

Revisiting the role of profits in the collapse of Britain's post-war consensus

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Abstract

It is widely assumed that British companies suffered a collapse in profits in the late 1960s. This proposition was first advanced by Andrew Glyn and Bob Sutcliffe in 1971, and influenced various interpretations of post-war British history from the 1970s onwards. Most importantly, it supported the widespread view that organised labour used its bargaining power to erode the long-term viability of British capitalism in the 1960s, which continued into the 1970s and contributed to the breakdown of the post-war consensus. In this paper I argue that, although profitability did decline over the broad sweep of the post-war consensus, this process had stopped by 1966. Interestingly, this falsification of Glyn and Sutcliffe's hypothesis does not rely on any inadequacy in their empirical work. Instead, it relies on data revisions that were only incorporated into the British national accounts from 1976 onwards. This main result is demonstrated using historical vintages of the UK Blue Books. In addition, I make use of an under-utilised firm-level database on British company accounts to bolster the main result, by demonstrating how the full distribution of profitability varied over the post-war period. As stagflation and industrial unrest only became serious problems after 1966, I argue that declining profitability played very little role in the collapse of Britain's post-war consensus.

Keywords: Profit Squeeze, Britain, United Kingdom, Post-War Consensus, Measurement Error, National Statistics.

JEL Codes: N00, N14, B20, B24, B50, B51.

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1 Introduction

It is widely assumed that British companies suffered a collapse in profits in the late 1960s. This proposition was first advanced in a *New Left Review* article by Andrew Glyn and Bob Sutcliffe in 1971, who argued that the share of national income accruing to workers increased significantly between 1964 and 1969, “quite out of all proportion” to the declines in profitability that had occurred before then (Glyn & Sutcliffe, 1971, pp.5). Moreover,

“This is not the outcome of [capital’s] kindly and munificent gestures. Quite the reverse: the organized working class, linking a growing economic understanding to a growing militancy, in an environment of stiffening international competition, has, contrary to general opinion, advanced its economic position.” (Glyn & Sutcliffe, 1971, pp.27).

In short, an increase in trade union militancy led to an increase in wages which firms were unable to pass on through higher prices. As a result, profitability collapsed during the second half of the 1960s. In later work, Andrew Glyn and his co-authors spelled out the implications of this hypothesis:

“It is clear in retrospect that 1973 marked the watershed between the golden age years of rapid growth and the stagnation which followed. What is more contentious is whether the golden age pattern of development was undermined by its own internal tensions or alternatively was derailed by relatively exogenous factors such as the OPEC oil price increases. We seek . . . to justify the former view.” (Glyn et al., 1991, pp.72).

In other words, organised labour, “buoyed by full employment and tight labour markets”, used its bargaining power to erode the long-term viability of British capitalism in the late 1960s. In turn, this led to the breakdown of the post-war consensus in the stagflation and political upheaval of the 1970s (White, 2008, pp.135).

This argument was hugely influential. It was an early account of the apparent difficulties of sustaining full employment in a system of free wage bargaining, cited in well-known discussions of the golden age (Soskice, 1978; Kindleberger, 1992). It was read and discussed inside the Treasury (Worswick, 1992, pp.73). And within the Left, it motivated the ‘social structure of accumulation’ arguments in Boddy & Crotty (1974) and Weisskopf (1979), which led to the famous discussion of wage-led and profit-led growth in Bhaduri & Marglin (1990). That body of work, in turn, would dominate heterodox macroeconomics for much of the next 30 years (Lavoie, 2017; McColloch, 2017; Stockhammer, 2017).

Interestingly, despite this wide-ranging influence, the original empirical work of Glyn & Sutcliffe (1971, 1972) has rarely, if ever, been questioned. Any contemporary doubts concerned the importance of different timescales (Panić & Close, 1973) or different measures of profitability (Meeks, 1974; King, 1975). But the underlying fact of a collapse in profits in late-60s Britain has been accepted at face value.

In this paper, I argue that British companies did not suffer a collapse in profits in the late 1960s. This is not because Glyn and Sutcliffe, or their contemporaries, were using an inadequate measure of profitability, or because their analyses were in some sense deficient. On the contrary, their empiricism was careful and their conclusions measured. Instead, the existence of a profit squeeze must be called into doubt because the profitability data as it existed in the early 1970s suffered from severe measurement error. Specifically, improvements

to the measurement of profitability made possible by the introduction of corporation tax in 1965 led to significant revisions to various measures of business profit after that date, but these revisions were not included in the UK national accounts until 1976.

Before these revisions were taken into account, cash profits were recorded as falling in the second half of the 1960s, leading to a decline in the profit share from around 20% in 1965 to 14.2% in 1969. After these revisions were taken into account, cash profits were recorded as increasing from 1966 onwards, stabilising the profit share at around 17% in the last four years of the decade.

I demonstrate this central result using various vintages of the United Kingdom national accounts. One might, however, argue that there is no reason to suppose that later vintages are any more accurate than earlier vintages, and therefore that the absence of a profit squeeze is not proven. To alleviate these concerns, I also examine firm-level accounting data for the manufacturing industries and a subset of service industries. While these data were, in principle, available to Andrew Glyn and Bob Sutcliffe, they would have been very difficult to use given computing constraints in the 1970s. In these data, too, there is no evidence of a profit squeeze in the late 1960s.

Glyn and Sutcliffe's hypothesis can, therefore, be classed as yet another consequence of the poor macroeconomic data in this period, of which the post-war balance of payments crises are probably the most well known (e.g., [Thirlwall & Gibson, 1992](#), chapter 9). Compared with repeated foreign exchange crises, the consequences of mismeasured profits might appear trivial, limited as they are to academic interpretations of history. But in this particular case, the data in question have encouraged a view of trade union militancy in the presence of full employment as a primary causal factor in the collapse of the post-war consensus in the 1970s, and this view retains its political power today. Consider, for example, this passage from an article published in one of Britain's more prominent newspapers in late 2022, as mass industrial action returned to the economic landscape:

“Ministers sounded defiance today as unions ramped up threats of an effective general strike and warned chaos is set to drag on for months. Defence Secretary Ben Wallace said the government will not be ‘held to ransom’ with double-digit pay demands and ‘go back to the 1970s’ when union barons thought they were in charge of the country.” ([Tapsfield, 2022](#)).

The profit share did, apparently, decline over the broad sweep of the post-war period. But, as I argue below, this decline had halted by 1966. The timing here is crucial, because the well-known (and well-documented) increase in British industrial unrest only occurred after 1966, when profitability was not falling ([Crouch, 1978](#)). The same is true of stagflation, which only became problematic after devaluation ([Broadberry, 1991](#); [Woodward, 1991](#)). And despite precipitous falls after the OPEC crises and the first Gulf war, we now know that Glyn and Sutcliffe's favoured measure of the profit share displayed no secular trend between the last four years of the 1960s and the rest of the twentieth century. None of this suggests that British capitalism was “literally fighting for survival” in the late 1960s, or that this had anything to do with working class militancy ([Glyn & Sutcliffe, 1972](#), pp.10).

In turn, this suggests that the apparent difficulties of sustaining full employment in a system of free wage bargaining and strong trade unions were overblown by post-war Marxian economists and the literature they inspired. The conclusion of this paper is more in keeping with Beveridge's earlier assessment of the effects of full employment on industrial discipline:

“Undoubtedly a change from chronic unemployment to full employment will affect the problem of industrial management. But it is easy to exaggerate the difficulty of the new problem, and it is unimaginative to be blind to the new opportunities.” (Beveridge, 1944, pp.197).

