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## Thatcher's Policy Unit and the "Neoliberal Vision"

*Aled Davies* , *James Freeman*  and *Hugh Pemberton* 

**Abstract** Using recently released papers, we analyze an attempted neoliberal policy revolution in 1980s Britain—the attempt to restrict the state pension to a minimal flat-rate benefit and supplement it with personal pensions. In the process, the government would abolish both the state earnings-related pension and collective employer-provided occupational pension schemes that then covered about half the workforce and owned about a quarter of all shares listed on the London Stock Exchange. Unusually, our focus is not primarily on ministers, as we unpick an attempted revolution that would have refashioned every worker in Britain as an investor-capitalist. Rather we focus on a sub-ministerial center of political power, the No. 10 Policy Unit, and the influence on it of the Centre for Policy Studies, a right-wing think tank. In doing so, we confirm the latter's importance as source of neoliberal ideas for the architects of policy change in the 1980s and reveal the centrality of the Policy Unit as a source of motive power for Britain's neoliberal revolution. We also, however, highlight the relative pragmatism of ministers as they backed away from the Policy Unit's attempted revolution, choosing instead to implement a more evolutionary set of reforms.

**A**s the papers of the Thatcher governments become available, historians are beginning to question assumptions about their policies and about their relationship to neoliberalism. It is hard to overstate the power and extent of received opinion on the Thatcher era; the policies espoused by the Thatcher governments were highly controversial and have already been the subject of widespread interrogation by scholars working within the social sciences—but without access to the full range of primary sources now available. All contemporary historians face this problem of an influential body of inherited intellectual work, of course, but historians of Thatcherism perhaps face a particularly daunting difficulty. Even defining Thatcherism is problematic. It long ago became impossible to count Thatcherism's many definitions within the already very substantial and rapidly expanding literature on the politics of Britain in the 1980s and its legacy. Any future definitional agreement is highly unlikely; indeed, Ben Jackson and Robert Saunders rightly counsel against trying to reach a single definition, arguing that

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Thatcherism “should be viewed as a discourse to be interrogated, not as an explanatory tool for the actions of the Thatcher governments.”<sup>1</sup>

Recent scholarship has questioned prevailing narratives on Thatcherism and the New Right, arguing that they were much more complex and disparate both in ideas and personnel than earlier scholars and political commentators have assumed.<sup>2</sup> Formerly, two things united many analyses of the era. The first was a personalized focus on Thatcher to a greater or lesser degree (often greater). Second was a somewhat teleological tendency to define the so-called Thatcher revolution in terms of what one might term “actually existing Thatcherism” (increasingly identified as a neoliberal political project by social scientists and political activists) and work backward to explore its policy roots and (sometimes) forward to its impact and legacy.<sup>3</sup> Those twin foci, however, carried with them the danger of both an obsessive focus on the Thatcher persona and style (epitomized by the terms “Iron Lady” and “TINA”) and on the “Thatcher effect,” to the point sometimes of producing a distorted perception of Thatcher as a politician and a frequently unhelpful conflation of Thatcher and Thatcherism.<sup>4</sup>

One might also note the danger inherent in many such analyses of giving too great a sense of coherence and inevitability to complex and frequently contingent events, and a related tendency to reify a sometimes chaotic and contradictory set of prior policy ideas and implemented policies into a coherent ideology of Thatcherism. Both tendencies arguably set in early in analyses of the “Thatcher project” that appeared in the 1980s in the pages of *Marxism Today* and in works by others analyzing 1980s British politics from a Marxian perspective.<sup>5</sup> They were influential at the

<sup>1</sup> Ben Jackson and Robert Saunders, introduction to *Making Thatcher's Britain*, ed. Ben Jackson and Robert Saunders (Cambridge, 2012), 1–22, at 13.

<sup>2</sup> As Lawrence Black observes, the “emergent New Right was . . . a mix of activists, intellectuals, think tanks, neoliberals, authoritarians, libertarians, Eurosceptics, and marginal dead ends.” Lawrence Black, “1968 and All That (Cher),” in *Inventing the Silent Majority in Western Europe and the United States: Conservatism in the 1960s and 1970s*, ed. Anna Von der Goltz and Britta Waldschmidt-Nelson (Cambridge, 2017), 356–76, at 357. Other accounts, particularly of the relationship between Thatcherism and neoliberalism, include Aled Davies, “‘Right to Buy’: The Development of a Conservative Housing Policy, 1945–1980,” *Contemporary British History* 27, no. 4 (2013): 421–44; Florence Sutcliffe-Braithwaite, “Neo-liberalism and Morality in the Making of Thatcherite Social Policy,” *Historical Journal* 55, no. 2 (2012): 497–520; Robert Ledger, *Neoliberal Thought and Thatcherism: ‘A Transition from Here to There?’* (London, 2017); James Vernon, “Heathrow and the Making of Neoliberal Britain,” *Past and Present*, no. 252 (2021): 213–47.

<sup>3</sup> For a selection of such works over the past three decades, see, for example, Dennis Kavanagh and Anthony Seldon, *The Thatcher Effect* (Oxford, 1989); Subroto Roy and John Clarke, *Margaret Thatcher's Revolution: How It Happened and What It Meant* (London, 2005); Simon Jenkins, *Thatcher and Sons: A Revolution in Three Acts* (London, 2006); Geoffrey Fry, *The Politics of the Thatcher Revolution: An Interpretation of British Politics, 1979–1990* (Basingstoke, 2008); Charles Moore, *Margaret Thatcher*, vol. 2, *Everything She Wants* (London, 2015); Eric J. Evans, *Thatcher and Thatcherism*, 3rd ed. (London, 2013).

<sup>4</sup> The Russians were said to have dubbed Thatcher the “Iron Lady.” (“They’re quite right—I am,” she boasted.) “TINA,” coined by her first chancellor of the exchequer, Geoffrey Howe, was an acronym for her mantra “There is no alternative.” See John Campbell, *Margaret Thatcher*, vol. 2 (London, 2003): 142, 163. For a recent critique of the tendency for histories of Britain in the 1980s to focus on Thatcher, either in person or as “the guiding spirit of the age,” see Stephen Brooke, “Living in ‘New Times’: Historicizing 1980s Britain,” *History Compass* 12, no. 1 (2014): 20–32, esp. 20–21.

<sup>5</sup> See, for example, Stuart Hall, “The Great Moving Right Show,” *Marxism Today* 23, no. 1 (1979): 14–20. A more subtle development of the thesis can be found in Stuart Hall and Martin Jacques, *The Politics of Thatcherism* (London: 1983); the contributions in Stuart Hall and Martin Jacques, eds., *New Times: The Changing Face of Politics in the 1990s* (London, 1989); Andrew Gamble, *The Free Economy and the Strong*

time precisely because they attributed a coherence to the many reforms being undertaken by the Thatcher governments. Perhaps for that reason they proved enduring, even though they arguably exaggerated the radicalism of Thatcherism and of Thatcher and others identified as key players in the Thatcher project.

Subsequently, the idea that the Thatcher project was a deliberate, radical, and profoundly neoliberal project increasingly took hold.<sup>6</sup> A long and sometimes tedious debate ensued about what exactly neoliberalism was/is, and indeed about whether it ever actually existed as a body of ideas translated into a political project.<sup>7</sup> Critics of the concept's utility, mainly those working in the Marxian tradition, have argued that the term is deployed so vaguely as to be virtually useless, merely a synonym for capitalism.<sup>8</sup> Other critics note a substantial implementation gap between neoliberalism as a body of ideas and "actually existing neoliberalism."<sup>9</sup> Moreover, those identified as key players in a putative neoliberal revolution, and in fact Conservatives more generally, have shown a marked tendency to disown a term that is "predominantly, if not exclusively" used pejoratively by those on the political left or center.<sup>10</sup> Nonetheless, although neoliberalism as a frame of analysis has been questioned, it is still seen to have analytical utility, not least because it represented "a specific strategy to defend capitalism."<sup>11</sup> Many scholars stuck with the concept precisely because of its usefulness to those seeking to describe the transformation that took place in the political economy of Britain and other countries from the late 1970s. Daniel Stedman Jones has suggested, for example, that Thatcherism may have developed in an unplanned way from its initial "monetarist" economic strategy, but "it came to include many other measures that were inspired by neoliberal theories."<sup>12</sup>

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*State: The Politics of Thatcherism*, 2nd ed. (Basingstoke, 1994). On the significance of the Hall and Jacques framework for our understanding of 1980s British political change, see Matthew Hilton, Chris Moores, and Florence Sutcliffe-Braithwaite, "New Times Revisited: Britain in the 1980s," *Contemporary British History* 31, no. 2 (2017): 145–65. For the same tendency to attribute coherence, but from a very different political perspective, see Claire Berlinski, *There Is No Alternative: Why Margaret Thatcher Matters* (New York, 2008).

<sup>6</sup> See, for example, the assumption that the Conservative Party's 1979 election victory marked "the first political embodiment" of a "hegemonic shift" to a neoliberal order, in Neil Rollings, "Cracks in the Post-war Keynesian Settlement? The Role of Organised Business in Britain in the Rise of Neoliberalism before Margaret Thatcher," *Twentieth Century British History* 24, no. 4 (2013): 637–59, at 637–38. See also the link established between Thatcherism and the ideas of Friedrich Hayek in Anthony Seldon and Daniel Collings, *Britain under Thatcher* (Harlow, 2000), 68. The linkage between Thatcherism and neoliberalism more generally is widespread within recent social science works; see, for example, David Harvey, *A Brief History of Neoliberalism* (Oxford, 2005); Alex Nunn, "The Contested and Contingent Outcomes of Thatcherism in the UK," *Capital and Class* 38, no. 2 (2014): 303–21; Bob Jessop, "Margaret Thatcher and Thatcherism: Dead but Not Buried," *British Politics* 10, no. 1 (2015): 16–30.

<sup>7</sup> On the challenge of crafting "crisply unambiguous, essentialist definitions" of neoliberalism, see Jamie Peck, *Constructions of Neoliberal Reason* (Oxford, 2010), 8.

<sup>8</sup> Philip Mirowski, "Hell Is Truth Seen Too Late," *boundary 2* 46, no. 1 (2019): 1–53, at 12.

<sup>9</sup> Jamie Peck, Neil Brenner, and Nik Theodore, "Actually Existing Neoliberalism," in *The Sage Handbook of Neoliberalism*, ed. Damien Cahill et al. (London, 2018), 3–15.

<sup>10</sup> Kean Birch, *A Research Agenda for Neoliberalism* (Cheltenham, 2017), 4–6, at 4.

