassment for both Steel and Callaghan, in fact the Prime Minister had already informed the Labour Party NEC of his intention to vote for PR, with little negative reaction, largely because (in contrast to Steel's assumptions in March 1977) the membership of the NEC had concluded his actions would have little effect on the result.

The Committee Stage of the Direct Elections Bill began on 1 December 1977, and on 13 December 1977 Clause 3, concerning the question of which electoral system was to be adopted, was finally debated. As with the timetabling of the original Bill in June 1977, discussed in Chapter 7, both the Labour and the Liberal parties hoped that the timing of the vote would benefit their respective political ambitions. Steel had sought to delay the vote until late in December because he envisaged that this would increase the likelihood of a positive vote for PR – if the plurality system was adopted, European elections could not be held before the agreed deadline of May 1978 because of the need for a boundary commission review. In theory such an outcome would mean Callaghan would have reneged on his commitment to making his 'best endeavours' to meet the May 1978 deadline. Conversely, Steel was mindful that, if the outcome was not favourable, a vote so close to the Christmas recess would make it impossible, for reasons of practicality, for a Liberal Special Assembly, as demanded by the Mayhew–Steel resolution, to be

convened before late January 1978. Steel hoped the intervening period would dissipate any anti-Pact sentiment which might have developed, and thus improve the prospect of him winning the ensuing vote on the Pact at the Assembly.[17]

Paradoxically, Steel's strategy to delay the vote had a number of consequences which undermined the prospect of Liberal success. By December 1977 the Labour Party had established a position of parity with the Conservatives in the opinion polls; the SNP, following the reintroduction of the Devolution Bills, had confirmed that it would support the Government in votes of confidence; the UUUC–Labour 'Pact' was still in place. The delay also corresponded with Callaghan's own preferred timetable. Convinced that PR would be defeated, Callaghan wanted the vote to 'still be in play' when the European Heads of Government meeting took place on 6 December 1977. He was also content that via this timetable he could argue 'it was the parliament and not the Labour Party' who would be seen as the cause for the delay, and so he would not be blamed by his European counterparts.[18]

Although publicly Callaghan still claimed that the Government would make its 'best endeavours' to meet the EEC deadline for elections – in theory increasing the prospect of Government Ministers' voting for Regional List PR – he had in fact confided to Emilio Colombo, President of the European Assembly, that in his estimation the PR vote would be lost. Colombo 'did not dissent' and confirmed that this would 'not necessarily cause concern'.[19] Callaghan had also received the assurance of the Italian Prime Minister, Giulio Andreotti, that if elections were postponed until 1979, 'it would be very unfortunate, but not the end of the world'.[20] There was thus little compulsion either for Labour MPs to vote for PR or for Callaghan to compel them to do so, as a consequence of pressure from Europe.

On 13 December 1977, Merlyn Rees, the Home Secretary, presented the Direct Elections Bill on the floor of the House of Commons on behalf of the Government. Although he had spoken in favour of the plurality system in the Cabinet discussions in May 1977, he had since been convinced of the merits of the Regional List system. This was on the grounds that it was electorally advantageous for the Labour Party. As noted earlier in this book, in a clear concession to the Liberals, and in consultation with Parliamentary Council and the Speaker's Office, before Rees presented the Government's position on Clause 3, in an orchestrated move, the back-bench Labour MP Fred Willey tabled an amendment calling for a vote to strike out the Government preference for (RL) PR and replace it with the plurality system, already in place as a schedule to the Bill.

To recap, this procedure was employed to ensure that the Conservative Party could not table its own amendment. It was anticipated that a Conservative amendment would have be subtly different from Willey's, pre-empting the debate on PR, and demanding simply that the plurality system be employed without reference to any PR system. If an amendment of this sort were carried, it would have prevented a debate, as well as a subsequent vote on a proportional voting system and nullified the significance of the Liberal concession that the Government 'commend' (RL) PR. In such a scenario, the terms of the Lib–Lab Agreement would clearly have been breached, and it would almost certainly have ended forthwith.

Once the Wiley amendment was tabled, the Home Secretary outlined the rather convoluted procedures which had been written into the Bill (to include a plurality option as part of the schedule to the Bill) and how the Government would consequently respond to the outcome of a vote for or against PR. In the interests of clarity, it is worth reviewing his statement:

> If the amendment is carried, the Committee will no doubt agree to the consequential amendments removing all references to the regional list system from the Bill. If the amendment is defeated, the Government will table amendments to remove from the Bill the last six words of Clause 3(1) and the whole of Clause 3(2), as well as Schedules 1 and 2. This will provide for the elections to be held on a regional list system and will remove the procedural device for switching to the simple majority system by resolution.
>
> The procedural device in Clause 3 (Schedule 2) was introduced solely to enable the two electoral systems to be set out in the same Bill. The Committee can, therefore, make a choice between the two systems. The Government favours the Regional List system, but Government supporters will have a free vote on the issue.[21]

During the ensuing debate, Rees presented the case for (RL) PR on the grounds that it was more representational. However, in his concluding remarks Rees revealed the underlying reason why he supported this policy, stating, 'the Government's recommendation for (RL) PR was solely to ensure the election could take place before May 1978'. The Willey amendment, in support of the plurality voting system, was passed by 321 votes to 224, with 85 abstentions, yielding a majority of 97. A breakdown of the figures highlights that the Labour Party voted 147 for

PR (including 60 Ministers) to 122 against; 46 Labour MPs abstained. Twenty-five Government Ministers either voted against PR or abstained. Given that a large section of the PLP had previously expressed their opposition to PR during the Scotland and Wales devolution debates, the level of support for PR for Europe was significant – though clearly not decisive.[22]

Callaghan himself of course, as per the Lib–Lab Agreement, voted for PR, as did Michael Foot. Foot's vote is of particular note given his unequivocal opposition to the principle of Proportional Representation as a voting method. His actions were consistent with his support for the Lib–Lab Pact, and also an explicit example of his loyalty to Callaghan, and the Labour Party. His loyalty in this regard was noted with admiration by Party colleagues and media commentators alike.[23]

While it is not possible to ascertain whether the actions of Christopher Mayhew at the Liberal Assembly and at the Liberal Council at Derby had any effect on the final result, Michael Foot was dismissive. In conversation with Callaghan he deemed them to be 'not a decisive factor, one way or the other'.[24] According to one Labour MP, rather than being influenced by pressure from the Liberal Party or any 'loyalty' to the Lib–Lab Pact, the vote was 'a big thank you to Jim for getting us through the last year and a half . . . the Party wouldn't have done it for anyone [else]'.[25]

David Steel's assumption that over 100 Conservative MPs would vote in favour of PR (a calculation upon which he had conceded a 'free vote' for Labour MPs as part of the original Lib–Lab Agreement) proved grossly inaccurate. The Conservative Party, as predicted by William Whitelaw in July 1977, had moved decisively against PR, largely in the hope that its rejection by the House of Commons would destabilise the Pact. The imposition by Thatcher of an unofficial 'three-line whip' only cemented the Conservative Party's anti-PR vote; only 61 Conservatives voted in favour. The abstention of the SNP, contrary to Steel's original expectations, worsened the defeat, but was ultimately irrelevant to the result.