The results of this paper complement a growing revisionist literature on the post-war economic history of the United Kingdom (e.g., Newton, 2009, 2010; Banerjee, 2024). I discuss the implications for economic history and contemporary economic policy in section 4, after the results are presented in sections 2 and 3. There are four appendices, discussing the reliability of contemporary national accounts data, accounting conventions, the profitability of financial firms, and the use of the term ‘post-war consensus’.

2 The national accounts

The income tables in the 1970s Blue Books, the official compendium of the national accounts at that time, relied on the following identity:

$$\begin{aligned} \text{gross domestic product at factor cost} &= \text{income from employment} \\ &+ \text{income from self-employment} \\ &+ \text{gross trading profits of companies} \\ &+ \text{rent} \\ &- \text{stock appreciation.} \end{aligned}$$

The differences between this breakdown of sectoral incomes and the modern definition are considered below. The only aspect that is likely to cause confusion to contemporary readers is the fact that trading profits are measured gross of stock appreciation, which has to be netted off separately to arrive at GDP. This is because stock appreciation (or holding gain) is the change in the value of inventories and other assets simply as the result of price changes, which is not an ‘income’ in the national accounting sense. Contemporary definitions of company profits (after the 1995 European System of Accounts) are measured net of stock appreciation, hence the potential for confusion (see Office of National Statistics, 1998, pp.25).

There was some debate in the 1970s about whether company profits should be measured gross or net of stock appreciation (e.g., Godley & Wood, 1975). Glyn and Sutcliffe chose to measure profits net of stock appreciation, consistent with modern practice. Specifically, the headline results in Glyn & Sutcliffe (1971) used company trading profits net of capital consumption (i.e., depreciation) and stock appreciation, using data from the 1970 Blue Book, which is displayed in figure 1. According to the 1970 data vintage, this definition of profits fell, in cash terms, between 1965 and 1969.

A few years after the publication of Glyn & Sutcliffe (1971), however, this fall in cash profits was revised away. This was due, in part, to changes in the use of Inland Revenue corporation tax data to estimate company profits for the years following its introduction in 1965. These new estimates were first used in the 1976 Blue Book, and included, “the introduction of more reliable methods of dealing with losses and nil assessment cases” (Central Statistical Office, 1976, pp.114). The 1976 and 1977 vintages of Glyn and Sutcliffe’s definition of profits are also displayed in figure 1. The 1976 vintage shows broadly flat profits in the second half of the 1960s, while the 1977 vintage shows an increase. The total revision between the 1970 and 1977 vintages to the estimate of company profits in 1969 is £679 million, amounting to an increase of almost 25%.



Figure 1: Gross trading profits of companies, net of depreciation and stock appreciation.



Figure 2: Gross trading profits of companies as a share of gross value added generated by the company sector, net of depreciation and stock appreciation.

Company trading profits net of capital consumption and stock appreciation as a share of gross value added generated in the company sector (also net of capital consumption, and net of stock appreciation by definition) are displayed in figure 2. This was the profit share definition favoured by Glyn and Sutcliffe, and its decline between 1960 and 1969 is readily apparent in the 1970 data vintage, but had halted by 1966 in the 1977 vintage. This is a direct consequence of the cash-terms revisions plotted in figure 1.

A longer term view is provided in figure 3. This plots the same measure of the profit share as in figure 2, now calculated from the 1997 Blue Book data, which was the last set of national accounts that used similar income definitions to the 1970s data used by Glyn and Sutcliffe. With the benefit of hindsight, we can see that there is no obvious secular trend in this measure of the profit share over the last four decades of the twentieth century. Instead, this measure of profitability suffered temporary collapses during the first OPEC crisis and the recessions of the early 1980s and 1990s, but was otherwise relatively stable. Notably, the profit share in the mid-80s and mid-90s was similar to the profit share in the late-60s.

While it might, therefore, be reasonable to argue that 1960s capitalism had suffered, “such a dramatic decline in profitability that it [was] literally fighting for survival” on the basis of the 1970 national accounts, it is very difficult to maintain this using the post-1976 vintages (Glyn & Sutcliffe, 1972, pp.10). Moreover, the fact that profitability had stabilised by 1966, before the well-documented increase in British trade union militancy in the late 1960s and the onset of stagflation, suggests that any profitability problems that did exist had very little to do with the power of organised labour.

Finally, figure 4 plots a contemporary definition of the profit share, using data from the 1998 Blue Book and the 2022 Blue Book. The 1998 Blue Book was the first set of UK national accounts to apply the 1995 European System of Accounts, which replaced ‘gross trading profits of companies’ with ‘gross operating surplus’ as the headline measure of company income. This is roughly equal to gross trading profits minus stock appreciation plus partnership income plus rent. Data limitations mean that the denominator is now gross domestic product, rather than gross value added generated in the company sector, because observations for the latter are only available from 1987 in the 1998 (and subsequent) Blue Books. In addition, the gross operating surplus series in figure 4 are for private non-financial corporations and are gross of depreciation, again due to limited historical series in the post-1997 Blue Books (see Martin, 2009, for a discussion of the limitations of British historical national accounts, and appendix A for a discussion of the contemporary profit share series).

Both the 1998 and 2022 series in figure 4 show an increase in gross operating surplus as a share of GDP in the early 1980s, unlike the series in figure 3. Interestingly, this discrepancy has little to do with changes in the share of the company sector in total GDP, or changes in the non-profit components of gross operating surplus. Instead, it is mainly due to the fact that the profit share in figure 3 is net of depreciation, while the profit share in figure 4 is gross of depreciation. According to the 1997 Blue Book, the estimates in Sefton & Weale (1995), and Bank of England estimates based on Wallis & Oulton (2014), depreciation increased as a share of company profits, gross value added generated in the company sector, and gross domestic product over the second half of the twentieth century. As a result, the profit share net of depreciation was roughly stable over this period, while the profit share gross of depreciation increased. If we are willing to treat depreciation as a cost to firms, then the relevant measure of profitability is the profit share net of depreciation. Averages for the relevant periods, using data from the 1997 Blue Book, are summarised in table 1.