<sup>11</sup> Ben Jackson, "Putting Neoliberalism in Its Place," *Modern Intellectual History*, published ahead of print, 7 February 2021, <https://doi.org/10.1017/S1479244321000032>.

<sup>12</sup> Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2014), 261.

As James Vernon recently observed, however, “Despite the sound and fury surrounding the utility of neoliberalism as an analytical category there is now a good deal of agreement about what it is, and when it took shape.”<sup>13</sup> Of course, neoliberalism was not monolithic. There has been growing acknowledgment in recent years of its several strands (most notably ordoliberalism, Austrian economics, the Chicago School, and public choice theory), of tensions between them, and of international differences in implementation.<sup>14</sup> It is widely accepted that a “neoliberal thought collective” with prewar roots was nurtured among intellectuals by the Mont Pèlerin Society.<sup>15</sup> The ideas promulgated within this network are seen to have gained purchase on British policy making in the 1980s via the influence on prominent Conservatives of an archipelago of business-funded think tanks such as the Institute for Economic Affairs, and financial journalists such as Peter Jay and Samuel Brittan, themselves influenced by Mont Pèlerin-inspired intellectuals.<sup>16</sup> In consequence, it is widely recognized that the Thatcher era was characterized by pro-market attempts to “roll back the frontiers of the state” via initiatives such as privatization, sale of council houses, and promotion of the untrammelled operation of the market through measures such as financial deregulation, curbing of trade-union power in the labor market, and encouragement of individual moral and financial responsibility and initiative via a range of initiatives including personal pensions.<sup>17</sup> While concern with increasing individual liberty lay at the heart of much of this agenda, many have noted that the Thatcher governments were unafraid to deploy the power of the state to support the project in a Foucauldian process of neoliberal governmentality—for example, by reshaping individuals, often compulsorily, as market consumers rather than as passive recipients of public services. As Thatcher herself put it, “[E]conomics are the method; the object is to change the heart and soul.”<sup>18</sup> This is not to say that

<sup>13</sup> Vernon, “Heathrow and the Making of Neoliberal Britain,” 213.

<sup>14</sup> Dieter Plehwe, introduction to *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective*, ed. Philip Mirowski and Dieter Plehwe (Cambridge, 2009), 1–42; Ben Jackson, “Currents of Neoliberalism: British Political Ideologies and the New Right, c.1955–1979,” *English Historical Review* 131, no. 551 (2016): 823–50; Rachel S. Turner, *Neo-liberal Ideology: History, Concepts and Policies* (Edinburgh, 2011).

<sup>15</sup> “Neoliberalism must be approached primarily as a historical ‘thought collective’ of increasingly global proportions.” Plehwe, introduction to *The Road from Mont Pèlerin*, 4.

<sup>16</sup> Ben Jackson, “The Think-Tank Archipelago: Thatcherism and Neo-liberalism,” in Jackson and Saunders, *Making Thatcher’s Britain*, 43–61; Plehwe, introduction to *The Road from Mont Pèlerin*.

<sup>17</sup> In her Bruges speech on 20 September 1988, Thatcher famously sent a blunt (if debatable) message to Jacques Delors, then president of the European Commission: “We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level.” As quoted in Hugo Young, *One of Us* (London, 1991), 550. See also Aled Davies, “Pension Funds and the Politics of Ownership in Britain, c. 1970–86,” *Twentieth Century British History* 30, no. 1 (2019): 81–107; Ledger, *Neoliberal Thought and Thatcherism*, 4–10.

<sup>18</sup> Ronald Butt, “Mrs Thatcher: The First Two Years,” *Sunday Times*, 1 May 1981. (Unless otherwise indicated, all newspaper references are to London publications.) This preparedness was noted early on by scholars such as Gamble in *The Free Economy and the Strong State*. It was, however, fully consonant with ordoliberal thinking. See Ralf Ptak, “Neoliberalism in Germany: Revisiting the Ordoliberal Foundations of the Social Market Economy,” in Mirowski and Plehwe, *The Road from Mont Pèlerin*, 98–138. For ordoliberalism’s specific significance in the arena of pensions, in particular the preparedness for state action “to ‘deproletarianise’ society by dispersing private property to imbue individuals with the values of self-sufficiency and entrepreneurialism,” see Davies, “Pension Funds and the Politics of Ownership in Britain,” 102–3.

neoliberalism is always seen as coterminous with Thatcherism. What came to be dubbed the Thatcher project drew on neoliberal ideas, certainly, but tempered them with political statecraft and melded them with preexisting Conservative traditions.<sup>19</sup> Nonetheless, many of the reforms of the Thatcher era are seen as having been informed by a broader international neoliberal project.<sup>20</sup>

But just how neoliberal were the reforms enacted under Thatcher? In this study, we build on our previous work on the tensions within Thatcherite individualism to question the radicalism of Thatcher (and those within her cabinet who were also often identified as neoliberal architects of Thatcherism)<sup>21</sup> and to explore the relationship between the reforms enacted by her governments and the "neoliberal vision."<sup>22</sup> We examine here, as in our earlier article, developments in UK pensions during the mid-1980s, a field of policy in which the government attempted a reform of breathtaking and undoubtedly neoliberal ambition—both an effective privatization of all but the minimalist basic state pension and the individualization of all related investment and capital ownership, including that embodied in occupational pensions.

At the same time, however, we pull the primary focus away from Thatcher and the usual array of ministerial players in the Thatcher revolution such as Geoffrey Howe, Keith Joseph, and Nigel Lawson.<sup>23</sup> Instead, our emphasis is twofold. First, we discuss the No. 10 Policy Unit and its role in taking up and vigorously promoting radical ideas about pensions reform that emanated from the Centre for Policy Studies, one of the right-wing think tanks often identified as having played an important role in the Thatcher revolution by synthesizing neoliberal ideas and transmitting them into British politics.<sup>24</sup> Second, we look at John Redwood's role in the Policy Unit's development of policy as a member from August 1983 and then as its director from January 1984. In doing so, we address Richard Vinen's point that placing too much a weight on Thatcherite ideology can obscure the important role played by senior advisers in forming policy, and the ways in which ministers could sometimes temper it.<sup>25</sup>

<sup>19</sup> See, for example, Sutcliffe-Braithwaite, "Neo-liberalism and Morality in the Making of Thatcherite Social Policy."

<sup>20</sup> Jamie Peck and Adam Tickell, "Conceptualising Neoliberalism, Thinking Thatcherism," in *Contesting Neoliberalism: Urban Frontiers*, ed. Helga Leitner, Jamie Peck, and Eric S. Sheppard (New York, 2007), 26–50; Jones, *Masters of the Universe*, 261.

<sup>21</sup> Aled Davies, James Freeman, and Hugh Pemberton, "'Everyman a Capitalist' or 'Free to Choose'? Exploring the Tensions within Thatcherite Individualism," *Historical Journal* 61, no. 2 (2017): 477–501.

<sup>22</sup> Manfred B. Steger and Ravi K. Roy, *Neoliberalism: A Very Short Introduction* (Oxford, 2010), 21. See this source generally on Thatcherism and the neoliberal vision.

<sup>23</sup> In doing so, we also build on Pemberton's previous research on the role of the civil service in implementing the "Thatcher revolution." See Rodney Lowe and Hugh Pemberton, *The Official History of the British Civil Service: Reforming the Service*, vol. 2, *The Thatcher and Major Revolutions, 1982–97* (London, 2020).

<sup>24</sup> For the standard text on the influence of think tanks on Thatcherism, see Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931–1983* (London, 1995). For the standard text on the Centre for Policy Studies, see Michael Harris, "The Centre for Policy Studies: The Paradoxes of Power," *Contemporary British History* 10, no. 2 (1996), 51–64.

<sup>25</sup> Richard Vinen, *Thatcher's Britain: The Politics and Social Upheaval of the 1980s* (London, 2009), 251–55; Richard Vinen, "The Conservative Nation since 1974," *Political Quarterly* 92, no. 3 (2021): 396–403, esp. 401.

We begin by considering the genesis of a radical neoliberal proposal for the effective privatization and individualization of all state and occupational pension provision above a minimalist state pension. The ideas embodied in that proposal were taken up by advisers at the center of government, first by the Central Policy Review Staff of the Cabinet Office and then, with considerably more effect, by the No. 10 Policy Unit. The latter pursued its agenda within Whitehall in a number of ways and was successful in getting much of its vision published as a consultative green paper in mid-1985; we examine the reasons why it found it impossible to sustain that momentum. In the end, as we show, personal pensions were implemented in 1986 as an additional element within the system rather than a complete replacement for the extant mixed economy of pension provision above the basic state pension.

We argue, as we have argued before, that the Centre for Policy Studies was profoundly important in injecting ideas into government in the mid-1980s. More specifically, we show that via its promotion of private markets, the withdrawal of the state from all but the most basic form of income replacement in old age, and the desire to reconfigure British workers as investor-capitalists, the Centre for Policy Studies' proposed personal pensions reform had obvious links to what came to be called the neoliberal policy agenda.<sup>26</sup> However, an underrated motor of neoliberal reform in this policy area lay below the tier of ministerial usual suspects, with the key roles often played not by ministers but by advisers. Jackson and Saunders, in their otherwise excellent introduction to *Making Thatcher's Britain*, overlooked the importance of the No. 10 Policy Unit in their characterization of what they called "Thatcher's people" as a "network of cheerleaders" rather than a policy unit on the model of Harold Wilson's administration, and were wrong in identifying such people as "prophets not policy-makers."<sup>27</sup> In fact, we find that the unit was a powerful and profoundly ideological locus of neoliberal policy making within the government in the mid-1980s, something inadequately appreciated in the existing literature. Finally, we argue that the Policy Unit's attempt to push through a radical, and most unconservative, neoliberal reform project in pensions was ultimately defeated by precisely those ministers normally seen as the political architects of a neoliberal Thatcherite vision—not least Thatcher herself—and by the Conservative party's traditional supporters in big business and the City. Our findings thus both significantly complicate the prevailing narrative of the Thatcher revolution and, more importantly, provide compelling evidence that it was much less neoliberal in practice and much more evolutionary than its architects desired and commentators and scholars today often assume.

<sup>26</sup> Davies, Freeman, and Pemberton, "Everyman a Capitalist." Both this earlier study and the present article confirm the findings of previous scholars who identified right-wing think tanks as having played a key role in identifying, developing, and feeding neoliberal ideas to New Right politicians while the Conservatives were in opposition, and then to ministers once the party was in government. See, for example, Cockett, *Thinking the Unthinkable*, 243–320; Radhika Desai, "Second-Hand Dealers in Ideas: Think-Tanks and Thatcherite Hegemony," *New Left Review*, no. 203 (1994): 27–64; Andrew Denham, *Think-Tanks of the New Right* (London, 1996). Cockett noted the relative lack of documentary evidence from 1983 of think-tank influence over policy, with oral evidence then "confusing if not downright contradictory" (289). See also Jackson, "Think-Tank Archipelago."