There was some discussion between Labour whips, civil servants and the two Party leaders as to whether the issue of PR might be revived at the Report Stage on the Bill, but neither Steel or Callaghan was convinced of the merits of this course of action on either procedural or Party-political grounds. There was also a forlorn hope among Liberals that the House of Lords would vote in favour of PR, and thus demand that the House of Commons revisit the issue. However, this was not pursued with any conviction, and ultimately (RL) PR was rejected in the Upper House by 123 votes to 68.[26]

Liberal Party reaction to the House of Commons vote on proportional representation for the European parliament elections

From a Liberal perspective, the result was devastating – the issue which for many was the sole reason for maintaining the Pact had been defeated. Furthermore, while it had become clear prior to the vote that the House of Commons would almost certainly vote against (RL) PR, a breakdown of the Parliamentary Labour Party's voting figures exacerbated the feelings of many that the Labour Party had not acted in good faith. While the vote in favour might be considered substantial in the wider political context of a large anti-PR faction in the Labour Party, as noted above, the fact remained that only a minority of Labour MPs had supported PR, and 11 Ministers had opposed it; there was not even unanimity in the Cabinet, with four Ministers voting against. In the aftermath of the vote, a series of intra-party and inter-party meetings took place, beginning immediately after the announcement of the result and concluding only when parliament recessed for Christmas on 16 December 1977. The parliamentary Liberal Party met late on the evening of 13 December 1977 and held two further meetings on 14 December 1977. Concurrently, and in a continuation of the leader-centric focus of the Pact, Steel conversed with the Prime Minister.

Steel now faced a parliamentary Liberal Party in ferment, for while they had little expectation of wining the vote on PR, there was nonetheless significant anger at the level of Labour opposition. John Pardoe, in characteristically forthright fashion, stated on television that 'If the Labour Party is incapable of continuing the Pact like this, it is incapable of running the country and should be turned out immediately'.[27] The parliamentary Liberal Party subsequently voted on whether to terminate the Pact forthwith. Only Russell Johnston and Geraint Howells were in support of its continuation. However, rather than confirm immediately that the Pact was to be terminated, it was agreed, following an intervention by Jo Grimond, that Steel should meet with Callaghan to establish whether some other, as yet unspecified, policy concessions might be attainable and thereby maintain the Pact. Grimond, who, as has been noted, was sceptical of the merits of the Pact, argued that the public would not understand if the Liberal Party ended the Pact because they had not achieved PR for European elections, something that Grimond reasoned was for most people a complete 'non-issue'.

The bilateral discussions between Callaghan and Steel which followed, in contrast to the meeting of the Liberals MPs, were cordial, insofar as Steel was wholly in agreement with the assertion that the Prime Minister had fulfilled both the 'letter and the spirit of the agreement'. Steel had earlier stated, with regard to the support given by the Prime Minister and the Lord President, that 'He had no complaints whatsoever, they [the Government] had fulfilling its side of the bargain, they had been first class'.[28] Callaghan observed that a majority of Labour MPs (if abstentions were disregarded) had supported PR.[29] He had been left 'indignant' at subsequent comments by some Liberal MPs, notably Cyril Smith, who had condemned the Labour Party in an interview on *The World at One*. Callaghan's retort to Steel was terse: 'the Liberals would have to decide if they were going to face reality rather than act as though they were living in an Oxford college.'[30]

Steel was therefore unable to garner any meaningful concessions from the Prime Minister. Clearly concerned that his colleagues would again reject the Pact when the Liberal Party reconvened at 6pm, Steel attempted to call their bluff. He began by stating (erroneously) that 'Callaghan was going to the Palace, there would be an election'. According to Michie and Hoggart (1978), 'some of them went white – it did the trick'.[31] Steel then laid down an ultimatum: either press on with the Agreement and fight for it in the Special Assembly or break it off. But in the latter case they would have to fight the next election on a different strategy and with a different leader.[32]

In what amounted to a vote of confidence in Steel's leadership, the Liberal MPs voted again on whether to maintain the Pact, whereupon it was agreed that it should continue, albeit only by a majority of five votes to four. Those in favour were Beith, Howells, Johnston, Ross and Grimond; those opposed Smith, Penhaligon, Wainwright and Hooson. Thorpe and Pardoe abstained. Freud, for reasons which are unclear, was absent. Those who sought the termination of the Pact based their view on a number of factors. Penhaligon commented that in his view voting for the Pact 'would be like turkeys voting for Christmas' – the first recorded use of the phrase.[33] Richard Wainwright had harboured serious reservations as to the merits of the Pact since the local election results in May 1977 but in loyalty to Steel had thus far kept his own counsel; he now rejected the Pact on the grounds that the Government no longer showed 'good faith in the agreement'.[34] Emlyn Hooson noted the same objections he had articulated in 1965 and 1974, when rejecting both the Grimond–Wilson and the Thorpe–Heath negotiations: that the Liberal Party was losing its identity by maintaining the Pact.