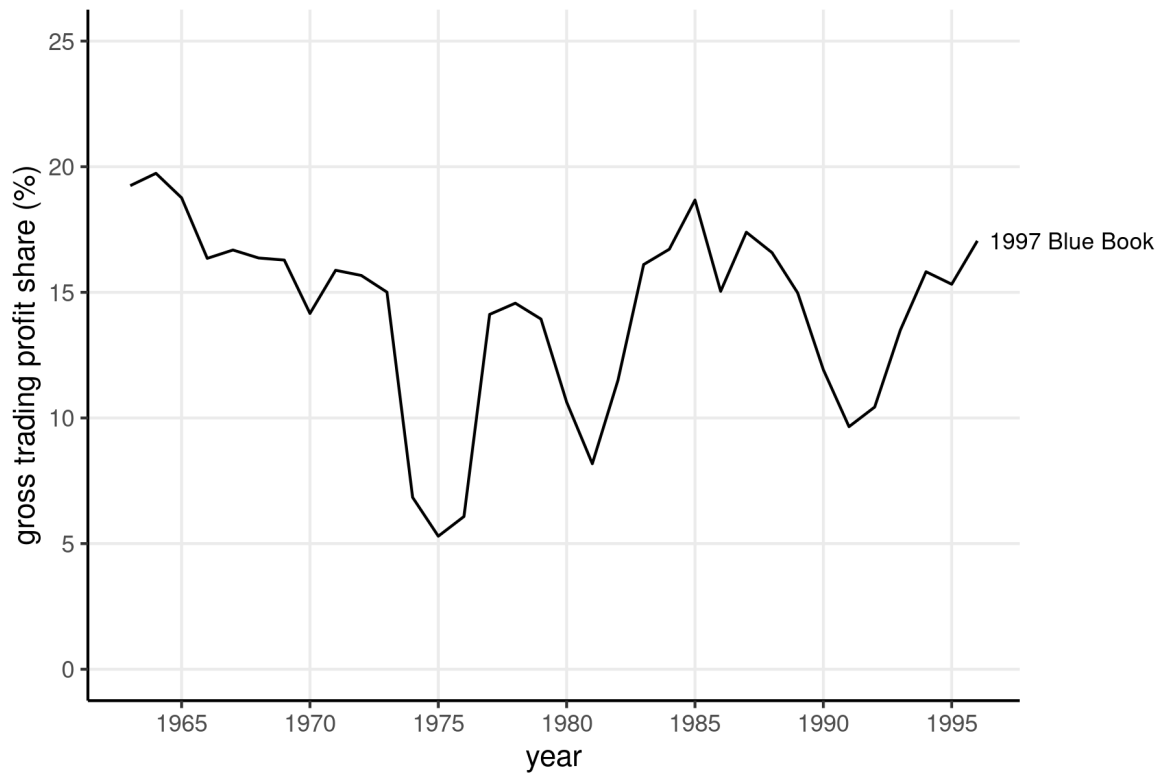


Figure 3: Gross trading profits of companies as a share of gross value added generated by the company sector, net of depreciation and stock appreciation, from the 1997 Blue Book.

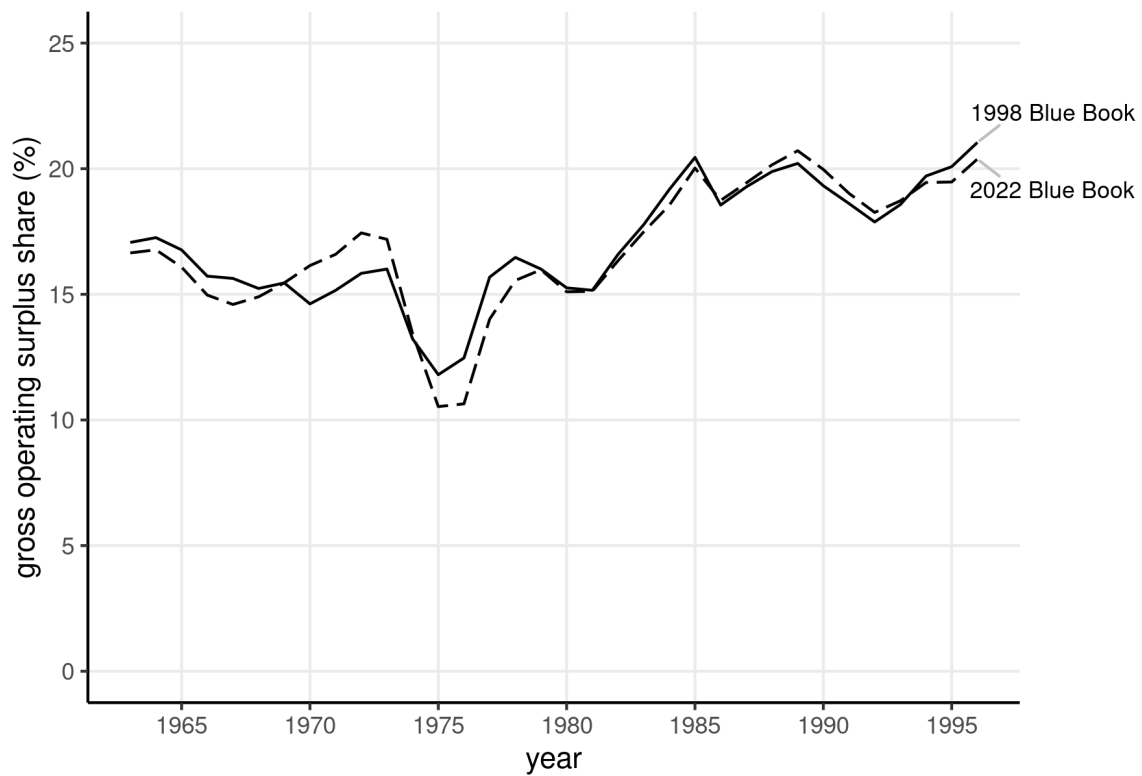


Figure 4: Gross operating surplus of private non-financial corporations as a share of GDP, 1998 and 2022 Blue Books. The reliability of the latter is discussed in appendix A.

Table 1: Effect of depreciation on the profit share (data from 1997 Blue Book).

time period	net profit share	gross profit share	depreciation (% of gross profit)
1966-69 average:	16.4%	22.8%	33.3%
1983-96 average:	14.9%	25.8%	49.8%

3 The Cambridge/DTI Databank

There is, therefore, no evidence of a profit squeeze in the second half of the 1960s in the later vintages of the United Kingdom national accounts. As noted in the introduction, however, one might argue that there is no reason to suppose that later vintages of the national accounts are any more accurate than earlier vintages, and therefore that Glyn and Sutcliffe’s hypothesis has not been convincingly falsified.

To alleviate these concerns, in this section I present statistics on the distribution of firm-level profitability from the Cambridge/DTI Databank of Company Accounts. This is a database of standardised financial accounts for British companies operating principally in the United Kingdom. The database was established by the National Institute of Economic and Social Research in 1948, with responsibility then passing to the Board of Trade and Department for Trade and Industry and, subsequently, academics at the Universities of Cambridge and Edinburgh (Goudie *et al.*, 1985; Meeks *et al.*, 1998). It is a remarkable source of firm-level information that is readily available from the UK Data Service (Meeks & Wheeler, 1998).

Although the database has observations for firm-level accounting statistics starting in 1948 and ending in 1990, the sample definition changes at various points between those two years, so consistent averages cannot be calculated over the full span of the data. However, the sample definition is relatively stable between 1961 and 1969, being independent companies or company groups listed on the London Stock Exchange, operating mainly in the United Kingdom, whose principal activity is manufacturing, distribution, construction or transport. Between 1961 and 1969 the companies required net assets of £500,000 or gross income of £50,000, as of 1960 or 1964, to be included in the dataset (Meeks *et al.*, 1998, pp. 9).

Table 2 provides a summary of the sample size and the extent of entry into and exit from the dataset. So in 1961, for example, there are 2,256 firms in the sample, of which 2,173 survived to 1962. Of the 83 which did not survive, 73 were taken over by other firms in the dataset, five were liquidated, four were taken over by firms outside the dataset, and one was withdrawn from the sample by the Department for Trade and Industry (but presumably survived). There were then 2,174 firms in the sample in 1962, implying that one firm was added to the dataset in that year.