<sup>27</sup> Jackson and Saunders, "Introduction: Varieties of Thatcherism," 12.

## THE GENESIS OF THE PERSONAL PENSIONS PROJECT

By the time of the Thatcher government's entry into office in 1979, two decades of party politicking over pensions appeared to have been replaced by a new era of calm in the wake of the 1975 Social Security Pensions Act.<sup>28</sup> Crafted by Barbara Castle, then Labour secretary of state for health and social security, and Brian O'Malley, her pensions minister, the act had set up a "state earnings-related pension scheme," widely referred to as SERPS, in 1978. By that legislation, which was supported by the then Conservative opposition, the Labour government had self-consciously entered into a partnership with employers in which the (minimalist) flat-rate basic state pension was topped up with an earnings-related pension provided either via membership in the new SERPS or through membership in a collective occupational pension scheme. Such schemes were offered by a company or other institution for its workers and were now required to offer benefits at least as good as were those offered by SERPS and typically linked to the final salary of the worker at the point of retirement. At that time, they covered about half the workforce.<sup>29</sup>

The achievement of cross-party agreement on this corporatist public-private partnership in the second tier of Britain's pension system was widely welcomed in the late 1970s. By the end of 1980, however, the *Economist* was noting that the "fragile consensus" on pensions appeared to be fraying.<sup>30</sup> During 1981, the outgoing chair of the National Association of Pension Funds complained that the "bi-partisan policy, carefully fostered by Brian O'Malley. . . and others, lies in ruins."<sup>31</sup> While this claim was overstated, it did indicate the direction of travel.

Early in its first term, the Conservative government had embarked on significant technical changes, such as abandoning the policy of indexing the state pension to the higher of price or earnings inflation and instead indexing to price inflation alone. In practice, however, although politics had plainly reentered pensions policy with the advent of a Conservative government, the changes made in pensions during its first term proved to be relatively limited in scope (although the cumulative long-term effect of reindexation was to reduce significantly the real value of the basic state pension relative to earnings because the latter tended to rise faster than prices). The government's second term from 1983 was very different, not least with the introduction of personal pensions via the 1986 Social Security and Financial Services Acts, a change now often identified as marking a key moment in the process

<sup>28</sup> For a more detailed analysis of the development of pensions policy in the late 1970s and 1980s, see Aled Davies, James Freeman, and Hugh Pemberton, *A Neoliberal Revolution? Thatcherism and the Reform of British Pensions* (Manchester, forthcoming).

<sup>29</sup> The notion of a public-private partnership was central from the start to Castle's creation of SERPS, present in the foreword to her "Better Pensions" white paper, from which the 1975 legislation flowed. See Department of Health and Social Security, *Better Pensions—Fully Protected against Inflation: Proposals for a New Pensions Scheme*, 1974, Cmnd. 5713, at iii–iv. The figure for occupational scheme coverage is from Richard Hemming and Russell Harvey, "Occupational Pension Scheme Membership and Retirement Saving," *Economic Journal* 93, no. 369 (1983): 128–44, at 128. The most accessible guide to the reforms of 1975 remains Bryan Ellis, *Pensions in Britain, 1955–1975: A History in Five Acts* (London, 1989).

<sup>30</sup> "Monstrous Muddle," *Economist*, 29 November 1980, 23.

<sup>31</sup> Michael Pilch, "Comment: Ave Atque Vale," *Pensions World* 10, no. 5 (1981): 250.



by which the British pension system, in common with those of a range of other countries, was neoliberalized during the 1980s and 1990s.<sup>32</sup>

In identifying the wellspring of radical neoliberal proposals on pensions that underlay the reform project of the Thatcher government's second term, we begin with the Personal Capital Formation Group of the Centre for Policy Studies. The latter, a think tank established by Keith Joseph, Alfred Sherman, and Margaret Thatcher in 1974, is often identified as a key source of the neoliberal policy ideas that underpinned Thatcherism.<sup>33</sup> Most notable from our perspective was its publication in April 1983 of *Personal and Portable Pensions—For All*, a pamphlet written by Nigel Vinson, a businessman and founding member of the Centre for Policy Studies and of its Personal Capital Formation Group, and the merchant banker Philip Chappell, a fellow member of the group.<sup>34</sup>

The ostensible starting point for Vinson and Chappell's Centre for Policy Studies pamphlet was what they termed the "grave injustice" of the so-called early leaver problem, whereby someone leaving a job embodying an occupational pension had their accrued benefits frozen.<sup>35</sup> The real value of these benefits was then rapidly eroded by the high rates of inflation experienced in the 1970s and early 1980s. This was widely seen as both inequitable and likely to restrict job mobility. Conservatives viewed it as suffocating individual initiative and tending to impoverish in old age the more enterprising of the working population.<sup>36</sup> Vinson and Chappell's

<sup>32</sup> See, for example, Jo Grady, "From Beveridge to Turner: Laissez-Faire to Neoliberalism," *Capital and Class* 34, no. 2 (2010): 163–80, esp. 174–75; John Macnicol, *Neo-liberalising Old Age* (Cambridge, 2015), 37–42; Noel Whiteside, "Private Pensions and Public Policy: The Public-Private Divide Reappraised," in *The Oxford Handbook of Pensions and Retirement Income*, ed. Gordon L. Clark and Alicia H. Munnell (Oxford, 2006), 684–701, esp. 684, 687.

<sup>33</sup> On the foundation of the Centre for Policy Studies, see Andrew Denham and Mark Garnett, *Keith Joseph* (Chesham, 2002), 238–44. On the center's self-declared function to turn neoliberal ideas into workable policy proposals for the Conservative Party, see Denham, *Think-Tanks of the New Right*, 53–54. After Thatcher became party leader, the Centre for Policy Studies to a considerable extent supplanted the Conservative Research Department as a source of such practical policy proposals because Thatcher saw the department as tainted by "Heathite" views. See Diane Stone, Andrew Denham, and Mark Garnett, *Think Tanks across Nations: A Comparative Approach* (Manchester, 1998), 136–37.

<sup>34</sup> Nigel Vinson and Philip Chappell, *Personal and Portable Pensions—For All* (London, 1983). Vinson's relationship with the Centre for Policy Studies is described in Gerald Frost, *Making Things Happen: The Life and Original Thinking of Nigel Vinson* (London, 2015), 185–211. On the history of the Centre for Policy Studies and its significance in generating ideas later identified with "Thatcherism," see Jackson, "The Think-Tank Archipelago," esp. 52; Cockett, *Thinking the Unthinkable*, 243–320; Harris, "The Centre for Policy Studies." On the Centre for Policy Studies' relationship to neoliberalism, see, for example, Peck and Tickell, "Conceptualising Neoliberalism, Thinking Thatcherism," esp. 38–39; Harvey, *Brief History of Neoliberalism*, 57. More general literature exploring the influence of think tanks on Thatcherism includes Andrew Denham and Mark Garnett, "Influence without Responsibility: Think-Tanks in Britain," *Parliamentary Affairs* 52, no. 1 (1999): 46–57; Andrew Denham and Mark Garnett, "The Nature and Impact of Think Tanks in Contemporary Britain," *Contemporary British History* 10, no. 1 (1996): 43–91; Desai, "Second-Hand Dealers in Ideas"; Stone, Denham, and Garnett, *Think Tanks across Nations*; Simon James, "The Idea Brokers: The Impact of Think Tanks on British Government," *Public Administration* 71, no. 4 (1993): 491–506; Diane Stone, *Capturing the Political Imagination: Think Tanks and the Policy Process* (London, 1996); Diane Stone, "From the Margins of Politics: The Influence of Think-Tanks in Britain," *West European Politics* 19, no. 4 (1996): 675–92.

<sup>35</sup> Vinson and Chappell, *Personal and Portable Pensions*, 1.

<sup>36</sup> See, for example, the desire to inflation-proof the pensions of those changing jobs, expressed in minutes of the Conservative Party's Pensions Study Group, December 1974, Conservative Party Archive, CRD 4/7/60–6417; and in "Britain's Pensions Jungle," *Economist*, 6 May 1978.

solution to the early leaver problem was to move members of occupational pension schemes into their own portable personal pension, thus enabling workers to move from employer to employer and between employment and self-employment without detriment to their retirement income.

This would not be a small change: as we have noted, about one in two workers was a member of an occupational pension scheme.<sup>37</sup> Moreover, the Centre for Policy Studies' proposal for portable personal pensions would have a series of effects that went far beyond solving the early leaver problem, effects that clearly had affinities with some of the key ideas within neoliberalism (or, rather, with some of the array of ideas within a far from monolithic neoliberalism). For example, the pension available to those who moved into a personal pension would no longer be based on salary at retirement but on the capital value of an individual's invested pension contributions, thus individualizing not just capital ownership but also all investment and longevity risks within the pension system.<sup>38</sup>

For Vinson and Chappell, another key advantage was that a system of personal pensions would serve to shift capital from administration by corporate intermediaries under which ownership was "ownership at second hand, and as such . . . not ownership in the motivational sense."<sup>39</sup> Instead, each personal pension contributor would in Vinson and Chappell's schema be responsible for and directly benefit from their own investments. The result, they argued, would be to liberate the individual from institutional constraint and to give twelve million workers then in occupational schemes a personal stake in the British economy and "a real sense of involvement in the industrial success of this Country."<sup>40</sup>

Finally, Vinson and Chappell maintained that their proposed reform would address fears that Britain's occupational pension funds (in 1981 recorded as already owning over a quarter of all shares quoted on the London Stock Exchange) were ripe for takeover by "socialists."<sup>41</sup> Vinson told the Centre for Policy Studies' Personal Capital Formation Group that pension funds were "a socialist Trojan horse,"<sup>42</sup> and

<sup>37</sup> Joan C. Brown, Stephen Small, and Institute of Policy Studies, *Occupational Benefits as Social Security* (London, 1985), 53, 138.