With the abstentions of Thorpe and Pardoe, the casting vote was that of Jo Grimond. The former Party leader had been the longest-standing sceptic of the merits of the Pact, but he now argued that 'loyalty was the order of the day however much they disliked it'. He reasoned that to initiate a general election on the issue of the voting system for the European parliamentary elections would result in '[the Party] being murdered[;] the public just wouldn't understand'.[35] A furious Smith later announced on television that his colleagues were 'chicken-livered'.[36] Tellingly, this episode revealed the level of disillusionment within the parliamentary Party with both the Pact and, to some extent, Steel's co-operation strategy. Steel's observation that 'the Pact remained intact on the most tenuous basis' is telling.[37]

Steel subsequently informed Callaghan of the parliamentary Liberal Party vote. Callaghan was relieved; he had been concerned that Pardoe was manoeuvring to mount a challenge to David Steel's leadership, following a 'tip-off' from a contact of Gavyn Davies's (a member of the No. 10 Policy Unit) 'in the city', although there is no way to prove the veracity of the claim.[38]

Callaghan remained concerned for the political position of Steel. The mutual respect which had developed between the two leaders was exemplified in a particular exchange at this time. Steel informed Callaghan that if the, now inevitable, Special Assembly rejected the Pact, then he would resign as leader. The Prime Minister responded with the suggestion that, if that did occur, 'he would like him to join the Cabinet'. Steel duly thanked Callaghan, but immediately rejected the offer.[39] Steel chose to omit this exchange from his book on the Pact, *A House Divided* (1980), on the basis it would have destabilised the Party at a time when there was a prospect of a genuine realignment of British politics. He later referred to the exchange in his autobiography, *Against Goliath* (1989). He concluded: 'it was quite out of the question...Infuriating though I sometimes found them, I simply could not desert my fellow Liberals and I would stay loyal to whatever the Party decided.'[40]

Build-up to the Liberal Special Assembly

Under the terms of the Council resolution of November 1977, the fact that less than a 'substantial majority' of the Parliamentary Labour Party supported PR now made a Liberal Special Assembly inevitable. After some delay, Blackpool was chosen to host the meeting, on 21 January 1978. Steel remained vehemently opposed to the concept of a Special Assembly and drafted a 'letter to candidates', in which he stated that

if the Assembly voted against the Pact, and by implication against his 'co-operation strategy', he would resign as leader. Alan Beith, concerned that the Party would not take kindly to such an ultimatum (the same one he had given the parliamentary party), persuaded Steel to withdraw the direct threat of resignation. Steel nonetheless made his intentions and opinions clear, asserting that 'I am not going to change course now. I think the Party would be crazy to change course, but you are entitled to do so if you wish.'[41] The period between the House of Commons' rejection of PR and the Liberals' Special Assembly saw a series of intra-party discussions at both the elite and activist level. As Steel had hoped, the delay in convening the Assembly did allow for a cooling-off period in which intra-party tensions at the elite level, at least, partly abated. Of those MPs who had voted against the Pact or abstained on 14 December 1977, Penhaligon, Thorpe and Hooson all agreed to support their leader 'with varying degrees of enthusiasm'.[42] John Pardoe, in a clear example of loyalty, and in contradiction of the 'tip-off' received by Gavyn Davies, confirmed to Steel and the wider Party that 'No one should assume that if David Steel resigns, I shall pick up the pieces, my aim is to ensure that David will not resign'.[43] Michie and Hoggart (1978) correctly note the significance of Pardoe's actions: had he chosen to oppose the Pact at this juncture, he would have ensured its immediate demise and significantly undermined Steel's authority as leader.[44] Richard Wainwright, while still privately opposing the continuation of the Pact, displayed admirable loyalty to his leader at this time. The Liberal Standing Committee was charged with the responsibility of drafting the resolutions to be tabled at the Special Assembly, as Chairman Wainwright argued in defence of a call from Steel that, while he accepted that delegates should be given the opportunity to vote to end the Pact immediately, a resolution should be tabled explicitly stating that the parliamentary Party should be given final discretion over the exact date of termination. Under Wainwright's influence, together with that of Steel's chief aide, Archy Kirkwood, and the Chief Whip, Alan Beith, the committee endorsed Steel's preference by eight votes to six.

The support of other senior Liberals was also important in consolidating Steel's position prior to the Assembly. Party officials Hugh Jones, Gruff Evans and Geoff Tordoff worked together as the proverbial 'heavy mob' to 'unofficially' compel activists to support Steel.[45] Steel was also assisted by the support emanating from Welsh and Scottish Liberal parties. Largely on the basis that the Pact had led to the reintroduction of legislation on devolution, both conferences (meeting in early January 1978) voted to support the continuation of the Pact – in the case of

the Scottish Conference by a margin of 212 to 12.[46] The Prime Minister also sought to strengthen Steel's position. While he had hitherto deliberately avoided commenting on the intra-party dispute within the Liberal Party, in an interview on *The World this Week* on 1 January 1978 Callaghan observed that, while the Liberals were quite entitled to take whichever decision they thought appropriate,

> There are a number of things in the letter that I agreed with Mr Steel in July, if anyone cares to read it, including the members of the Liberal Council, which have been carried out . . . the Liberals of course have an impact and David Steel has exercised it with discretion and good sense.[47]

While senior Liberals rallied to Steel's defence, the anti-Pact faction also attempted to mobilise support among the grassroots. The 'Liberals against the Pact', organised by John Pick and Andrew Ellis, having been formed after the local election results in May 1977, by January 1978 listed over 500 'active Liberals' among their ranks.[48] An examination of this list confirms Michie and Hoggart's assumption that the make-up of the anti-Pact faction was heavily activist-centred. The list comprises over 20 prospective parliamentary candidates, numerous elected office holders and two former presidents of the Party.[49] Meanwhile, the radical Liberal newspaper *Liberator* was adamant that the Liberal Party had to find a way of getting out of the Pact. The editorial for January 1978 expressed deep frustration both with the wider 'co-operation strategy' and with Steel's leadership style: 'the problem in all this, of course, is to ensure that David Steel listens to the Party, rather than blindly pursuing his obsession with coalition.' Alan Sked suggested, 'it seemed the Party in the country was about to desert the parliamentary Party'.[50] Activist resentment at Steel's Pact strategy was articulated most forcefully at a special meeting of the Liberal NEC on 13 January 1978. According to Hugh Jones, it 'ran out of the chairman's control' as members of the NEC affiliated to the Association of Liberals Councillors and the *Radical Bulletin* directly accused Steel of destroying the Party by his 'autocratic pursuit of the Pact'. Hugh Jones relates: 'it was a vicious attack, descending at times into bedlam as members sought to shout each other down.' David Steel, who had been persuaded to attend, kept his cool, but left angry and depressed.[51]

Concerns originally raised in the Liberal Council meeting at Derby in November 1977. Frustration with how the Pact had been presented to Party members and Liberal voters was reiterated. Those members of

the Executive, such as Tony Greaves, who had experienced success with 'community politics', argued that Steel's Westminster-centric approach meant the 'leader's strategy had yet to be translated into an effective ground-strategy'. Party workers were unable to defend the Pact at a local level. According to Greaves, this led to a lack of enthusiasm for Steel's wider strategy. It is instructive to note that the most widely distributed pamphlet promoting the Pact to Liberal Party activists, entitled 'Putting over the Pact', was not published until February 1978. Even then there were significant editorial mistakes: for example, it was repeatedly stated that the Pact had been formed in 1976.[52]

Liberal Party Special Assembly, Blackpool, 21 January 1978

Over 2,500 delegates attended the Liberal Special Assembly on 21 January 1978, making it the largest gathering of Liberals in a generation. In the same way that the Christmas recess had engendered a pragmatic acceptance within the parliamentary Liberal Party that the Pact must be retained, by the time of the Special Assembly it was broadly acknowledged among Liberal activists that it would not be possible to reopen the PR debate. Furthermore, most delegates understood that a vote to end the Pact would result in Steel's immediate resignation. This turn of events would almost certainly result in a schism in the Liberal Party, with the possibility that it would be in a very weak position leading into an election period.