One can observe that 45 firms were withdrawn from the dataset between 1963 and 1964. Prior to that date, the size requirement for inclusion was net assets of £500,000 or gross income of £50,000 as of 1960; after that date, the size requirement was net assets of £500,000 or gross income of £50,000 as of 1964. Thus, those firms that had shrunk below the net assets or gross income thresholds between 1961 and 1964 were removed from the database between 1963 and 1964, although the relatively small number of firms affected (around 2% of the 1963 sample) suggests that this should not seriously bias any time series analysis. The more material sampling change occurs in 1969, when the net assets requirement increased to £2 million and the gross income threshold increased to £200,000. This resulted in 507

Table 2: Sample size and entry/exit in the DTI/Cambridge Databank, 1961 - 1969.

year	61	62	63	64	65	66	67	68	69
sample size	2,256	2,174	2,082	2,403	2,315	2,227	2,099	1,926	2,192
of which: survived to next year	2,173	2,080	1,949	2,312	2,223	2,097	1,922	1,789	1,529
of which: withdrawn by DTI	1	3	45	0	0	0	0	1	507
of which: other exit	0	0	0	1	0	3	0	0	71
of which: taken over*	73	73	69	74	75	95	144	105	64
of which: taken over [†]	4	17	15	8	13	13	23	22	13
of which: liquidated	5	1	3	6	4	10	10	9	5
of which: ceased quote	0	0	1	2	0	0	0	0	3
of which: nationalised	0	0	0	0	0	9	0	0	0

* *By a company in the population*; † *By a company not in the population*.

firms being withdrawn by the DTI between 1969 and 1970, or a full 23% of the 1969 sample. This is, obviously, a material change to the sample, so I focus on the data between 1961 and 1969 and ignore the subsequent observations.

Unfortunately, companies were not required to present a full trading and profit and loss account for most of the 1960s, so neither turnover nor employee remuneration are available in the DTI/Cambridge database until 1968 (after the Companies Act 1967). As a result, profit shares cannot be calculated for individual firms to allow firm-level comparison with the national accounts profit shares discussed in section 2.

Instead, figures 5 and 6 plot the distributions of firm-level return on net assets between 1961 and 1969, net of depreciation and stock appreciation and (in the case of figure 6) tax. The accounting conventions are discussed in detail in appendix B, but the basic definition is,

$$\text{profit rate} = \frac{\text{total profit} - \text{depreciation provision} - \text{stock appreciation}}{\text{net assets}},$$

in which,

$$\begin{aligned} \text{total profit} = & \text{sales revenue} \\ & - \text{amount paid for goods purchased in period} \\ & + \text{stock appreciation,} \end{aligned}$$

and net assets are given by,

$$\begin{aligned} \text{net assets} = & \text{fixed assets} \\ & + \text{net working capital,} \end{aligned}$$

in which net working capital is the difference between current assets (accounts receivable, marketable securities, etc) and current liabilities (bank overdrafts, current tax liabilities, etc; see appendix B for more details).

As illustrated in figure 5, the distribution of profit rates in the DTI/Cambridge databank is relatively stable throughout the 1960s, with a gentle decline observable at the median. Note, however, that while the solid black line in figure 5 plots the median profit rate *in each year*, this profit rate will generally not belong to the same firm in every year (in other

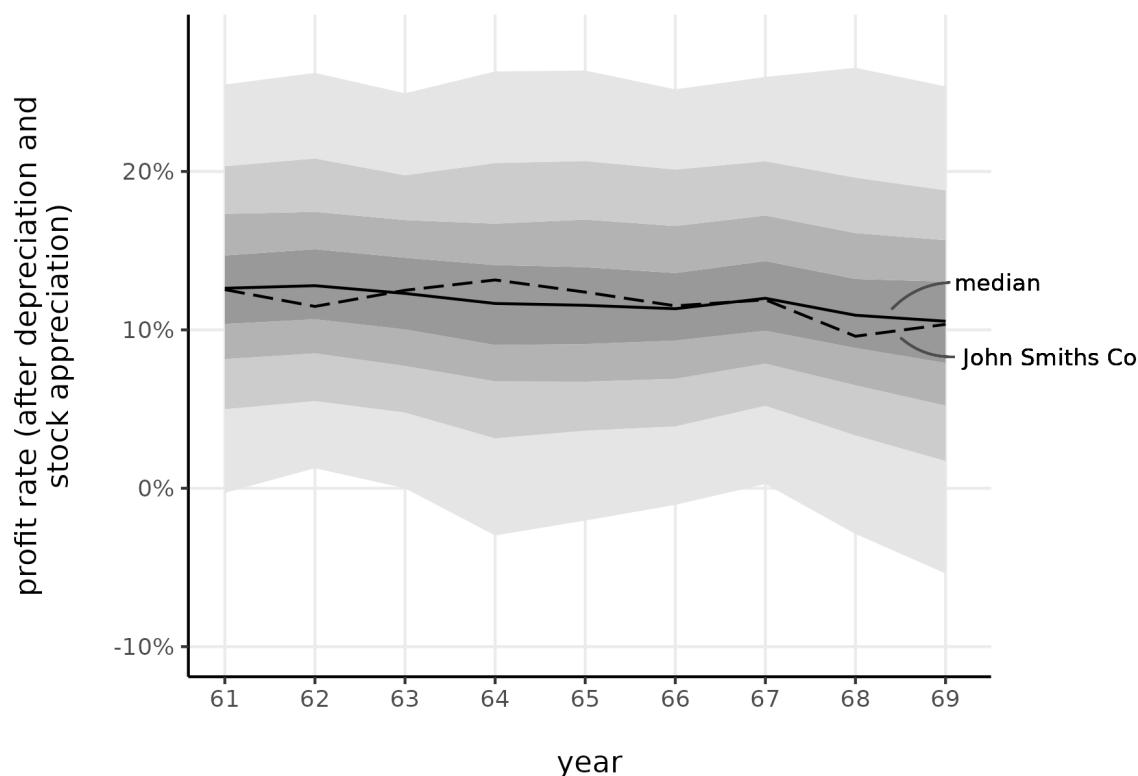


Figure 5: Distribution of total profit after depreciation and stock appreciation as a % of net assets, 1961 - 1969. The lightest gray area spans the 10th to 90th percentiles, the next lightest spans the 20th to 80th, and so on until the darkest gray area spans the 40th to the 60th percentiles. The solid black line plots the median profit rate in each year, while the dashed line plots the profit rate of the ‘median firm’ in each year.

words, the median firm will generally change from year to year). As such, the profit rate of the ‘median firm’ is also plotted, which is the firm with the minimum average distance between its annual profit rates and the median annual profit rates between 1961 and 1969, where distance is defined as absolute deviation. In figure 5 this firm is John Smiths, the Tadcaster brewers.

Interestingly, while there is a gentle decline in profitability at the median, the firms at the top of the profitability distribution appear to have been exactly as profitable in the early 1960s as they were at the end of the decade, while the firms at the bottom of the distribution appear to have become considerably less profitable. There was, therefore, a decline in the pre-tax profitability of the least profitable firms in the country, with increasing numbers making a pre-tax loss by 1969. However, this observation is tempered by figure 6, which plots post-tax profit rates. There is effectively no change in average profitability over the course of the 1960s by this measure, and while slightly more firms were making a post-tax loss in 1969 than in 1961, the increase is much less dramatic. Notably, the median firm in figure 6 (now House of Fraser) was almost exactly as profitable in 1969 as it was in 1961.

Finally, table 3 breaks down the distributions in figures 5 and 6 by listing median post-tax profit rates in 1961 and 1969 by industry. While some industries (e.g., metal manufacture, vehicle production, timber and furniture) saw declines in profit rates, others (e.g., tobacco production, transport and communication) saw increases. Overall, most industries were comfortably profitable, on average, both at the beginning and end of the 1960s.