<sup>38</sup> Note the affinities with privatization and the desire thereby to create a nation of individual capitalists; see Amy Edwards, "'Manufacturing Capitalists': The Wider Share Ownership Council and the Problem of 'Popular Capitalism,' 1958–92," *Twentieth Century British History* 27, no. 1 (2015): 100–23. On the importance of pensions investment as a neoliberal "technology of the self," see Paul Langley, "The Making of Investor Subjects in Anglo-American Pensions," *Environment and Planning D: Society and Space* 24, no. 6 (2006): 919–34. The interplay between different neoliberal conceptions of "the individual" embodied in the reform of pensions by the Thatcher government in 1986 is explored in Davies, Freeman, and Pemberton, "Everyman a Capitalist." On the more general desire to remold the individual in ways consistent with neoliberalism, see Shirley Robin Letwin, *The Anatomy of Thatcherism* (London, 1992), esp. 333–53; Sutcliffe-Braithwaite, "Neo-liberalism and Morality in the Making of Thatcherite Social Policy."

<sup>39</sup> Vinson and Chappell, *Personal and Portable Pensions—For All*, 1.

<sup>40</sup> Vinson and Chappell, 1.

<sup>41</sup> That figure that was rising quickly; by 1992, the pensions funds owned nearly a third of such shares. See Office for National Statistics, Ownership of UK Shares Dataset: 2020, table 12, accessed 4 August 2022, <https://www.ons.gov.uk/file:uri=/economy/investmentspensionsandtrusts/datasets/ownershipofukshares/2020/dataset2020.xlsx>.

<sup>42</sup> Nigel Vinson to Geoffrey Howe, "Background Note for Meeting with the Personal Capital Formation Group at 1000 Wednesday 23 June 1983," 15 June 1983, Nigel Vinson Papers, Centre for Policy Studies, London.

he observed to Alfred Sherman, “when pensions are personalized, they are harder to nationalise!”<sup>43</sup> Replacing occupational pensions with personal pensions would thwart any Labour plan to appropriate pension funds for state-directed investment in the British economy.<sup>44</sup>

Thus, with its personal pensions proposal, the Centre for Policy Studies went far beyond a solution to a technical problem that disadvantaged early leavers from occupational pension schemes. It was also highly ideological, having clear affinities with neoliberal thinking on the superior allocative efficiency of decisions made by individuals in free markets and on the advantages of liberating the individual from control by either the state or big business. As well, it was potentially revolutionary in its intent to create a nation of individual investor-capitalists.<sup>45</sup> That neoliberal vision held clear attractions for the Thatcher government in 1983. Most notably, perhaps, it chimed with its developing popular capitalism agenda. Additionally, of course, it fitted neatly with a traditional Conservative desire to create a “property owning democracy,” not just in terms of home ownership but also capital ownership, and in terms of the government’s expressed desire to promote individual freedom and to liberate the individual initiative and entrepreneurialism that the architects of change saw as latent but buried by thirty-five years of “the socialist ratchet.”<sup>46</sup> Finally, it opened up the possibility of taking the same approach to the earnings-related state pension and was thus congruent with the desire to shrink the scope of state intervention in the lives of British citizens.

The Centre for Policy Studies’ personal portable pensions idea did not take long to gain traction within government. It was clearly present in proposals advanced in two papers by the Central Policy Review Staff of the Cabinet Office a month later in April 1983.<sup>47</sup> The first of these, “Pensions and Individual Choice,” proposed what they now called an individualized “portable occupational pension” that was, as officials termed it at the time, a “rebadging” of the Centre for Policy Studies’ personal portable pension in order to emphasize its relationship to occupational pension scheme members. The intention was both to solve the early leaver problem and better connect individuals to their pension investments (in the process, the Central Policy Review Staff noted, deinstitutionalizing life and pension funds then administering around £120 billion of investments).<sup>48</sup> The second document, “Pensions Issues and Policy,” widened the scope of the proposed reform beyond that explicitly set

<sup>43</sup> Nigel Vinson to Alfred Sherman, “Option of Self Employed Pensions for All,” 29 March 1983, Alfred Sherman Papers, Royal Holloway, University of London, AC 969–972.

<sup>44</sup> Davies, “Pension Funds and the Politics of Ownership.”

<sup>45</sup> Davies, Freeman, and Pemberton, “Everyman a Capitalist.”

<sup>46</sup> On the Conservative tradition of promoting property ownership, see Matthew Francis, “‘A Crusade to Enfranchise the Many’: Thatcherism and the ‘Property-Owning Democracy,’” *Twentieth Century British History* 23, no. 2 (2012): 275–97; Davies, “Right to Buy.” On capital ownership within this tradition, see Davies, “Pension Funds and the Politics of Ownership.” On the “socialist ratchet,” see Denham and Garnett, *Keith Joseph*, 296; Margaret Thatcher, *The Downing Street Years* (London, 1993), 6–7, 687.

<sup>47</sup> The standard history of the Central Policy Review Staff group is found in two works: Tessa Blackstone and William Plowden, *Inside the Think Tank: Advising the Cabinet, 1971–1983* (London, 1988); Peter Hennessy, Susan Morrison, and Richard Townsend, *Routine Punctuated by Orgies: The Central Policy Review Staff, 1970–1983* (Glasgow, 1988).

<sup>48</sup> Central Policy Review Staff, “Pensions and Individual Choice,” April 1983, National Archives, PREM 19/1004. (Hereafter this repository is abbreviated to TNA.)

out by the Centre for Policy Studies (though in a way that was consistent with the implicit agenda set out by Vinson and Chappell). This paper was concerned with "redefining the role of the state" in pensions as a solution to the perceived future public spending burden of promises embodied in SERPS. A somewhat higher flat-rate basic state pension, it suggested, could "buttress the state's role in preventing poverty in old age," but the state should cease to provide above this minimum, leaving individuals to get supplementary income in old age either from company schemes or from its proposed Portable Occupational Pension.<sup>49</sup>

Thatcher instantly dismissed this radical package of proposals with its explicit linkage of the Centre for Policy Studies' proposal to a significant reduction in the scope of state involvement in pensions. She scrawled across the minute covering the first of these two papers, "This paper indicates that its authors have no idea how to tackle a problem of this kind. It recommends policies as far apart as A and Z. In politics you can only at most go from about A—D at a time . . . [It] would be . . . absolutely disastrous if it were to go any further. I reject it.—MT."<sup>50</sup> On the minute from John Sparrow, the Central Policy Review Staff director, covering the two reports as a package, she wrote, "This is a disaster and MUST NOT go any further. It is arrogant, insensitive and impossible."<sup>51</sup>

At first sight, her response is somewhat surprising, given her later support for the ideas contained within the Central Policy Review Staff proposals. What was the problem? Thatcher was aware of the devastating political consequences of a previous leaked policy document from that group in September 1982, which had proposed the privatization of key elements of the welfare state, including the National Health Service (a leak that had precipitated a major political furor and what Lawson described as the "nearest thing to a Cabinet riot in the history of the Thatcher administration").<sup>52</sup> She was also no doubt mindful of the likely proximity of a general election. Sparrow subsequently returned "visibly shaken" to the group after a personal meeting with Thatcher and reported that she had demanded that both reports, already circulated to the Treasury and Department of Health and Social Security in draft form, be recalled.<sup>53</sup> She also instructed the group to cease taking on new work. On 16 June, a week after the 1983 general election, she closed it down.

Why did the Central Policy Review Staff's proposals on pension reform lead to its abolition? As the official history of the Civil Service notes, Thatcher might have been expected to embrace this think tank, for while it had been founded by Edward Heath, it had from the start been intended to "think the unthinkable" and to act against rather than with the government bureaucracy.<sup>54</sup> It had also been shaped by Heath into the prime minister's personal instrument, a feature that might have been expected to appeal to Thatcher, who was far from a team player, being both the

<sup>49</sup> Central Policy Review Staff, "Pensions Issues and Policy," April 1983, TNA, PREM 19/1004.

<sup>50</sup> Handwritten note on minute, John Sparrow to the Prime Minister, "Pensions and Individual Choice," April 1983, TNA, PREM 19/1004.

<sup>51</sup> Handwritten note on minute covering both reports, John Sparrow to the Prime Minister, "Pensions and Individual Choice," and "Pensions Issues and Policy," April 1983, TNA, PREM 19/1004.

<sup>52</sup> Campbell, *Margaret Thatcher*, 171–73, at 171.

<sup>53</sup> Blackstone and Plowden, *Inside the Think Tank*, 128.

<sup>54</sup> Hennessy, Morrison, and Townsend, *Routine Punctuated by Orgies*, 58.

“most commanding Prime Minister of modern times” and one who, “convinced of her own rectitude and ability [had] tended to reduce the cabinet to subservience.” However, from the day she took office, Thatcher was skeptical about the group—not only because it was tainted by the connection with her much-disliked predecessor as Conservative leader but also because it sat within the Cabinet Office and thus had a formal duty of loyalty to the cabinet as a whole rather than to her personally.<sup>55</sup>

Early in her premiership, in August 1980, Thatcher had expressed a “very strong need” for “a source of advice which was independent of Government departments,” and her inclination was to develop something like a prime minister’s department. In this she was supported by the then head of her small Policy Unit, Ferdinand Mount. In a meeting held that month to consider a proposal from her “efficiency adviser,” Derek Rayner, that such a department be created, Mount complained that the “system of Government has simply failed to catch up with the range of tasks that are expected of a modern Prime Minister.”<sup>56</sup> Yet, as Lowe and Pemberton note, this attempt to establish such a body for the first time proved to be a non-starter, thwarted by resistance from the cabinet secretary, Robert Armstrong, for whom a prime minister’s department would have been at odds with constitutional precepts on cabinet government.

In the schema of the British constitution to which Armstrong was committed, the prime minister’s function was to be *primus inter pares* within the cabinet. She had power derived from her position (for example, her ability to appoint and dismiss ministers), as a function of her particular personality and leadership style, and through her control of the cabinet and of subordinate ministerial committees. Her fundamental function, however, with the support of the Cabinet Office, was to direct and coordinate ministers in charge of departments, not to run a formal department of state herself.<sup>57</sup> Indeed, notwithstanding accusations of increasing “presidentialism” in the Thatcher era, it is worth noting that the Prime Minister’s Office remained small—barely one hundred, including clerks, typists, and door staff.<sup>58</sup> The prime minister had authority and power by virtue of her office, but she did not herself command significant resources and had remarkably few staff

<sup>55</sup> Lowe and Pemberton, *The Official History of the British Civil Service*, 2: 34–36. See also the discussion of the Central Policy Review Staff think tank and its abolition in Hennessy, Morrison, and Townsend, *Routine Punctuated by Orgies*; David Willetts, “The Role of the Prime Minister’s Policy Unit,” *Public Administration* 65, no. 4 (1987): 443–54, at 444–46. The quotations are from Peter Hennessy, “The Prime Minister, the Cabinet and the Thatcher Personality,” in *Thatcherism: Personality and Politics*, ed. Kenneth R. Minogue and Michael D. Biddiss (Basingstoke, 1987), 55–71, at 56.