Faced with such a scenario, most delegates at Blackpool, while adamant that the Pact should not continue indefinitely, took a pragmatic stance, agreeing to Steel's compromise resolution: the Pact would definitely come to an end, but at the parliamentary Party's discretion, after consultation with the Party officials. The atmosphere of compromise was evident in the various amendments submitted to the Assembly Standing Committee, which comprised Gruff Evans, Geoff Tordoff and Michael Meadowcroft. Of the 71 amendments received, over three-quarters demanded either that the parliamentary Liberal Party should decide the termination date or that there should be no specified date. Only six amendments submitted for consideration by the committee called for an immediate end to the Pact.[53]

A conciliatory stance was also adopted by the two Liberal MPs who spoke at the conference against Steel's proposal, Cyril Smith and David Penhaligon. While Smith sought an immediate end to the Pact 'to maintain the independence of the Liberal Party', his speech prioritised the need for Party unity. Following the result he stated that he would

'burn the hatchet' (*sic*) and give Steel his full support. Similarly, David Penhaligon advised that 'after we had gone through 10 months of misery' the Liberals should now continue their support for the Government until the Budget in April and then support Labour on an issue-by-issue basis akin to a 'confidence and supply' understanding.[54]

The resolution presented to the Party at the Special Assembly was prefaced by a preamble to which there was unanimous support:

> This Assembly recognises that the Agreement between the Liberal MPs and Labour Government has been in the national interest because it has strengthened the economy at a time of grave danger, has ensured that the Government maintains the attack on inflation, and had changed the direction of what had previously been a doctrinaire socialist Government and deplores the fact that many Labour MPs have undermined this constructive approach to the country's problems, for example by co-operating with the Conservative leadership to frustrate democratic reform and European ideals.

The assembly was then given a choice between two alternatives: either the immediate termination of the Pact, as proposed by Andrew Ellis, or

> [this Assembly] expects that by the time the Finance Bill 1978 is enacted, the Lib–Lab parliamentary Agreement will have successfully achieved its immediate purpose for the good of the country and believes that the agreement should continue only until, in the light of this resolution, the leader of the Party, in conjunction with the senior officers of the Party, and with the parliamentary Party, decides to end it.[55]

Richard Wainwright formally presented the second motion to the Assembly. Steel envisaged that Wainwright's greater affinity with the grassroots would mean that he could 'reach out as far as possible to radicals with passion and humour'.[56] Steel gave the concluding address to the debate and, in an effective expression of humility, spoke from the rostrum rather than the speaker's box, as would have been usual for the Party leader at a Liberal Assembly. Confident that the Assembly would support the resolution, he struck a defiant tone, saying, 'I have to place on record that the Prime Minister delivered exactly what he undertook to deliver on PR', to which some delegates cried 'rubbish'.[57] He then articulated a defence of his decision to enter the Pact:

> You know I never said as Party leader that this was going to be easy,
> I think there would be grounds for complaint if I had misled the Party
> on this issue, but I am on record time and time again that if you
> pursued the strategy that I wanted, that it was going to be difficult.
> I *warned you* specifically that it would be difficult at first, that we
> would lose members, and I still hold that I had your support after
> I had given all these warnings.[58]

Not for the first time, Steel misunderstood much of the intra-party oppo-
sition to the Pact. While a minority of Liberals did oppose all notions
of cross-party co-operation, for most delegates hostility towards the Pact
was based, not on a doctrinal opposition to co-operation *per-se*, but on
frustration that, in agreeing the original terms and renewing the Lib–
Lab Pact, Steel had 'sold the Party too cheaply', and placed too much
emphasis on his own long-term strategic aims, at the expense of securing
significant policy objectives.

The Steel–Wainwright resolution was passed by 1,727 votes to 520, a
result which Steel saw as vindication of his policy, on the basis that it
exhibited a larger majority, on a larger vote, than seen at the Blackpool
Assembly in September 1977. He concluded that his original scepticism
about the holding of an Assembly had been misplaced. The Special
Assembly had enabled grievances to be aired, and while strong opin-
ions were expressed by both sides, none of the speakers attacked David
Steel directly. Indeed, he judged it to have been a cathartic experience.[59]
Even so, Steel was left in little doubt that there was no prospect of the
Pact continuing indefinitely.

With confirmation that the Pact would come to an end (probably)
before the end of the summer recess 1978, most anti-Pact sentiment
dissipated. The 'Liberals against the Pact' continued under the banner
'Liberals against the Strategy'. 'The strategy' was defined as being David
Steel's attempt to 'bounce the Party' into cross-party agreements. John
Pick claimed that 'it will take us 20 years to get over Steel's wrong-
headed *pragmatism*' (emphasis in the original). The *Liberator* lamented
that 'the Special Assembly showed that getting radicals elected to posi-
tions within the Party does little or no good if the majority of the
constituency workers are prepared to come along to Assemblies and
play "follow my leader"'. However, devoid of parliamentary support,
and with the wider Party membership focusing on unity, in prepara-
tion for a general election, the anti-Pact movement gradually faded,
having little influence on Liberal Party strategy in the build-up to the
1979 election.