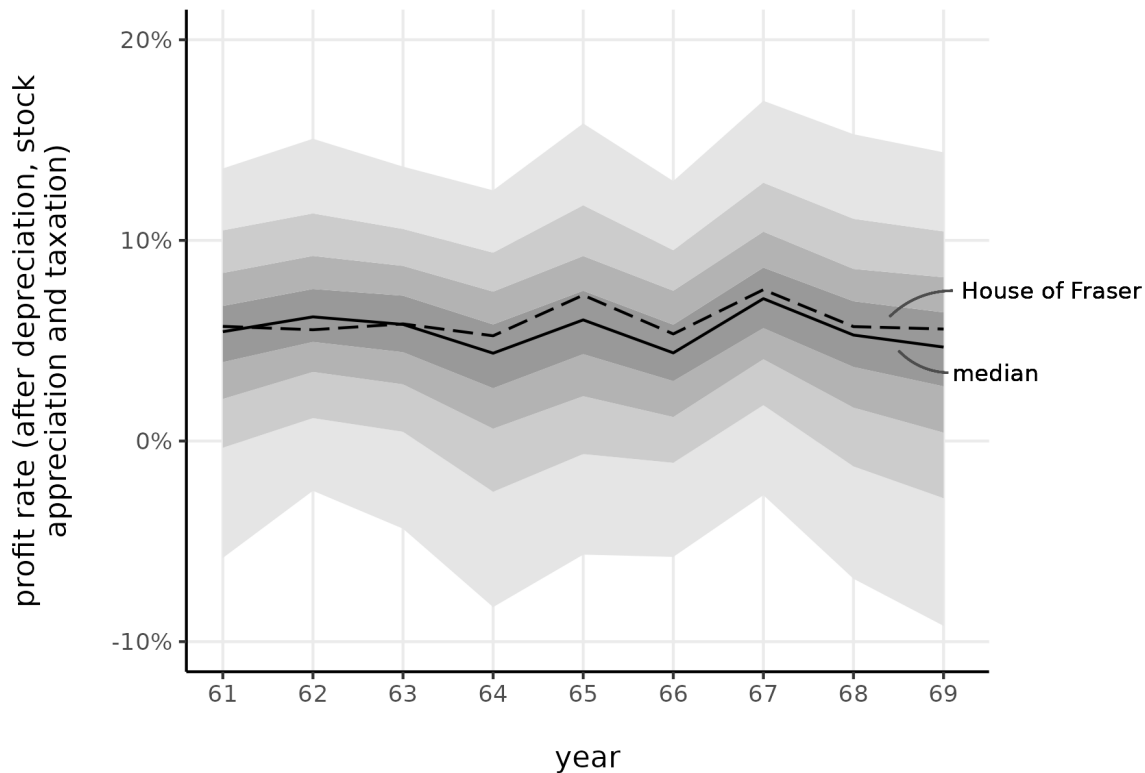


Figure 6: Distribution of total profit after depreciation, stock appreciation and taxation as a % of net assets, 1961 - 1969. The lightest gray area spans the 10th to 90th percentiles, the next lightest spans the 20th to 80th, and so on until the darkest gray area spans the 40th to the 60th percentiles. The solid black line plots the median profit rate in each year, while the dashed line plots the profit rate of the ‘median firm’ in each year.

4 Concluding remarks

Profitability almost certainly declined over the broad sweep of the post-war consensus. Andrew Glyn and Bob Sutcliffe advanced the hypothesis that this decline accelerated in the late 1960s, to a point that threatened the continued existence of British capitalism. In later work, Andrew Glyn and his co-authors claimed that this profit squeeze was a major cause of the collapse of the post-war consensus in the 1970s.

In this paper, I have sought to disprove this hypothesis. Instead, I argue that the post-war decline in the profit share had halted by 1966, and the distribution of firm-level profit rates was relatively stable for much of the 1960s. After the first half of the 1960s, outside of the OPEC crises and the recessions of the early 1980s and 1990s, the profit share stabilised for the rest of the twentieth century. British capitalism was not “fighting for survival” in the late 1960s.

I have made this argument using two separate sources of data. However, it is worth noting that the DTI/Cambridge Databank of Company Accounts does not take into account financial firms or unlisted firms, while the national accounts series only cover incorporated firms. There were, in fact, around 11,000 registered public companies operating in the United Kingdom in the second half of the 1960s, 400,000 private companies, 900 cooperative societies engaged in production, and 600 building societies (Maurice, 1968, chapter VII). The main limitation of this paper is, therefore, that financial firms (many of which would be

Table 3: Median total profit after depreciation, stock appreciation and taxation as a % of net assets, 1961 and 1969, by industry.

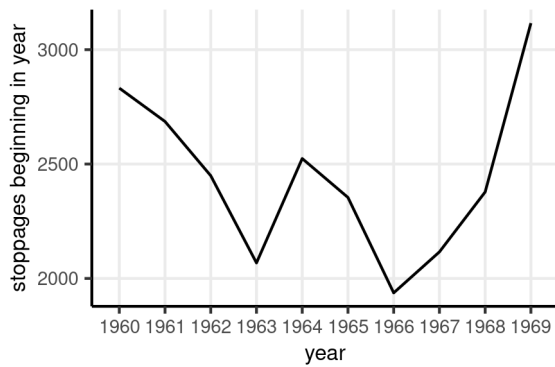
Industry	1961	1969	Difference
Food	5.8%	5.7%	-0.10
Drink	6.0%	7.2%	1.20
Tobacco	5.7%	8.5%	2.80
Chemical and Allied Industries	7.6%	7.2%	-0.40
Metal Manufacture	6.3%	3.1%	-3.20
Non-Electrical Engineering	2.9%	2.8%	-0.10
Electrical Engineering	4.0%	3.7%	-0.30
Shipbuilding and Marine Engineering	1.5%	0.6%	-0.90
Vehicles	4.5%	1.1%	-3.40
Metal Goods	6.3%	5.3%	-1.00
Textiles	4.7%	4.8%	0.10
Leather and Fur	4.4%	4.4%	0.00
Clothing and Footwear	3.7%	4.4%	0.70
Bricks, Pottery, Glass, Cement	6.4%	4.4%	-2.00
Timber, Furniture, etc	7.2%	3.4%	-3.80
Paper, Printing and Publishing	6.3%	5.4%	-0.90
Other Manufactures	4.6%	4.7%	0.10
Construction	3.3%	1.5%	-1.80
Transport and Communication (excl. Shipping)	6.1%	8.9%	2.80
Wholesale Distribution	4.7%	4.4%	-0.30
Retail Distribution	5.1%	6.4%	1.30
Miscellaneous Services	6.7%	7.2%	0.50

unincorporated partnerships) are largely left out of the analysis.

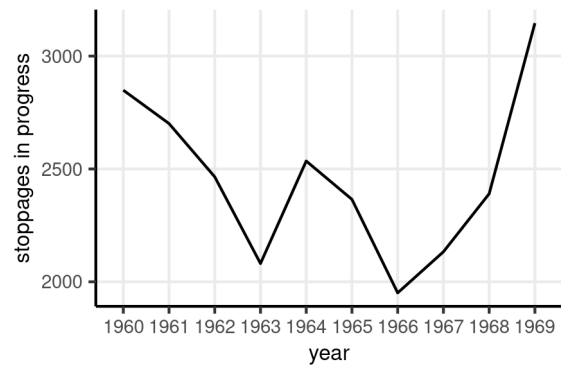
This is, however, somewhat less important than it might first appear, because financial firms were not unionised to the same extent as manufacturing firms, and were not the focus of Glyn and Sutcliffe’s argument. In any case, to alleviate any remaining concerns, appendix C examines the income of sole traders and partnerships in the 1970 and 1977 national accounts. Again, there does not appear to be a crisis of profitability in this sector.