<sup>56</sup> Thatcher’s wish for a prime minister’s department was expressed in this meeting, and both its minutes and the earlier briefs produced for its participants (dated 15 and 29 July 1979, respectively) are in Government Machinery: Future of the Civil Service Department, part 2, TNA, PREM 19/250. Discussion of this episode can be found in Lowe and Pemberton, *Official History of the British Civil Service*, 2: 32–34, at 33.

<sup>57</sup> Peter Hennessy, *The Prime Minister: The Office and Its Holders since 1945* (London, 2000), 53–101, esp. 56–57; R. A. W. Rhodes, “From Prime Ministerial Power to Core Executive,” in *Prime Minister, Cabinet and Core Executive*, ed. R. A. W. Rhodes and Patrick Dunleavy (Basingstoke, 1995), 1–37; Martin J. Smith, *The Core Executive in Britain* (London, 1999), 74–97; Graham P. Thomas, *Prime Minister and Cabinet Today* (Manchester, 1998).

<sup>58</sup> Martin Burch and Ian Holliday, *The British Cabinet System* (Hemel Hempstead, 1996). For accusations of “presidentialism,” see in particular Michael Foley, *Rise of the British Presidency* (Manchester, 1993).

who took orders directly from her or who owed a duty of loyalty to her personally.<sup>59</sup>

As a result of Armstrong's opposition, the idea for a prime minister's department ran into the sands, and for the moment Thatcher's main source of advice continued to be the Central Policy Review Staff, while her main source of support within No. 10 continued to be her tiny Policy Unit. In the wake of the June 1983 general election, however, Thatcher moved almost immediately to abolish the Central Policy Review Staff and to strengthen the ability of No. 10 both to develop policy ideas and to promulgate policy change. This time, mindful of earlier difficulties, she made no formal suggestion of a prime minister's department. Instead, advice to her was strengthened by bringing in several external special advisers (Robin Ibbs, Alan Walters, Anthony Parsons, and Roger Jackling) to challenge the ideas of departments seen as particularly problematic (the Cabinet Office, Treasury, Foreign and Commonwealth Office, and Ministry of Defence, respectively). At the same time, the Policy Unit was beefed up. Its staff was increased from four to nine, a mix of external political staff and seconded civil servants identified as likely to work well with the prime minister.<sup>60</sup>

### THE ROLE AND POWER OF THE POLICY UNIT IN ADVOCATING A PERSONAL PENSIONS REVOLUTION

All this took place, of course, in the immediate aftermath of the 1983 election and the Conservatives' return to power with a very considerably increased majority. The party's manifesto for that election, however, was once again quite cautious—the party essentially ran on the same program as in 1979, albeit with a more confident electoral rhetoric that sought to delegitimize Labour for its socialism.<sup>61</sup> On pensions, it remained very cautious, merely making commitments to continue to uprate state pensions in line with price inflation, to abolish the long-standing reduction in state pension for many of those working beyond pension age, and to do something to protect the rights of early leavers from occupational pension schemes.<sup>62</sup> This lack of expressed ambition on pension reform in the election could be seen as surprising, since it was clear that the government was worried about the long-term costs of SERPS. Degrading the value of individual pension rights was, however, not something to be taken lightly, and this was particularly true during a general election, as it was highly likely to antagonize voters of working age. Thatcher recognized this danger, and in fact during the election she reiterated an earlier promise that there were no plans to make changes to SERPS, let alone abolish it.<sup>63</sup> Moreover,

<sup>59</sup> Anthony King, *Who Governs Britain?* (London, 2015), 216–22; Martin J. Smith, "Interpreting the Rise and Fall of Margaret Thatcher: Power Dependence and the Core Executive," in Rhodes and Dunleavy, *Prime Minister, Cabinet and Core Executive*, 108–24.

<sup>60</sup> Lowe and Pemberton, *Official History of the British Civil Service*, 2: 36–39.

<sup>61</sup> Sally Abernethy, "'Let Us Be Cool, Calm—and Elected': Conservative Party Strategy and Political Narrative Prior to the 1983 General Election," *Contemporary British History* 32, no. 3 (2018): 385–407.

<sup>62</sup> F. W. S. Craig, *British General Election Manifestos, 1959–1987* (Aldershot, 1989).

<sup>63</sup> Thatcher to Brynmor John, MP, 20 May 1983, TNA, BN 13/278; Margaret Thatcher, Norman Fowler, and Kenneth Clarke, "General Election Press Conference (Health and Welfare)," 24 May 1983, Margaret Thatcher Foundation, <https://www.margarethatcher.org/document/105333>.

nothing at that point suggests that she was particularly taken with the idea of personal pensions as an alternative to occupational pensions. She had, after all, expressed her strong support for occupational pension schemes in her speech to the Zurich Economic Society in 1977, dubbing them a sort of “people’s capitalism,” an enthusiasm shared by Geoffrey Howe and others in the seminal 1977 party document *The Right Approach to the Economy*.<sup>64</sup> Yet despite such clear signals of continuity in pensions, there was to be a marked change of direction once the June 1983 general election was won.

The motor of post-election change on pensions was the No. 10 Policy Unit. In the wake of the election, the prime minister did not merely expand it—she also brought into it the merchant banker John Redwood, among other new personnel such as David Willetts (a political appointee and a future director of the Centre for Policy Studies, but also a former Treasury official). Redwood, himself a former member of the center’s Nationalized Industries Study Group, as well as a former head of pension fund accounts at Rothschilds, the merchant bank, then succeeded Mount as the Policy Unit’s director, with effect from January 1984.<sup>65</sup> These changes proved to be very significant. With the Central Policy Review Staff abolished, the Policy Unit would now fulfil its function of thinking the unthinkable.<sup>66</sup> Unlike the former, however, the Policy Unit was formally responsible not to the cabinet but to the prime minister and, again unlike the Central Policy Review Staff, it would have automatic access to all relevant government papers and direct access to Thatcher via her principal private secretary, the civil servant Robin Butler.<sup>67</sup> At the same time, the Policy Unit would continue to be the means by which prime ministerial power was brought to bear across Whitehall, but now with enhanced capacity and status.<sup>68</sup>

Significantly, the announcement in August 1983 of Redwood’s appointment as Policy Unit director was reported by the *Sunday Times* as heralding a “pensions shake-up,” and Redwood himself told the Department for Social Security (which oversaw state pensions) that the prime minister had asked him “to take a special interest in pensions because of his personal background and the links between pensions and his other responsibilities” (for Treasury-related policy and privatization).<sup>69</sup> Under Redwood’s leadership, the Policy Unit’s agenda on pensions over the next two years was to prove even more breathtakingly ambitious than that of the Central Policy Review Staff had been. With clearer goals and backed by the direct authority of the prime minister, however, Redwood’s Policy Unit had far greater capacity to turn ideas into policies.

<sup>64</sup> Margaret Thatcher, Speech to the Zurich Economic Society, “The New Renaissance,” 14 March 1977, Margaret Thatcher Foundation, <https://www.margaretthatcher.org/document/103336>; Geoffrey Howe et al., *The Right Approach to the Economy: Outline of an Economic Strategy for the Next Conservative Government* (London, 1977).

<sup>65</sup> It is worth noting that every one of Thatcher’s Policy Unit directors was a former contributor to Centre for Policy Studies research. See James, “Idea Brokers,” 501.

<sup>66</sup> Lowe and Pemberton, *Official History of the British Civil Service*, 36–39.

<sup>67</sup> Peter Hennessy, *Whitehall* (London, 1989), 658–59.

<sup>68</sup> Willetts, “Role of the Prime Minister’s Policy Unit,” 450–52.

<sup>69</sup> Lionel Barber, “Thatcher Demands Pensions Shake-Up,” *Sunday Times*, 14 August 1983; note of a meeting, Portable Pensions: Discussion with John Redwood, 1 November 1983, TNA, BN 13/278.

By the time that Redwood arrived at the Policy Unit, the Centre for Policy Studies' proposals on personal pensions had already been well received outside government. (An editorial in the *Times*, for example, praised the Centre for Policy Studies' radicalism and the opportunity its proposals afforded to make workers "more conscious of the merits of private property."<sup>70</sup>) Writing to Geoffrey Howe shortly after the Conservatives' landslide election victory, the Centre for Policy Studies' Nigel Vinson made explicit what had been implicit in *Personal and Portable Pensions—For All*: that personal pensions should cover all workers, including those in SERPS. He told Howe that breaking up the occupational pensions and life insurance companies (which were also in the pensions business, running schemes for smaller companies, for example), as well as substituting personal pensions for SERPS, would "give a new opportunity for twenty-four million people to have a real sense of involvement in the industrial success of this country" and would "create a national sense of common purpose and genuinely participatory society."<sup>71</sup>

That vision was enthusiastically embraced by the Policy Unit, which under Redwood's direction now sought to sweep away the entire architecture of the extant mixed economy of pensions provision—the combination of SERPS and occupational pension schemes—over and above the provision of a minimalist basic state pension.<sup>72</sup> With the unit's enthusiastic support, Thatcher tasked Norman Fowler, the secretary of state for the Department of Health and Social Security, with implementing the Centre for Policy Studies proposals. Fowler was not a natural revolutionary, it must be said, but from the start, the Policy Unit sought to stiffen his resolve and to steer him toward its Centre for Policy Studies-inspired vision. For Redwood, the implementation of mass personal pensions could be a central plank in a government policy program that aimed at "restoring individual freedom, responsibility and choice" and in the process could make "every man a capitalist."<sup>73</sup> Under his direction, the Policy Unit had moved to a maximalist position in which personal pensions would become the only tier of pension provision above the minimalist basic state pension. SERPS would be abolished (along with the redistribution embodied within it, most notably to women who tended not just to be paid less than men but to have more patchy contribution records as a consequence of time out of the workplace to care for dependents); occupational pensions would be allowed to wither via incentives to members to leave them and take out a personal pension.<sup>74</sup> By any standards, this was ambitious, marking a sharp turn toward placing responsibility for income replacement in old age on the individual, not to mention threatening powerful vested interests. (At this point, life insurers and pension funds together controlled nearly half of all the shares listed on the London Stock Exchange and could potentially mobilize at least twelve million pension scheme members to

<sup>70</sup> Editorial, "Have Pension, Will Travel," *Times*, 28 April 1983.

<sup>71</sup> Nigel Vinson to Geoffrey Howe, Background Note for Meeting with the Personal Capital Formation Group at 1000, Wednesday, 23 June 1983, 15 June 1983, Vinson Papers.

<sup>72</sup> Nigel Vinson, Draft Statement to Be Issued by Centre for Policy Studies If and When the Government Announces the Option of Personal and Portable Pensions for All, July 1984, TNA, BN 147/10.