The political consequences of the Liberal Assembly 1978

The vote at the Special Assembly had sustained the Pact and secured David Steel's leadership, but of greater long-term significance was its function as a think-tank session. On the assumption that a general election would take place in the autumn of 1978, aspects of policy, strategy and electoral tactics were debated, and out of this a series of research and policy papers were produced by the Standing Committee, the Constitutional Review Committee and individual members of the National Executive. According to Michael Steed, this was the first time since the leadership of Jo Grimond that such an extensive review had been undertaken. A series of potential strategy options were presented to the NEC by, amongst others, Bernard Greaves, Michael Steed, Andrew Ellis and Peter Knowlson.[60] As a result of this process, a series of political and electoral strategic positions were agreed upon. For example, in May 1978 the NEC resolved that henceforth a cast-iron assurance that legislation on electoral reform at Westminster would be a prerequisite for any future cross-party deal. Steel was also forced to retreat from his erstwhile electoral strategy of a 'narrow electoral front', focusing on winnable seats, a proposal which had engendered such hostility within the NEC in 1970. The Liberal Party subsequently adopted a 'broad front strategy' to create a 'Liberal wedge' in the new parliament. The strategy papers emanating out of the Special Assembly also emphasised other issues which would be central to future Liberal Party strategy: differentiation and equidistance, and an aspiration to secure the 'balance of power'. It was not the first time these issues had been discussed, but the Pact did crystallise Liberal Party thinking on these matters and ensure a coherent political strategy was adopted for the 1979 general election and built upon during the period of the Liberal–SDP Alliance.[61]

The experience of the Pact fundamentally changed the Liberal Party's attitude to the mechanisms through which coalition and cross-party co-operation might be achieved. While the 1979 manifesto did not state whether the Party would be willing to form another parliamentary pact if the events of March 1977 were repeated, in practice there was widespread antipathy to this form of arrangement. Alan Beith, in his memoirs, concludes that the most salient lesson he learned from the Pact was that the Liberal Party should only enter into a cross-party agreement if it resulted in a formal coalition with a promise of Liberals in Cabinet. Chris Foote-Wood, a member of the Liberal Council in 1977 and a Liberal Democrat candidate in the 2010 general election, confirms that 'we all remembered the Pact, the feeling persisted within

the Party that it was disinclined to agree to support a minority Government on the basis of a "confidence and supply" agreement'.[62] The Pact thus directly informed the thinking of the Liberal Democrat Party in its decision to form formal coalitions in Scotland and Wales in 1999, and at Westminster in 2010.

The Lib–Lab Pact also directly influenced the constitutional structures of the Liberal Party and the Liberal Democrats. In October 1978, the Liberal Assembly resolved that any cross-party agreement would require the endorsement of both participating Parties' conference or assembly. This addressed a number of issues: first, the perception, held by some activists, that Steel had been too autocratic in administering the Pact; second, the belief that a more collegiate approach, involving input from experienced negotiators, would have achieved more tangible results. There was a perception, shared by Steel, that the Pact had been undermined because it was never formally endorsed by the Parliamentary Labour Party.

This demand for intra-party consultation was a forerunner of the 'triple lock', a mechanism imposed on the leadership of the Liberal Democrats in 1998, as means of restraining Paddy Ashdown, following his overtures to 'co-operation' with Tony Blair. Under the 'lock' formal cross-party co-operation could only take place following the majority endorsement of the parliamentary Liberal Party, the Federal Executive and a specially convened Party Conference. Gordon Lishman, who drafted the so-called 'Triple Lock amendment', adopted at the 1987 Liberal Democrat Conference, had been Director of Policy Promotion during the Lib–Lab Pact. He explicitly drew on his experiences during the Lib–Lab Pact, stating that he had been motivated by a desire to improve intra-party consultation and avoid the Party being needlessly riven and split, as had occurred in 1977–1978.[63] The triple lock was not employed under Ashdown's leadership, but was enacted when the Liberal Democrats endorsed the Con–Lib Dem coalition in 2010, and thus was an important legacy of the Lib–Lab Pact.

Case study 3: The Budget 1978

The decision of the Liberal Assembly in January 1978, that the Pact should not run indefinitely meant that the parliamentary Liberal Party returned to Westminster after the Christmas recess with renewed intent to securing policy influence before the Pact was terminated. The Liberal MPs had by this point the necessary experience to appreciate and employ better negotiating strategies in order to achieve concessions

from the Government. As a result, the period January 1978–August 1978 saw the Liberals acting in a more robust style, and consequently significant concessions were achieved. These included: a 3% increase in defence spending; blocking of further progress on Tony Benn's Electricity Reorganisation Bill and Dock Workers' Regulations Bill; devaluation of the Green Pound; and the implementation of legislation on profit-sharing. However, the most significant inter-party discussions through this period focused to the content of the 1978 Budget.

As noted in Chapter 6, the Liberal Party gained one of its most significant policy concessions during the Lib–Lab Pact following the 1977 Budget. On this occasion the Government was compelled to reverse the intended increase in the levy on petrol. To recap, this concession was achieved as a consequence of a largely unintended political crisis, borne out of inexperience of cross-party co-operation. The immediacy of the Budget *vis-à-vis* the formation of the Pact and poor intra- and inter-party communication were also contributory factors. By the time of the 1978 Budget the Pact had been in place for over a year, and a mechanism of inter-party dialogue had thus developed, and experience been gained, and both parties were afforded time to formulate budgetary proposals. Consequently, the negotiating process in 1978 had a very different dynamic from a year earlier; it is instructive that these later discussions also resulted in some important policy outcomes for the Liberal Party. The negotiating strategy employed and the policy concessions achieved in 1978 are therefore deserving of further analysis.

Many of the limitations on Liberal policy influence on the 1977 Budget remained. They were not given prior notification of its content, and while in theory they were not compelled to vote for the Budget, not to have done so might have led to the Government calling a vote of confidence – something Steel, for political reasons, still wished to avoid. As was noted in Chapter 6, Liberal economic spokesman John Pardoe's relations with Denis Healey were often fractious; similarly, his interactions with the Treasury were bellicose. Consequently much of the detailed discussions on the Government's economic plan were conducted between Pardoe and Joel Barnett. Steel complained to Callaghan that 'he could not control Pardoe'. Equally, Callaghan was equally unimpressed with Healey's attitude to the Liberal Party. Callaghan regarded him as too quick to dismiss the Liberals, and on occasion as politically naive.[64] Callaghan was also concerned that Pardoe was attempting to use his clashes with Healey as a means to end the Pact. He confided in colleagues that 'Steel was playing it straight but he was being driven along by his colleagues'. He further speculated that 'Pardoe was on a kamikaze

mission to destroy the Pact'. Callaghan reasoned this would force Steel to resign, meaning Pardoe could then assume the leadership of the Liberal Party. In fact, as this book has shown, Pardoe remained loyal to Steel throughout the Pact and in assessing the different approaches of Steel and Pardoe a degree of so-called 'good cop, bad cop' seems to have been employed, with each playing to their political strengths.[65] David Steel regarded the often public disagreement between Healey and Pardoe with frustration. Pardoe, however, embraced this combative negotiating style; he considered it the most productive way of achieving policy concessions, later commenting, 'I disagreed with the Government's economic policy and I saw this as the one opportunity to show the Liberals could make a difference...to put money in people's pocket, if that meant annoying the Labour Party so be it.'[66]