What are the implications of these results for our understanding of the collapse of the post-war consensus? First, declining profitability was relatively unimportant. If the profit share in the late-60s was similar to the profit share in the mid-80s, it cannot have been a binding constraint on the viability of capital accumulation nor capitalist relations of production.

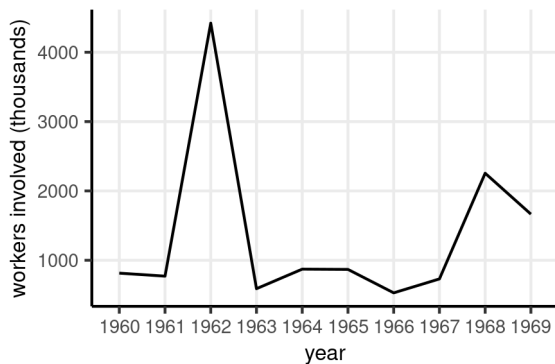
Second, rising trade union militancy did not stop the average firm from making a profit. As discussed in Crouch (1978), 1966 was a low point for strike numbers, which rose for most of the next decade. As illustrated in figure 7, similar trajectories can be seen in both the number of workers involved and total working days lost (ignoring the distortionary effect on



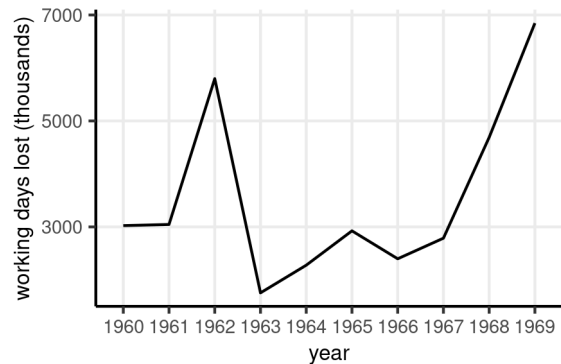
(a) Stoppages beginning in year.



(b) Stoppages in progress in year.



(c) Number of workers involved in year.



(d) Total working days lost in year.

Figure 7: Measures of strike activity, 1960 - 1969 (ONS, 2019).

these series of two one-day engineers' stoppages in 1962; see [Durcan et al. \(1983\)](#), chapter 4). But, as discussed above, the profit share had stabilised by this point, and profit rates (as measured by return on net assets) were relatively stable.

Instead of their effect on profitability, therefore, any difficulties caused by full employment in a system of free wage bargaining and strong trade unions are placed at the door of economic policy, as discussed in the various contributions to [Cairncross & Cairncross \(1992\)](#). In fact, Colin Crouch suggests that government policy was a primary cause of increasing trade union militancy in the first place:

“The developments in institutional reform, incomes policy and legal changes demonstrate certain important points concerning the British situation. Firstly, it can be seen . . . that much of the sudden increase in workers' and unions' militancy can be interpreted as a reaction against the sharply increased militancy of the state.” ([Crouch, 1978](#), pp.251).

In turn, increasing trade union militancy in the late 1960s caused numerous problems for the Wilson government, even if it did not (apparently) cause any reduction in aggregate profitability. A good example of this is the Seamen's strike of May-June 1966. This event did not seem to have any measurable effect on economy-wide profitability, but it did lead to a steep fall in the government's foreign exchange reserves, which intensified speculation against sterling, and led to the government abandoning voluntaristic incomes policies in favour of statutory policies and deflation ([Jefferson et al., 1968](#); [Morgan, 2001](#), pp.254, 264).

The relationship between Harold Wilson’s government and the unions became increasingly strained thereafter, culminating in the debacle of the 1969 White Paper, *In Place of Strife*.

The consequences for contemporary British labour market policy are straightforward. The fact that full employment and strong trade unions do not automatically squeeze profits is an argument in favour of their support by policymakers. At the same time, while it is easy to exaggerate the difficulties posed by firm-level antagonism between labour and capital, the history of British attempts at corporatism suggest that governments of all colours have struggled to overcome the constraints posed by an inherently liberal political economy.

Interestingly, the current institutional landscape of floating exchange rates and the abandonment of fine-tuning in demand management might be more conducive to a return of organised labour than the history of the past 40 years might suggest, for the simple reason that the government has fewer short-term policy objectives that industrial action can interfere with. In comparison to the Seamen’s Strike of 1966, for example, Unite The Union organised a string of successful dockworkers’ strikes over the course of 2022. These resulted in significant pay increases, but were largely ignored by the government who were more preoccupied with industrial unrest in the public sector.

The consequences for economic history are somewhat less straightforward, but it is certainly the case that the Marxian theory of the collapse of the post-war consensus has lost an important empirical crutch, at least for the case of the United Kingdom. In contrast to the Marxian theory, the evidence presented in this paper is consistent with the institutional theory outlined in the work of Jim Tomlinson (in particular, [Tomlinson, 1985](#)). By this account, the deterioration of the post-war consensus had little to do with declining profitability, but instead emerged from the interaction of inflationary shocks with rigid policy institutions. Tomlinson focuses on the interaction of inflation and budget deficits, such that the inflationary environment of the 1970s coincided with a crisis of public expenditure. But the same interaction of economic shocks and rigid institutions can be seen in the negative feedback between government and trade union militancy described in [Crouch \(1978\)](#). Similar arguments from a Marxian perspective can be found in [Morgan \(1977\)](#).

In a more general sense, the results of this paper complement a growing revisionist literature on the post-war economic history of the United Kingdom (e.g., [Newton, 2009, 2010](#); [Banerjee, 2024](#)), some of which builds on the work of studies like [Thirlwall & Gibson \(1992\)](#) that examine the difficulties of measuring the economy during the post-war consensus. Other historians have criticised the use of this term itself; I discuss these criticisms, and their implications for my argument, in appendix [D](#).

In 1976, Frank Blackaby wrote of the risk of politicians discovering that they might run the country with a million people out of work, “without committing electoral suicide” ([Tomlinson, 1985](#), pp.136). That outcome did indeed come to pass, and marked the end of the post-war consensus. But, in contrast to the Marxian hypothesis examined in this paper, it had very little to do with declining profitability, or the fundamental viability of British capitalism during the Golden Age.

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Appendices

A The reliability of contemporary profitability data

Figure 4 in the main text shows gross operating surplus as a share of GDP, from the 1998 and 2022 Blue Books. The argument in this paper is that the profit share stabilised in the late 1960s. However, the attentive reader might notice that the profit share actually *increased* in the late 1960s according to the 2022 Blue Book (the latest vintage at the time of writing).

The contemporary data on gross operating surplus, however, appear to be an unreliable guide to profitability in the 1960s and 70s. As discussed in [Abramsky \(2014\)](#), [Ker \(2014\)](#), and [Martin \(2020\)](#), the 2010 European System of Accounts necessitated the inclusion of R&D expenditure in capital expenditure, rather than intermediate consumption, and this change was first introduced in the 2014 Blue Book. As capital expenditure is ‘funded’ from gross operating surplus in the national accounts, the revisions to gross fixed capital formation caused by the inclusion of R&D in the 2014 Blue Book also implied revisions to gross operating surplus. Thus, both capital spending and gross operating surplus were revised upwards between the 2013 and 2014 Blue Books.