<sup>73</sup> Moore, *Margaret Thatcher*, 2:94; Redwood to the Prime Minister, "Early Leavers and Portable Pensions," 14 November 1983, TNA, PREM 19/2523.

<sup>74</sup> A good example of the impact within government of the Policy Unit's broad agenda for pensions reform is provided in Paul Gregson, briefing for the Prime Minister, Report on the Review of Social Security, 5 February 1985, TNA, PREM 19/1638.



defend them, as they had done in the 1950s to undermine Labour's proposal to destroy occupational pension funds by setting up a more generous state-run alternative.<sup>75</sup>)

The Policy Unit was not the only part of Whitehall that hoped to do something about SERPS. The Treasury had already begun in 1982 to consider ways of cutting its benefits, for several reasons. First, SERPS embodied large prospective long-term Exchequer costs ("a great unexploded time-bomb" for the future, as the Treasury civil servant Peter Kemp, a former head of its Social Services Group, put it). Second, the lower-growth environment that appeared now to be a permanent feature of the British economy would further degrade the sustainability of SERPS (because it was a pay-as-you-go scheme in which benefits earned would be paid out of the contributions of future workers). Finally, but linked to both these fears, there was the perceived potential for the long-term intergenerational transfer embodied within SERPS in the context of an ageing society eventually to alienate the support of younger workers.<sup>76</sup>

That threefold analysis by Treasury officials was strongly supported by Adam Ridley, successively a senior political advisor to both Howe and Lawson as chancellors of the Exchequer. Ridley told Lawson, for example, that SERPS was "economically perverse" and embodied "a very questionable contract over the generations and over time between workers and pensioners."<sup>77</sup> Yet, although some in the Treasury, such as Kemp, saw an opportunity to abolish SERPS entirely, generally Treasury officials saw a reduction in its scope as the aim. That pragmatism reflected an awareness in the Treasury that abolition would generate near-term costs (assuming substitute personal pensions would attract tax relief on contributions to them in the same way as existing private pensions) and that abolition was anyway "passionately opposed" by their official counterparts in the Department for Health and Social Security, who tended to be wedded to the partnership in pensions settlement of the late 1970s.<sup>78</sup> There was therefore a divide within the Treasury before the 1983 election, but one in which political pragmatism had trumped political radicalism on SERPS.

The Policy Unit in its much more powerful post-election configuration proved far more robust on SERPS than the Treasury. Fowler had set up the public Inquiry into Provision for Retirement, chaired by him, in November 1983, a strategy supported by Redwood who, fearing a rerun of the debacle over the leak of the Central Policy Review Staff's radical proposal in 1982 to privatize the National Health Service, thought it best to allow opponents to have their say. Redwood and his colleague David Willetts sought consistently to steer the inquiry toward the abolition of SERPS.<sup>79</sup> In discussions within the personal pensions subgroup of Fowler's pensions inquiry, for example,

<sup>75</sup> Hugh Pemberton, "The Failure of 'Nationalization by Attraction': Britain's Cross-Class Alliance against Earnings-Related Pensions in the 1950s," *Economic History Review* 65, no. 4 (2012): 1428–49.

<sup>76</sup> E. P. Kemp to Ms. Seammens, Future Burden of Pensions, 9 June 1982, TNA, T 496/81; E. P. Kemp to G. W. Monger, State Earnings Related Pension Scheme, 6 April 1982, TNA, T 496/81. (Kemp, then undersecretary in charge of central policy coordination in the Treasury's Information Division, was Monger's predecessor as head of the Treasury's Social Services Group.)

<sup>77</sup> A. Ridley to Chancellor of the Exchequer, Portable Pensions and All That, 11 November 1983, TNA, T 530/128.

<sup>78</sup> S. K. Holmans to Ms. Seaman, Projections of Occupational Pension Schemes, 8 March 1983, TNA, T 496/139.

<sup>79</sup> G. W. Watson to Minister of State, Portable Pensions, 6 March 1984, TNA, T 530/129.

Redwood made clear his expectation that SERPS would be abolished. In a personal letter to Fowler, he described SERPS as "the best example of fool's gold the Government has yet devised" and expressed his view that "the best option would be complete abolition."<sup>80</sup> Redwood also frankly expressed his view that existing SERPS members should be forced to take out a personal pension, which we can see in retrospect chimed with what came to be known as neoliberal governmentality. He also made it clear that he wanted ultimately to destroy all occupational pension schemes as a means of liberating individuals from the dead hand of corporate control, in his view thereby dynamizing investment.

Abolition of SERPS was the Policy Unit's clearly expressed advice to Thatcher. In a memorandum for the prime minister, Willetts wrote, "when SERPS matures early in the next century, it will pose a major threat to the public finances of this country. Its complicated calculations linking pensions to earnings is a classic example of the public sector trying to ape what the private sector should do and can do better. So SERPS has to go. Instead, people should be encouraged (or even compelled?) to save directly for their own retirement. This carries forward your policy of individual property ownership: SERPS undermines it."<sup>81</sup> Thatcher triple-underlined Willetts's observation that SERPS had to go, a sure sign that she had been persuaded by his core message, and much of the rest of the brief was single underlined, again indicating her interest in the sentiments it expressed.<sup>82</sup>

This briefing by Willetts was for a prime ministerial seminar on social security reform in October 1984, a week after which the prime minister secretly agreed to abolish SERPS.<sup>83</sup> Within weeks of that decision, Department of Health and Social Security officials were discussing the mechanics of SERPS abolition, and in January 1985 the department's ministers and officials agreed that SERPS must be abolished and replaced by supplementation of the basic state pension with either an occupational pension or a personal pension (though without compulsion).<sup>84</sup> This decision fed into the deliberations of one of Thatcher's many ad hoc ministerial committees, MISC 111, tasked with considering wider reforms to social security. Out of its deliberations, a green paper on social security reform emerged in June 1985, and its many proposals included the abolition of SERPS. More than this, however, SERPS members were to be compelled to take out a personal pension. This radical proposal emanated from the Policy Unit, which saw the infringement of individual liberty as a regrettable necessity if a vast increase in future supplementary benefit payments—arising from those deprived of SERPS rights failing to make alternative voluntary provision for their old age—was to be avoided.<sup>85</sup>

<sup>80</sup> Redwood to Fowler, 17 July 1984, TNA, PREM 19/2523.

<sup>81</sup> David Willetts, Benefits Seminar, 28 September 1984, Seminars on Health and Social Security Matters brief for the prime minister, TNA, PREM 19/2349.

<sup>82</sup> On the meaning of Thatcher's handwritten underlining and marginalia on official documents, see Christopher Collins, quoted in "Thatcher Files: 'Squiggly Line' Revealed Thoughts," *Scotsman*, 22 March 2013; Moore, *Margaret Thatcher*, 2:xv.

<sup>83</sup> Note by Andrew Turnbull covering a record of conclusions reached at the meeting on 5 October 1984, Seminars on Health and Social Security Matters, Social Security Reviews, TNA, PREM 19/2349.

<sup>84</sup> Social Security Reviews: January Week—Session 3 (3–4 January): Pensions, 3 January 1985, TNA, BN 13/300.

<sup>85</sup> Department of Health and Social Security, Reform of Social Security, 1985, Cmnd. 9517, vol. 1, at 24–25.

Obtaining ministerial agreement to the abolition of SERPS and the compulsory transfer of its members into personal pensions represented a major achievement for the Policy Unit. In parallel with this, however, the unit was also successful in pressing the personal pensions project in a way that sought to divert incoming employees into personal pensions, and to persuade existing occupational scheme members to leave and instead take out a personal pension.<sup>86</sup> Since company pension schemes were highly dependent on a constant stream of new, younger workers—precisely the people who would be most likely to take out a personal pension—directing them into personal pensions would ensure that such schemes would “wither and die” (as the National Association of Pension Funds warned Fowler’s inquiry). In the process, as the Policy Unit desired, investment would be disintermediated, the direct ownership of pension savings and responsibility for their investment individualized, and the financial (and by extension political) power inherent in pension funds destroyed.<sup>87</sup>

If anything, Fowler had been even less unenthusiastic about the Policy Unit’s agenda on the destruction of occupational pensions than he had been about its ambition to abolish SERPS. He saw the unit’s vision as politically dangerous in its potential to be seen as an attack on workers’ existing pension (that is, property) rights, and his lack of enthusiasm was clearly evident in a meeting with Redwood early on in the process of policy development, at the start of November 1983.<sup>88</sup> It is also clear that in the subsequent deliberations in the personal pensions subgroup of Fowler’s inquiry, Redwood was something of a lone voice, seen by its other members as wanting to “destroy all final salary schemes.”<sup>89</sup> Nonetheless, the Policy Unit had successfully pushed its agenda hard within the inquiry, in official discussions around it, and in its advice to the prime minister. The unit’s success in its efforts to encourage employees to substitute personal pensions for occupational pension schemes is evident in the June 1985 green paper on social security reform. This proposed that employers should be forced to make contributions of at least 4 percent of salary to personal pensions if a member of an occupational pension scheme decided to opt for personalized pension saving.<sup>90</sup>

Thus, the Policy Unit had managed to inject its revolutionary vision of neoliberal pension reform into deliberations on social security reform in the arena of pensions, and to manage the deliberative policy-making process in such a way as to reflect its

<sup>86</sup> Via financial incentives and a requirement on employers to make contributions to personal pensions on an equal basis to those made for members of their occupational scheme.

<sup>87</sup> Tom Hayes (chairman, National Association of Pension Funds), oral evidence to Department of Health and Social Security, Public Inquiry into Provision for Retirement, 24 January 1984, TNA, BN 147/36. See also Michael Pilch (Confederation of British Industry), oral evidence to Department of Health and Social Security, Public Inquiry into Provision for Retirement, 21 February 1984, TNA, BN 147/36; Inquiry into Provision for Retirement, Portable Pensions, Evidence Submitted by Legal & General Assurance Society Ltd., January 1984, TNA, BN 147/26.

<sup>88</sup> Note of a meeting, Portable Pensions: Discussion with John Redwood, 1 November 1983, TNA, BN 13/278.

<sup>89</sup> G. W. Watson to Minister of State, Portable Pensions, 6 March 1984, TNA, T 530/129; see also Mark Weinberg, Proposal for Personal Portable Pensions, n.d., TNA, BN 147/27.