Throughout the period of the Pact, and in many ways in contradiction to Steel's 'co-operation' strategy and dealings with Callaghan, Pardoe deliberately orchestrated a series of mini-'crises' or issued ultimatums in an attempted to achieve specific policy concessions. In July 1977, he had warned that the failure to implement Phase III of pay policy would lead to the termination of the Pact. Likewise, prior to the 1978 Budget, in presenting the Government with his 'Liberal Budget proposals', he issued a threat that, unless his demand for a reduction in the standard rate of income tax was met (to be paid for by an increase in the surcharge on employers' national insurance), the Pact would be under threat. Healey, in a characteristically forthright response, warned that if he could not pass his Budget resolutions, the Government would be compelled to call a general election.[67] Documents held in the National Archives, which minute the subsequent inter-party exchanges, suggest that Pardoe's subsequent strategy was largely unsanctioned by the Liberal leader.

The parliamentary Liberal Party agreed to endorse the 1978 Budget on the basis that it did not wish to undermine the Government's economic strategy and would instead seek to achieve concessions at the Committee Stage of the Finance Bill. Through this strategy, as Michie and Hoggart observe, by any measure the Liberals did well in the negotiations over the Budget.[68] They could at least claim partial credit for: the introduction of a new lower rate of 25% on the first £750 of taxable income; a reduction in National Insurance for the self-employed from 8% to 5%; a rise in the VAT threshold for businesses to £10,000; an agreement that farmers' profits were to be averaged out over two years; the reintroduction of free school milk for seven- to ten-year-olds; and the confirmation of legislation for a profit-sharing scheme. Significant amendments were also imposed on the Government in the

Finance Committee, the standard rate of income tax was reduced by 1 penny, and tax bands were amended, reducing the rates for the highest-paid. However, it should be noted that, because the Liberals could not defeat the Government without cross-party support, each of these concessions was achieved on a Conservative amendment, and the Liberal Party received very little direct credit in the media.

The requirement to reduce the standard rate of income tax was the first time in the twentieth century that a Government had lost a Budget resolution on fiscal policy. Yet, despite the parallel with Callaghan's threat in April 1977, that defeat on the Budget resolution (at that time related to the increase in petrol duty) would require the Government to call a general election, as noted in Chapter 6; in April 1978 the Government simply accepted the defeat. Healey subsequently, and without prior Liberal notification, announced that, in an attempt to recoup the £500 million lost through the changes to income tax, he planned to increase the level of employers' national insurance surcharge by 2½ pence. Despite their earlier demand for a comparable increase in this tax, noted above, a strident parliamentary Liberal Party, annoyed by the absence of consultation by Healey on this issue, and aware they could be more belligerent as the Pact was now drawing to a close, opposed the increase. The Conservative Party was even more resolute, tabling a censure motion against the Chancellor.

Facing certain defeat, Callaghan reluctantly called a vote of confidence himself. Under the terms of the Lib–Lab Agreement, the Liberal Party agreed not to vote against the Government. However, wishing to show their displeasure at Healey's actions, and in an example of the move towards disengagement from the Pact, they abstained. The Government consequently prevailed by 287 votes to 282. In the subsequent Lib–Lab meetings convened to alleviate the impasse, Liberal negotiators – Steel, significantly joined by Pardoe and with occasional contributions by Richard Wainwright – secured a concession from the Government in exchange for support on the remainder of the Finance Bill: namely, the agreement that the increase in the National Insurance surcharge would be restricted to 1½%. This was enacted on 29 June 1978.

This episode corroborated Steel's initial observation, when forming the Pact, that 13 Liberal MPs could engender a limited but nonetheless significant influence on the legislative process through consultation. However, as has been noted, it was Pardoe's combative approach which seemed to bear the most fruit. It should also be reiterated that the most significant reforms – the reduction in the standard rate of income tax

and the censure motion against the Chancellor, which facilitated the reduction in the employers' surcharge – were initiated by the Conservative Party with the Liberal Party simply endorsing their actions. These events underlining a recurring problem for the Liberal Party: namely, that even when the Liberal Party pressed for policy change, it was often unable to claim credit either in the media or with the public.

The end of the Lib–Lab Pact, February–August 1978

Most delegates who attended the Liberal Special Assembly in January 1978 assumed that the Pact would come to a natural conclusion shortly after the passage of the Finance Bill. Steel, in contrast, chose not to specifically confirm that the Pact would end in the summer. He maintained that he would 'wait and see what the Government can offer in the coming months'.[69] In his still regular meetings with the Prime Minister, Steel variously commented that the Pact could potentially continue through to 1979. Callaghan confided in Steel that he would give the Liberal leader an appraisal of the 1978 Queen's Speech in July 1978, on the basis that 'if they agreed to support it, he would carry on, if they felt they could not he was mindful to call an election for October 1978'. The Prime Minister subsequently advised Steel that he should break the Pact in order to fight an election as an 'independent Party'.[70]

Callaghan had variously suggested to Steel both late 1978 and some time in 1979 as possible dates for an election. However, by mid-1978 it seemed that the Prime Minister had 'cleared his desk' in order to call an general election, to be held, perhaps in October that year.[71] Steel and the Liberal Party planned their electoral strategy accordingly. Callaghan subsequently, and infamously, decided against an October election, a decision which was to prove fatal for the Labour Party. Callaghan's actions were condemned by Steel both at the time and on numerous occasions subsequently. The Liberal leader noted in *A House Divided* that 'the Prime Minister for some unaccountable reason threw away his position of equality in the opinion polls [in late 1978], did not call an election and was forced to go to the country when Labour was in a materially weaker position'. Steel's conclusion is that the Prime Minister 'muffed it'.[72]

Steel maintains that, had Callaghan called a general election in October 1978, he might have achieved an overall majority, or alternatively Labour would have been the largest Party in a hung parliament. He notes: 'I explained to him later, the Pact worked well, we might have done a Pact II this time as a full coalition.'[73] Callaghan was unconvinced

that an overall majority could be achieved in the autumn of 1978, but he reasoned that one might be attainable in the spring of 1979. However, more significant in relation to Steel's rationale that a satisfactory outcome would have been a minority Labour Government is Callaghan's comment in his autobiography, *Time and Chance* (1989), that 'I had no wish to undergo once again the frustration and uncertainty of no parliamentary majority'. This stance is made clear in a handwritten note in the Callaghan Papers held in the Bodleian Library. As he mused, in the summer of 1978, on the possible outcome of an autumn election, he concluded: '*don't* make any alliances' (emphasis in the original).[74]