Unfortunately, however, there is an unusual oscillation in these revisions to gross fixed capital formation and gross operating surplus in the late 1960s and early 1970s. In short (as discussed in [Martin, 2020](#), pp.22), the upwards revisions are unusually high in the late 1960s and early 1970s, and then unusually low in the late 1970s. It is this oscillation that makes the profit share increase in the late-60s according to the post-2014 Blue Books, but not in any of the previous vintages.

The obvious interpretation of this oscillation is that R&D spending must have been unusually high in the late 1960s, before falling in the mid-1970s. But all of the available information points away from this conclusion. David Edgerton, for example, suggests that,

“The basic story of British business-funded R&D is that it has grown throughout the century. The only exceptions were the cutbacks in the early 1930s; the period between 1939 and 1945 when spending was probably static; and after 1967, when there was a fall in spending to 1975.” ([Edgerton, 1994](#), pp.62).

The available evidence on R&D spending in the late 1960s and early 1970s is compared with the revisions to private non-financial companies’ gross operating surplus between the 1998 and 2016 Blue Books in table A1. These data are from [Central Statistical Office \(1973\)](#), [Morgan \(2000\)](#), [Edgerton \(1993\)](#), and the OECD R&D database, and all show fairly static R&D spending between the late 1960s and early 1970s. In particular, they have no correspondence with the gross operating surplus revision, which was supposedly the result of the inclusion of R&D spending in gross capital formation by the ONS, who (apparently) relied on David Edgerton’s R&D figures ([Ker, 2014](#), pp.9). Unfortunately, however, the ONS has no record of the exact manner in which the 2014 gross fixed capital formation revisions were calculated, or, by extension, the gross operating surplus revisions.¹ As a result, it seems advisable to discount the late-60s increase in the profit share as recorded in the post-2014 Blue Books, and retain the conclusion that the profit share stabilised.

¹This was communicated to me by the ONS, who have been incredibly patient and helpful in responding to queries about the historical national accounts data.

Table A1: Comparison of various R&D spending series with 1998-2016 gross operating surplus revisions (all figures in £ millions).

		CSO Research and Development Expenditure 1973 (Private Industry)						ONS R&D Statistics 1998	Edgerton (1993)	OECD Frascati		GOS Revision
Year		Total	Capital	Current	of which: salaries and wages	of which: materi- als and equip- ment	of which: other	Total Business Enter- prise R&D	Industrially Funded R&D	Business Current Costs	Business Funded	
1964	(1964-65)	467	60.2	406.8	214.4	94.2	98.3			632.8	488.6	-103
1965												-165
1966	(1966-67)	562.2	54.6	507.6	268.2	122.6	116.9	580	392.9	758.9	580.4	-186
1967	(1967-68)	569.8	62.5	507.4	274.6	116.5	116.3	605	410.2	553.5	604.5	-291
1968	(1968-69)	601.9	55.5	546.4	300.6	128.8	117	639	427	553.5	638.7	81
1969	(1969-70)	636.1	60.8	575.3	317.3	136.4	121.6	680	444.8		680.3	329
1970												1378
1971												1567
1972								831	507.2	766.8	830.5	1944

A.1 Further evidence on investment revisions

Since the publication of the first working paper version of this article, much more evidence has been brought to light on the reliability of historical investment estimates by Bill Martin. He agrees, in [Martin \(2024\)](#), that the reasons for the oscillation in the revisions to gross fixed capital formation in the 1960s and 1970s (and, by extension, gross operating surplus) have nothing to do with R&D spending.

Instead, the most obvious explanation seems to be the ‘bottom-up’ manner in which pre-1997 investment estimates were linked with post-1997 national accounts series. As of 1997, the ONS statisticians in the capital stocks team had access to very fine-level national accounts micro-data on investment rates by asset and industry. Before 1997, the statisticians had access to a separate (non-national accounts) dataset of investment rates by asset and industry, now known as the ‘PIM’ database, which was primarily used for constructing capital stock estimates (using the perpetual inventory method, hence the acronym).

In order to estimate aggregate capital formation series, the ONS statisticians had to align these two separate databases by ‘linking factors’. This is quite a common procedure (see e.g., [De la Fuente Moreno, 2014](#)), in which each element of a ‘historical’ series $\{a_t\}$, $t = 1, \dots, \tau$, which overlaps with a ‘contemporary’ series $\{b_t\}$, $t = \tau, \dots, T$ at the point in time $t = \tau$, is multiplied by the fixed constant $c = b_\tau/a_\tau$ such that the two series are equal to one another at $t = \tau$. In this way, growth rates of the historical data are maintained, but their level is shifted up or down.

If the pre-1997 national accounts series on aggregate gross fixed capital investment was aligned with the post-1997 series in this way, clearly there would be no unusual oscillations to the revisions (on the contrary, the growth rates of the revised historical series would have been exactly the same as the growth rates of the pre-1997 national accounts series). But the alignment took place at the level of asset-by-industry using the PIM database, and these aligned asset-by-industry series were then aggregated up to arrive at whole-economy investment series.

The result of this ‘bottom-up’ estimation technique was an aggregate investment series (and, by extension, gross operating surplus series) that is very different to the established (pre-1997) national accounts series. The obvious implication is that the investment micro-data in the PIM database suffered from severe measurement errors, and these measurement errors carried over to the aggregate series. This hypothesis is supported by the existence of some of the very large linkage factors discussed in [Martin \(2024\)](#).

This brief summary does not do justice to the wealth of evidence discussed in [Martin \(2024\)](#). The relevant conclusion for this paper is simply that the contemporary national accounts data on the profit share in the ‘60s and ‘70s is unreliable, and should not be used as evidence that the profit share actually increased in the late 1960s.²

²Occasionally, difficulties also arise by using different measures of profitability: see, e.g., [Narouei \(2011\)](#) who studies UK profit rates from a Marxian perspective, and attempts to compare Marxian measures of profitability with Glyn and Sutcliffe’s orthodox measures.

B Accounting conventions in the DTI/Cambridge Databank of Company Accounts

Total profit in the DTI/Cambridge Databank of Company Accounts includes stock appreciation in the following manner,

$$\begin{aligned} \text{total profit} &= \text{sales revenue} \\ &\quad - \text{amount paid for goods purchased in period} \\ &\quad + \text{value of closing stocks} - \text{value of opening stocks,} \end{aligned}$$

where the difference between the value of closing and opening stocks (both valued at historical cost) is referred to as stock appreciation in the main text. This is because total profit, in the most general sense, is equal to sales revenue minus the cost of goods sold, where the latter is calculated by taking the amount paid for goods purchased within the accounting period, adding the opening stocks (which are assumed to be sold during the period) and deducting the closing stocks (representing goods purchased during the period that are still unsold at the end of the period).³

From gross profit one then arrives at a 'balance of profit' figure as follows:

$$\begin{aligned} \text{balance of profit} &= \text{total profit} \\ &\quad - \text{interest paid on long-term liabilities} \\ &\quad - \text{tax on current profit} \\ &\quad - \text{dividend payments} \\ &\quad - \text{minority interest in subsidies net of tax} \\ &\quad - \text{tax and other adjustments,} \end{aligned}$$

which is then allocated between provisions including depreciation and amortisation provisions, or retained in reserves. At the same time, the company's 'balance of profit' enters the flow of funds accounts as one of various 'sources of funds' which are allocated to various 'uses of funds'. One of those 'uses' in the flow of funds accounts is an 'increase in the value of stocks and work in progress', which is the series netted off in the main text (in addition to the companies' depreciation provisions, and any tax liabilities in the post-tax figures).