<sup>90</sup> Department of Health and Social Security, Reform of Social Security, 1985, Cmnd. 9517, vol. 1, at 22. Compulsory contributions by employers to personal pensions had been recommended to the prime minister by the Policy Unit in April; J. Redwood and D. Willetts to Prime Minister, State Earnings-Related Pension Scheme, 26 April 1985, TNA, PREM 19/1639.

vision of a break with the consensus of the 1970s on the need for a corporatist partnership between employers and the state on pensions above the basic state pension. More than this, however, the unit's agenda was also to dismantle financial institutions' involvement in occupational pensions provision by disintermediating pension fund investment and moving responsibility for pensions savings investment to individuals, along with the investment and longevity risks hitherto borne by occupational schemes. That vision was extraordinarily ambitious. Over two years between 1983 and 1985, Redwood and Willetts had pushed it consistently, and they had pushed it hard. But ultimately their shaping of the 1985 green paper was to prove to be the high-water mark of their achievement. Between the green paper and the enactment of the government's social security reforms a year later, the Policy Unit's attempt to destroy the existing consensus on the need for a partnership between the state and employers on the provision of an income in old age related to earnings in employment ran into the sands. Personal portable pensions *were* implemented; but occupational pensions continued, with much less incentive to leave them than had been proposed; and SERPS was not abolished. The Policy Unit could thus point to achievements, but its overarching neoliberal ideological agenda on pensions was thwarted.

### EXPLAINING THE POLICY UNIT'S FAILURE

Why, given that the Policy Unit was operating under the imprimatur of the prime minister (as Peter Hennessy put it, being "hers to the last paperclip"<sup>91</sup>), was its profoundly revolutionary and neoliberal vision for pension reform finally reined in? The answer lies in the institutional resistance encountered both within Whitehall and from external stakeholders; and in Thatcher's ultimate pragmatic judgment that Unit's neoliberal vision, while technically feasible, was politically impossible.

Political resistance from within the government was both departmental and ministerial. At the Department of Health and Social Security, widely seen as institutionally supportive of the hard-won consensus forged in the 1970s around earnings-related pensions, as noted above, its secretary of state, Norman Fowler, was initially skeptical about the Centre for Policy Studies' idea that personal pensions should replace SERPS and occupational pensions, preferring to install them as an additional element within the system.<sup>92</sup> In resisting the Policy Unit, Fowler appears to have played a canny game, playing on Redwood's fears that a secret program would leak and create the sort of backlash that the Central Policy Review Staff's proposal to privatize the National Health Service had done in 1982. With No. 10's support, therefore, Fowler began by holding a one-day stakeholder conference on the early leaver problem on 14 September 1983 and then inaugurated and chaired his wider public inquiry, which ran during the first half of 1984 as part of a wider set of consultations on social security reform.

Fowler's inquiry, however, revealed a deep well of opposition among key stakeholders to the idea of compulsory personal pension provision for those not in an

<sup>91</sup> Hennessy, *Whitehall*, 653.

<sup>92</sup> We can see his skepticism made public in a speech to the National Association of Pension Funds, May 1983, in which he promised that the government would "not be hustled into decisions on this." See Barry Riley, "Fowler Promises Conference on Pension Scheme Early Leavers," *Financial Times*, 9 May 1983.

occupational scheme, and to measures to make provision of such schemes less attractive to companies. Some of this was predictable. The Trades Union Congress, for example, found the idea that workers would want to play the stock market “laughable,” and its evidence to the inquiry set out its profound doubts that workers had the skills or inclination to manage their pension investments personally.<sup>93</sup> Resistance from unions was to be expected. What proved more destructive of the Policy Unit’s agenda was that the inquiry revealed the widespread opposition of large employers and their pension funds, and, to the Policy Unit’s surprise since it had assumed they would welcome the business opportunities, opposition from many firms in the financial services sector.

In their evidence to the Fowler Inquiry, for example, both the Confederation of British Industry and the Life Office’s Association (which represented insurance companies on which the government was relying to run compulsory personal pensions) envisaged a three-tier system with the basic state pension forming the first tier, the second formed by SERPS and occupational schemes, and a third tier of top-up individual provision via the new personal pensions. In other words, both organizations envisaged installing personal pensions on top of, rather than as a replacement for, the existing mixed-economy second tier of British pension provision.<sup>94</sup> It was all very well, argued the Confederation of British Industry, for individuals to take risks in a new voluntary third tier but “gambling for higher returns on speculative ventures” was entirely inappropriate in either of the first two tiers. The present partnership between state and occupational schemes was “working well”, and unless economic growth in the next three or four decades was “very disappointing,” it believed that the current commitments appeared “to be basically sustainable.”<sup>95</sup>

Likewise, the Society of Pensions Consultants—the representative body for providers of financial advice and services to occupational pension schemes and their sponsors—was skeptical that substituting mass personal pensions for the mixed-economy second tier of pension provision was wise. It was concerned that the disintermediation of pensions investment implied by substituting individually administered personal pensions for occupational schemes unrealistically assumed adequate investment skills among workers. Those who did take out a personal pension could “make decisions they might live to regret.”<sup>96</sup> The British Insurance Brokers’ Association, representing companies that would be selling the new personal pensions, was also skeptical. All too aware of the tendency for individuals to shy away from decisions relating to old-age income provision, it warned that that without compulsion most

<sup>93</sup> Ken Thomas (Trades Union Congress), oral evidence to Department of Health and Social Security, Public Inquiry into Provision for Retirement, 29 February 1984, TNA, BN 147/36.

<sup>94</sup> Note by the Secretary (N. Montagu), Inquiry into Provision for Retirement, Sub-Group on Portable Pensions, Written Submissions from Bodies Giving Oral Evidence, 2 February 1984, TNA, BN 147/26, IPR(PP)7.

<sup>95</sup> Department of Health and Social Security, Public Inquiry into Provision for Retirement, 19 July, oral evidence given by Kenneth Edwards, Confederation of British Industry, Deputy Director-General, TNA, BN 147/37. One should note the emphasis on “current commitments,” however, for the Confederation of British Industry was most concerned at this stage by the long-term cost of proposals for inflation-proofing occupational pensions and the potential for this to require additional contributions to funds from companies that could have “dramatic” impacts on business costs and efficiency.

<sup>96</sup> Society of Pension Consultants, Precis of Society Evidence to Portable Pension Sub-Group of Fowler Inquiry, 30 January 1984, TNA, BN 147/27.

people would simply not take out a personal pension.<sup>97</sup> In short, evidence given to the inquiry revealed almost blanket opposition to the Policy Unit's agenda from unions, employers, and pension funds. It also, to the unit's surprise, revealed that its agenda had many detractors in the financial services sector.

Nonetheless, as shown above, even as Fowler's inquiry took that evidence, the Policy Unit was seeking to persuade the prime minister of the need for radical action. "SERPS has to go," Willetts told her,<sup>98</sup> or Britain's public finances in the new century would be under threat. Nonetheless, although MISC 111 endorsed abolition of SERPS in February 1985, Thatcher was clearly beginning to have doubts and took some persuading. We can see this in the Policy Unit's powerful advocacy of radical reform to Thatcher, its advice that, having "marched Norman Fowler to the top of the hill," they should take their chance, and particularly in its implied message that failure to grasp the nettle would be an expression of political weakness.<sup>99</sup>

A key problem for the Policy Unit was that if SERPS went, mass twenty-first century pauperism would be in prospect unless workers without an occupational pension were compelled to take out personal pensions. That, of course, cut against the grain of more general government policy seeking to liberate the individual from nannying by the state. It would also, however, be extremely expensive for the Exchequer over the near to medium term; historically, contributions to private and occupational pensions had attracted income tax relief. That major increase in the cost of the tax subsidy to pensions virtually guaranteed Treasury opposition, and the chancellor of the exchequer, Nigel Lawson, duly detonated when he woke up to the scale of the problem in April 1985.<sup>100</sup> Redwood and Willetts, who attended all the ministerial meetings on pensions reform, fought back but were forced to make concessions. The result was a compromise forged around a phased three-year abolition of SERPS for workers retiring after the end of the century and its replacement by compulsory personal pensions for younger employees. The latter would be required to pay at least 4 percent of their earnings into their personal pension. Employers would be required to pay an additional 2 percent contribution into either a personal or occupational pension. For men under fifty and women under forty-five, therefore, state pension provision above the minimalist basic state pension would be privatized; by the start of the new century, once older workers had retired, this would become universal. At the same time, there would be a national insurance rebate for those taking out a personal pension (widely dubbed "the bribe") to tempt workers out of both SERPS and occupational pensions.<sup>101</sup> Thus, personal pensions would still ultimately form the second tier of British pension provision.

<sup>97</sup> Michael Morris (director general, British Insurance Brokers' Association) to N. Montagu, Inquiry into Provision for Retirement: Personal Portable Pensions, 20 January 1984, TNA, BN 147/26.

<sup>98</sup> David Willetts, Benefits Seminar, 28 September 1984, Seminars on Health and Social Security Matters brief for the prime minister, TNA, PREM 19/2349.

<sup>99</sup> First meeting, MISC 111 (85), 6 February 1985, TNA, CAB 130/1293.

<sup>100</sup> N. Lawson to the Prime Minister, Social Security Reviews, 23 April 1985, TNA, PREM 19/1639; Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical* (London, 1992), 588–89. Lawson was in no doubt that the long-term costs of SERPS meant it was a "doomsday machine," but he was not prepared to see the immediate costs of abolishing it derail the government's wider agenda.

<sup>101</sup> For use of the word *bribe*, see, for example, minutes of Parliamentary committee meeting, 7 January 1986, Records of the National Association of Pension Funds, London Metropolitan Archives, LMA/4494/A/03/014; Eric Short, "Widespread Anger over Fowler's Pensions 'Bribe,'" *Financial Times*, 15 March 1986.

This compromise informed the green paper on social security reform duly published in July 1985.<sup>102</sup> But the reaction to it was nonetheless explosive. For example, the National Association of Pension Funds actively considered refusing to participate in the consultation on its contents, in the end only agreeing to do so to express its profound opposition to all its key elements.<sup>103</sup> The Confederation of British Industry, representing larger employers, accepted the need for some trimming of SERPS but stuck to its guns on the need for a three-tier system.<sup>104</sup> Only 12 percent of major companies reportedly favored the proposals in the green paper.<sup>105</sup> In its formal response to the government, the Trades Union Congress expressed itself as “absolutely astounded” by the plan to abolish SERPS, warned of “potentially disastrous consequences,” and accused the government of alarmism in its long-term cost projections. The unions also complained that moving to personal pensions would inevitably remove any possibility of redistribution, which they saw as one of the most important merits of SERPS.<sup>106</sup> Charities representing older people, such as Age Concern, were universally opposed to SERPS abolition, being particularly dismissive of personal pensions because of the likely impact on women.<sup>107</sup> But dissent went beyond antagonism to SERPS abolition. By September, the *Financial Times* was reporting “a near deafening chorus” of opposition: “Almost every assertion in the Green Paper is under attack.”<sup>108</sup>

Most notably, the green paper was attracting hostility from a financial service sector on which the government was counting to deliver personal pensions. Many major insurers expressed adamant opposition to compelling people to take out personal pensions, as did their representative body, the Association of British Insurers. Even insurance companies like Legal and General that had been early supporters of the idea of personal pensions were opposed to compelling members of an abolished SERPS to take out a personal pension.<sup>109</sup> This response surprised the Policy Unit, which had expected insurers to welcome a “bonanza of business opportunities” as a result of compulsion.<sup>110</sup> It should not have done so. For insurers to sell personal pensions to the better-off worker was one thing; to sell them to low earners would be inherently loss-making because the costs of administration would be relatively high and the contributions

<sup>102</sup> Department of Health and Social Security, *Reform of Social Security*, 1985, Cmnd. 9517.