It was clearly incumbent upon Callaghan, as Labour Party leader, only to call an election when he perceived the outcome would be most advantageous for the Labour Party. This was, of course, one of the primary reasons Callaghan formed and sustained the Lib–Lab Pact. It is therefore erroneous of Steel to denigrate Callaghan for his actions in the autumn of 1978. Rather, it is the contention of this book that his decision not to call an election in the autumn of 1978 was entirely consistent with his actions in March 1977. Callaghan's decision to postpone an election precisely because of a dislike of coalition exposes a clear strategic weakness in Steel's Pact strategy. As has been noted throughout this book, Steel was collegiate and at times conciliatory in his negotiations and interactions with Callaghan. In part this was a pragmatic approach, undertaken on the basis that maintaining good cross-party relations would propagate, in the minds of Labour politicians, the virtues of cross-party co-operation. Steel clearly had limited influence over policy and by extension no influence over the date of the general election; his strategy was therefore dependent on others accepting the virtues of a collegiate approach to politics. Callaghan was not as strident in his ideological position as some in British politics, such as Harold Wilson or Margaret Thatcher, but it was naive of Steel to assume that an old Labour warhorse like Callaghan, a veteran of 1950–1951, 1964 and 1974 and with a keen eye for Labour Party history, would view with equanimity the prospect of a hung parliament when compared with achieving an overall majority.

Steel and, it should be noted, John Pardoe, among others in the parliamentary Party, wished to continue the Pact into the 1978–1979 parliamentary session. However, under increasing pressure from others in the parliamentary Party and the Liberal Council, he finally acceded to demands to signal the end of the Pact. Steel did put forward one final forlorn request to Callaghan that, if the Government would to introduce a Bill on electoral reform at Westminster, the Pact could be maintained.

Callaghan stalled in replying to this demand, as a way of ensuring the Pact remained in place until the end of the parliamentary session, but eventually and inevitably he rejected any prospect of the Government enacting electoral reform.[75]

Following this rebuttal Steel was obliged, on 25 May 1978, to confirm to the parliamentary Liberal Party and the media that the Pact would be terminated just before the summer recess (July 1978). The Liberal leader's statement was followed with a reply by the Prime Minister thanking the Liberal Party for its support in achieving 'national recovery'. The decision to end the Pact was primarily David Steel's, and was in accordance with the resolution passed at the Liberal Special Assembly. However, given that they assumed a general election would take place in October 1978, a Liberal Council resolution in February 1978 stating that the Party should fight the next election as an 'independent' Party meant that in practice the Pact would have to be formally concluded before the summer recess, in order to allow a period of differentiation. Yet even now, with the Pact in its final death throes, Steel maintained that the primary purpose of the Pact was to show that the Liberal Party could be constructive allies in a future coalition. He thus ensured that the Agreement was not formally concluded until all significant Government legislative had been implemented. By this time, almost all political capital which the Pact had engendered for either Party had dissipated. Callaghan insisted that the termination should be initiated by a letter from the Liberal leader with a polite response from the Prime Minister rather than a 'joint declaration'. Steel agreed to this request on the basis that he wanted to ended the Pact on as harmonious a note as possible. He envisaged that on this basis he could fight the election characterising the Liberal Party as the constructive centre-ground alternative to the two traditional, confrontational parties on the left and the right. The Pact would then be viewed as a corollary to full coalition with the Liberal Party at its core. Callaghan meanwhile, in a further example of his pragmatism, commented to his Cabinet colleagues that the Government would subsequently return to its erstwhile position of 'benevolent neutrality', perhaps into 1979, on the basis that 'all minor parties were more or less up for auction'.[76]

A formal letter confirming that no future meeting of the joint consultative committee would take place was issued by the Liberal Chief Whip, Alan Beith to Michael Foot, on 3 August 1978. Beith placed on record 'his appreciation of the manner in which these meetings have been carried out', and Foot reciprocated the sentiment. The Lib–Lab Pact was at an end.[77]

Conclusion

This chapter has reviewed what was in many ways the seminal moment of the Pact: the parliamentary vote on the electoral system to be employed in the European elections. The events surrounding this process confirmed what many inside the Liberal Party had long since concluded: namely, that Steel's strategy would not bear fruit. The events surrounding the Special Assembly also showed that the Party could have fundamental and even existential disagreements and yet still remain united and supportive of their leader. This was especially true with regard to the loyalty shown by Pardoe. It seems clear that, had he chosen to act as a focus for anti-Pact sentiment, he could have destroyed the Agreement and compelled Steel to resign the leadership of the Liberal Party. Conversely, Steel also showed unequivocal loyalty to the Party, rejecting the offer from Callaghan that, should events conspire against the Liberal leader, he might have a place in a Labour Government. For the Labour Party the termination of the Pact simply meant a return to the erstwhile position of benevolent neutrality and the hope that Callaghan could call general election at the time of his choosing, which might result in a Labour majority government. For the Liberal Party there equally remained the prospect that the next election would result in a hung parliament, when the Liberals might hold the balance of power, at which point the Party could point to the Pact as a period of stability. Consequently, Steel's adherence to a co-operation strategy at the expense of policy concession would be fully justified. The period between December 1977 and the demise of the Pact in August 1978 marked the nadir of the co-operation strategy, but it also signalled an important period of introspection for the Liberal Party. It consequently allowed space and time for the Party to review its tactics and strategy, the conclusions of which remained significant for the next 30 years.

Conclusion

It is all too easy to be dismissive of the significance of the Lib–Lab Pact. It was a political anomaly. It was not the culmination of a broader shift to cross-party co-operation. It did not hasten realignment in British politics, nor was it the defining corollary for the subsequent centrist alliance between the SDP and the Liberal Party. Instead, it sat in juxtaposition, viewed by history as part of broader narrative which sandwiched it between the IMF crisis and the 'Winter of Discontent' – a block on the paradigm shift from Old Labour to the Thatcherite reforms and a period of increasing political polarisation.

The Pact was born out of necessity, unlike the wartime coalitions or the National Government in 1931, which were formed out of impending political or economic disaster; it was purely a political creation. Its key trait was that of political pragmatism. James Callaghan was intent on driving through his economic reforms and resolute that he should not be considered a mere addendum to the post-war consensus. His elevation to Prime Minster was crucial to the Labour Party's decision to form a Pact; Harold Wilson almost certainly would not or could not have made such a decision.