Meanwhile, net assets are described by,

$$\begin{aligned} \text{net assets} &= \text{tangible fixed assets} \\ &\quad + \text{intangible fixed assets} \\ &\quad + \text{current assets} \\ &\quad - \text{current liabilities,} \end{aligned}$$

in which current assets are described by,

$$\begin{aligned} \text{current assets} &= \text{trade investments} \\ &\quad + \text{stocks and work-in-progress} \\ &\quad + \text{trade and other debtors} \\ &\quad + \text{marketable securities} \\ &\quad + \text{tax reserve certificates} \\ &\quad + \text{cash,} \end{aligned}$$

³This was communicated to me privately by Professor Christopher Napier.

and current liabilities are described by,

$$\begin{aligned} \text{current liabilities} &= \text{capital provisions} \\ &+ \text{bank loans and overdrafts} \\ &+ \text{trade and other creditors} \\ &+ \text{dividend and interest liabilities} \\ &+ \text{tax reserve certificates} \\ &+ \text{current taxation liabilities,} \end{aligned}$$

although these are not referred to as ‘current’ assets and liabilities in the databank itself (Meeks et al., 1998, pp.32-38).

Finally, note that the sample of firms in section 3 is restricted to those with positive net assets, to avoid division by zero.

C Income of sole traders and partnerships in the 1960s

As noted in the main text, the national accounts data on company profitable only cover incorporated firms, while the DTI/Cambridge Databank excludes financial firms by design. So the profitability analysis in the main text excludes all unincorporated financial firms.

The net income of unincorporated firms is included in the personal sector in the 1970s Blue Books. The trajectories of the incomes of “other sole traders and partnerships”, as a percentage of GDP at factor cost, is displayed in figure C1:

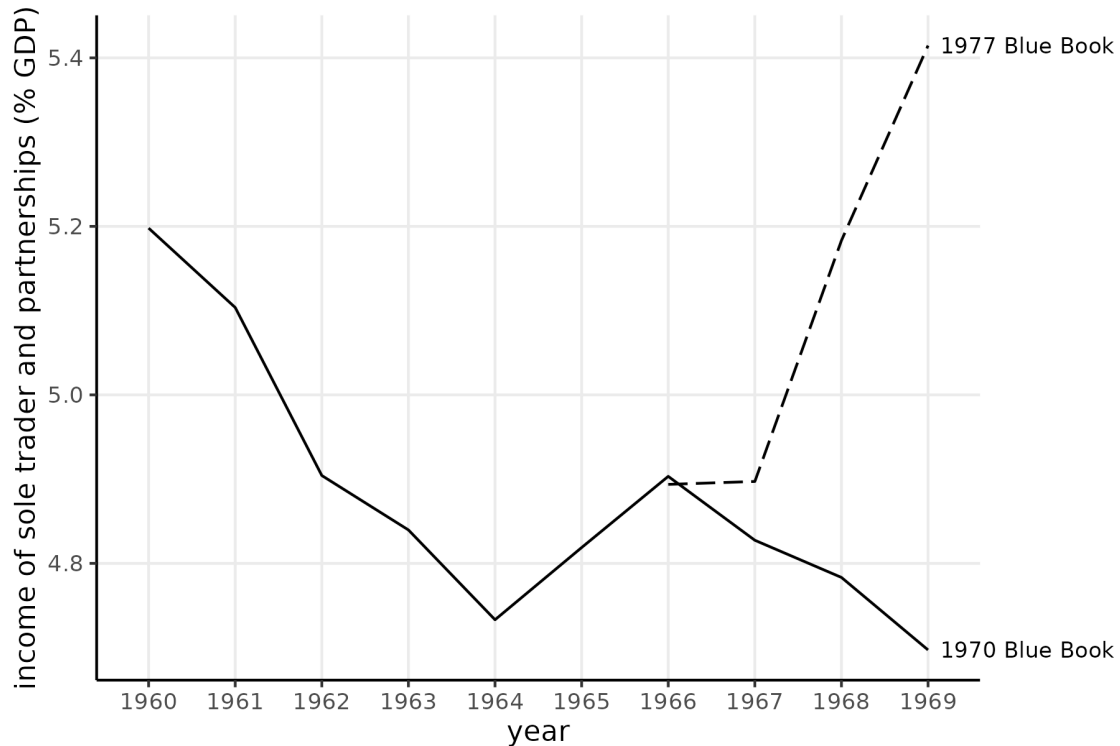


Figure C1: Net income of “other sole traders and partnerships” as a percentage of GDP at factor cost, 1970 and 1977 Blue Books. Note that, for reasons of data availability, the net income figures are gross of both depreciation and stock appreciation.

In the pre-ESA95 system of accounts, household self-employment income was split up into the income of “professional persons” (a relatively small sum), “farmers” (slightly less small), and the “other sole traders and partnerships” used here (which is the bulk of total self-employment income). Interestingly, figure C1 tells a very similar story to the profits of incorporated firms discussed in the main text: a decline according to the 1970 national accounts, but a big revision upwards between the 1970 and 1977 accounts (the 1976 vintage is almost identical to the 1977 vintage, hence its exclusion here).

D The use of the term ‘post-war consensus’

The term ‘post-war consensus’ is used liberally throughout this paper, despite it being subject to considerable criticism. A recent example is David Edgerton’s critique of the term as part of a larger collection of clichés used by British historians, which downplay the wide differences in various aspects of economic and social policy between Labour and the Conservatives over the post-war period (Edgerton, 2018, pp.372-378). The term is supposed to have been popularised in Addison (1975), although Addison traces it back to J. P. Nettl and Samuel Beer. Seldon (1994) provides a useful summary of the debate up until the 1990s.

I use the term ‘post-war consensus’ for two reasons. First, because Andrew Glyn was explicitly predicting (in the early 1970s, with Bob Sutcliffe) and then explicitly describing (in the early 1990s, with other co-authors) a political crisis. As described in White (2008), “Andrew saw the crisis of profitability as reflecting an unresolved political problem in the post-war social democratic settlement: how to reconcile, over the long-run, the strengthening of labour through full employment with the maintenance of the profit which capitalism requires.” Andrew Glyn himself used the expression in a manner which would no doubt fall foul of the criticisms levelled at it by other historians, describing a “social democratic consensus in favour of full employment, the welfare state, modernization, and Keynesianism” (Glyn et al., 1991, pp.60).

This paper is a critique of the empirical content of Andrew Glyn’s argument, rather than his theoretical apparatus, and so I use his terminology. At the same time, the relevant parts of the post-war consensus for my argument are those concerning the desirability of full employment and the role of trade unions in the labour market, both of which were agreed upon by both major parties until (at least) the late 1960s. One can find references to the policy target of full employment, for example, in otherwise innocuous civil service documents during the Heath government (e.g., the ‘Getting Ready for Work’ Department of Employment documents in National Archives, undated). And the commitment to voluntarism and ‘collective laissez-faire’ has been well-documented in the industrial relations literature (as cited in the main text), at least until the introduction of statutory incomes policies.

The argument in this paper, therefore, is not meant to support an uncritical use of the blanket expression, ‘post-war consensus’. As with most periods of contemporary British history, there were some things that the major political parties agreed upon, and some that they did not. However, it does require the reader to accept, at least to some degree, that there was a policy consensus in favour of full employment in the presence of free wage bargaining which came to an end at some point between the late 1960s and early 1980s. The reader may agree or disagree, of course, that the end of this consensus had little to do with profitability.