Callaghan led a moribund Labour Party in March 1977. Laid prostrate by parliamentary arithmetic and ineffective Party management, and with an impending vote of confidence, he instigated cross-party negotiations, solely in an attempt to ensure political stability. His preference was a deal with the Ulster Unionists, on an issue-by-issue basis. Only after this was deemed to be impractical was an agreement with the Liberal Party reluctantly entered into.

For the Labour Party, the Pact was always regarded as no more than a temporary expedient, to be dispensed with as soon as circumstances allowed. Their assumption was that after a future election the traditional

two-party system would be restored. Nevertheless, the Pact gave new vigour to an otherwise enfeebled Labour Government, providing stability, certainty and time for economic recovery. However, from a broader political perspective, these claims must be set against the fact that each of these might equally have been achieved with a general election, and the formation of a majority Conservative Government. Even for those who formed and sustained it, James Callaghan and Michael Foot, it merely reaffirmed their disdain of coalition Government. As noted in Chapter 7, for the wider Labour movement the Pact was of little significance; it did nothing to marginalise the left wing of the Labour Party, only forestalling their infiltration of the Party until after the 1979 general election.

Equally, the Pact did not precipitate any move by the social democrats within the Labour Party – Shirley Williams, William Rodgers and David Owen – to leave the Labour Party and form the SDP: these were wholly separate and unrelated events. The importance of the interactions which took place during the Pact only became significant later with the formation of the SDP–Liberal Alliance, and even then only as an example of cross-party cooperation in action.

The Conservative Party had denounced the Pact as 'devious and shabby'. It confirmed in Margaret Thatcher's mind her dislike of coalition politics and that those who partook in them were 'Quislings'. In the event, the Pact only forestalled the election of a Conservative Government, and in retrospect Thatcher viewed the imposition of the Lib–Lab Pact as politically advantageous, hardening her resolve and intensifying her desire to instigate radical political and economic change.[1]

For all its defects, when assessed against its limited remit, the Pact did fulfil many of the primary objectives of its key protagonists. It was essentially an agreement between two men: Callaghan and Steel. For Callaghan, the stability it engendered gave time for his Government's economic policies to bear fruit, and enabled the full implementation of its legislative programme for 1977–1978, without it being compelled to jettison any measures it would otherwise have been unable to enact. This in turn led to improvements in Callaghan's own standing as a respected and admired Prime Minister – the old naval man was seen to be guiding the ship of state with a sure hand on the tiller. By 1978, his personal rating and the position of his Party in the opinion polls had recovered to such an extent that he was in the hitherto unimagined position of being able to call a general election at the time of his choosing, with the prospect that he might secure an overall majority.

The Callaghan administration will forever be associated in the popular consciousness with the political unrest of late 1978 and early 1979, and by extension, the Lib–Lab Pact has been condemned as merely forestalling political change and the election of a Conservative Party led by Margaret Thatcher, but the Pact should not be disparaged for events which occurred after its conclusion. Moreover, while pay policy was clearly unravelling, the level of industrial unrest seen in 1979 was no more inevitable in 1977–1978 than the Pact itself in early 1977.

At the conclusion of the Pact, in August 1978, Steel could look back on events with broad satisfaction. He had achieved almost all of his personal objectives, within the confines of a limited parliamentary agreement. It enabled him, sooner than he ever could have imagined, to put his ideas of co-operation into practice. It educated his Party about the realities of coalition Government, and the difficulties of decision-making in office. It gave unprecedented exposure to himself and the Liberal Party at a time when they were considered little more than an afterthought in British political life and the Thorpe scandal threatened to engulf them. Instead, media focus shifted, for the first time in a generation, to serious discussion on the merits of Liberal political ideas and principles. Not every aspect of this process had been successful – he regretted the intra-party dispute and his serious miscalculation on the parliamentary vote on direct elections to the European parliament – nevertheless, at the termination of the Pact, Steel could look expectantly towards a period of differentiation and a general election, hopefully in the autumn of 1978. At that time, he envisaged, he could make a real case for co-operation, leading a powerful 'Liberal wedge' in a 'balanced parliament'.

Steel had regrets, the miscalculation over the voting intentions of the Conservative MPs in the vote on PR for the European elections being chief among them. Similarly, he acknowledged that he had underestimated both the level of internal dissent to his actions and the effect the Pact strategy would have on the Liberals' standing in the opinion polls, although attributing blame for this to the Labour Party was misplaced. Steel's disdain for the tribalism and ideology, which he saw in the extremes of the Labour and Conservative parties, meant he often misunderstood the desire of those in his own Party to see the implementation of 'Liberal' policies. This was most evident, but not exclusively seen, with regard to the failure to secure a proportional voting system for the European elections.

Steel viewed the Pact not as an end in itself but as a conduit for future realignment. This was based on the widely help assumption that the

1980s would bring multi-party politics and consequently, cross-party cooperation would return. It is in this context that his actions should be judged. However, it is the contention of this book that Steel's strategy was ultimately flawed, not because it did not fulfil the policy objectives imposed on it by others but because in order for it to succeed it was dependent on other (often more partisan) politicians, both in his own Party and in the Labour Party, to subscribe to his political philosophy. Steel singularly failed to achieve this aim via the Pact. His own Party subsequently enacted procedures to preclude a repeat of the Callaghan–Steel negotiation process. Meanwhile, Callaghan's decision not to call a general election in October 1978 was in part based on his desire not to revisit the very cross-Party alliance that Steel sought. Steel lamented that Callaghan did not call an election in October 1978, when the result might have been a hung parliament and a coalition, with the Liberal Party at the fulcrum. The Liberal leader would have done well to remember that the pragmatism Callaghan exhibited in 1978 in avoiding an election was born out of the same desire to maintain a Labour Government that had formed the Pact in March 1977. While this book has outlined how and why the Lib–Lab Pact was, and remains, an important example of cross-Party co-operation in practice, it is ironic, perhaps, that it was pragmatism which formed the Lib–Lab Pact, and pragmatism which precluded it from having a more substantive political legacy.

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55. NA, PREM 16/1400: Note of a meeting (27 June 1977); NA, PREM 16/1399: Note from Kenneth Stowe to Departmental Private Secretaries (28 March 1977); NA, PREM 16/1294: Letter from James Callaghan to Shirley Williams (22 January 1978).
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44. *The Times,* letter by Stephen Ross (14 July 1977); Grimond (1979) p. 251.
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