<sup>103</sup> Eric Short, “Pension Funds Body Split on SERPS Plan,” *Financial Times*, 31 July 1985.

<sup>104</sup> Its evidence is summarized in a detailed review of submissions at N. Montagu, “Bodies Supporting Modifications for the State Earnings-Related Pension Scheme (SERPS) in their Responses to the Green Paper,” Annex, 24 September 1985, TNA, BN13/299 HH 1.2.

<sup>105</sup> “Unpopular Green Paper,” *Pensions World* 14, no. 9 (1985): 621.

<sup>106</sup> Note by Mr. Caslake, *Outcome of Consultations*, 25 September 1985, TNA, BN13/299, HH.

<sup>107</sup> See, for example, Eric Short, “Age Charity Attacks Pension Proposals,” *Financial Times*, 16 August 1985. The Equal Opportunities Commission also complained that women would be particularly disadvantaged by a move to personal pensions as a replacement for SERPS. See “Green Paper Responses,” *Pensions World* 14, no. 10 (1985): 696–703. Women received credits within SERPS for time spent out of the labor market due to what was termed “home responsibilities.”

<sup>108</sup> Michael Prowse, “Why Few Wish to Join the Fowler Bandwagon,” *Financial Times*, 20 September 1985.

<sup>109</sup> Their evidence is summarized in a detailed review of submissions at N. Montagu, *Bodies Supporting Modifications for the State Earnings-Related Pension Scheme (SERPS) in Their Responses to the Green Paper*, Annex, 24 September 1985, TNA, BN13/299, HH 1.2.

<sup>110</sup> J. Redwood and D. Willetts to the Prime Minister, MISC 111, 8 February 1985, TNA, PREM 19/1638.

necessarily low. As there were many more low earners than high earners, compulsion would almost certainly render the entire business of personal pensions unprofitable.

All this represented a disastrous outcome for Norman Fowler. He had been forced by the Policy Unit, by the prime minister's support for its agenda, and by the Treasury's determination to trim the future cost of SERPS into making many compromises in his green paper. Those compromises had taken him a long way from the incremental reform agenda to which his initial political instinct had pointed him. As he later noted, the sheer scale of the negative response to the pension proposals in the green paper left him "dangerously isolated." Opposition from the insurance industry was particularly unwelcome because he was all too aware that he was relying on it "to deliver the goods."<sup>111</sup> He quickly stepped back, opening up discussions with insurers and pension funds (and with the Centre for Policy Studies, the Confederation of British Industry, and Institute of Directors) about modifying rather than replacing SERPS. He now proposed merely that its long-term benefits would be reduced and contracting out of it would be made more straightforward to stimulate demand for the new personal pensions. The aim now was to "convince pensions interests that the Government's revised proposals offer the best opportunity for re-establishing a pensions consensus."<sup>112</sup>

On 11 October 1985, Fowler presented plans on these lines to MISC 111 (plans that in April he had described as representing "the worst of worlds"), which it considered on the fifteenth.<sup>113</sup> Two weeks later, he put to MISC 111 a more developed version of this alternative reform plan, one he had squared with the Confederation of British Industry, pension funds, and the British Insurance Brokers' Association. SERPS would be retained but its long-term costs would be reduced by basing benefits for those retiring in the next century on average lifetime earnings rather than the twenty best years of earnings; the maximum SERPS pension would be 20 percent of earnings rather than 25 percent; and spousal inheritance rights in the event of a member's death would be cut from 100 to 50 percent. Contracting out of SERPS into a personal or occupational pension would be encouraged via the 2 percent "incentive," a bonus on the contracted-out national insurance rebate for five years.<sup>114</sup> These proposals were swiftly authorized by MISC 111, both the prime minister and other ministers on the committee being acutely aware that the scale of opposition to the green paper's proposals on pensions left them little option.<sup>115</sup> A white

<sup>111</sup> Norman Fowler, *Ministers Decide: A Personal Memoir of the Thatcher Years* (London, 1991), 222.

<sup>112</sup> "Consultation with Pensions Interests," TNA, BN 13/299, HH 10. This short strategy paper is undated but was almost certainly written in early October 1985. See also "Alternative Pensions Framework," TNA, BN 13/299, HH 12.

<sup>113</sup> Draft speaking note for MISC 111, n.d., TNA, BN 13/308; Memorandum by the Secretary of State for Social Services, Review of Social Security: The Next Steps, MISC 111 (85), 11 October 1985, TNA, CAB 130/1293; Minutes of MISC 111 (85) 8th Meeting, 15 October 1985, Ministerial Group on Social Security, Limited Circulation Annex, TNA, CAB 130/1293. See also letters from Douglas Hurd and Leon Brittan to Thatcher advocating compromise on the lines advocated by Fowler, in TNA, PREM 19/1640. The quotation is at Fowler to the Prime Minister, Social Security Review, 26 April 1985, TNA, PREM 19/1639.

<sup>114</sup> Pensions: Memorandum by the Secretary of State for Social Services, MISC 111 (85), 29 October 1985, TNA, CAB 130/1293.

<sup>115</sup> Ministerial Group on Social Security, Minutes of MISC 111 (85), 9th Meeting, 31 October 1985, Limited Circulation Annex, TNA, CAB 130/1293.



paper embodying the new proposals, and promising £12.5 billion savings as a consequence of lower long-term SERPS benefits, was duly published in December.<sup>116</sup> Adjustments to it were minor in the subsequent legislation passed in 1986.

From the Policy Unit's perspective, this outcome was disastrous, for it had always seen SERPS abolition as essential for the success of its pension privatization project. In a minute to the prime minister in October 1985, as Fowler sought to rescue the situation and placate opponents in industry and the financial services sector, Redwood had expressed his continued belief in the unit's ambitious reform plans. However, he recognized that Fowler's strategy of public consultation had ended up scuppering them.<sup>117</sup> As Willetts conceded to Thatcher, the dream of moving SERPS members en masse into their own personal pension had proved unattainable.<sup>118</sup> Amid what they termed "the rubble of SERPS," the best Redwood and Willetts could hope for after Fowler's retreat from abolition was to subject SERPS to death by slow strangulation via the reduction in its long-term benefits and incentives to its members to contract out of it, preferably into a personal pension—effectively the solution implemented in 1986.<sup>119</sup>

We should not underestimate the importance of the reforms to pensions embodied in the 1986 legislation. After all, the implementation of a new element of personal pensions within the complex architecture of British pensions was no mean feat, and it was to mark the start both of a long-term process of decline in occupational pensions (although other factors were much more important in that decline) and the slow strangulation of SERPS (with earnings-relation finally disappearing from state pension provision in 2016 with the advent of the unified flat-rate new state pension). More significantly, perhaps, it marked the point at which transferring pension risks to the individual became institutionalized, and it was this defined contribution model that was to come to dominate the neoliberalized landscape of British pensions over the ensuing decades.<sup>120</sup>

Nonetheless, the new settlement introduced in 1986 was a long way from the neoliberal settlement that the Policy Unit had set out to construct. Both occupational pensions and SERPS remained significant parts of Britain's pensions system, with personal pensions introduced as an addition to them, not a replacement. There was no wholesale transfer of pensions risks to individual workers. Nor was there a new world of individual investor capitalists running their own pension investment portfolio as a replacement for the dominance of the financial services sector in pension provision. (Such firms continued to play an intermediary role via their personal pension products and occupational scheme administration.) By any standards,

<sup>116</sup> Department of Health and Social Security, *Reform of Social Security: Programme for Action*, 1985, Cmnd. 9691.

<sup>117</sup> J. Redwood to the Prime Minister, MISC 111, 14 October 1985, TNA, PREM 19/1640.

<sup>118</sup> Willetts to the Prime Minister, *What Should We Do about SERPS?*, 11 October 1985, TNA, PREM 19/1640. Willetts drew a parallel with council house sales: "Selling council houses to willing buyers over a five-year period is one thing. Compelling everyone to buy their council house within 18 months despite opposition from estate agents and building societies would be trickier."

<sup>119</sup> TNA, PREM 19/1640: Redwood to the Prime Minister, MISC 111, 14 October 1985; and Willetts to the Prime Minister, SERPS, 25 October 1985.

<sup>120</sup> Alicia H. Munnell, "Employer-Sponsored Plans: The Shift from Defined Benefit to Defined Contribution," in *The Oxford Handbook of Pensions and Retirement Income*, ed. Gordon L. Clark, Alicia H. Munnell, and J. Michael Orszag (Oxford, 2009), 359–80, at 369–76.

the settlement implemented represented an evolution of the system, not the neoliberal revolution that the Policy Unit had set out to make. Its attempt to privatize pensions by moving all pension provision above a minimal state backstop to personal pensions had failed.

That failure was a source of considerable anguish to neoliberal architects of change inside both the Policy Unit and the Centre for Policy Studies. Nigel Vinson, for example, claimed in 1988 that the continued existence of occupational pension funds embedded "the greatest shift of ownership from individuals to institutions since the opposite had happened at the time of the Dissolution of the Monasteries." He emphasized the urgent need to reverse that shift "before it is too late."<sup>121</sup> Likewise, Redwood bemoaned the failure to dismantle occupational pension funds as a "missed opportunity."<sup>122</sup> Still seeking "to rescue something from the rubble of SERPS," he also continued to push "clearly demarked individual pension funds" as one of "ten basic points of popular capitalism [which would] provide the antidote to those of Marxism."<sup>123</sup>

## CONCLUSIONS

Although Desai and Cockett early on noted that think tanks and their businessmen backers (tellingly, they were all men) provided the neoliberal policy ideas that informed the government's initial pension reform proposals in its 1985 green paper on social security, our detailed case study shows how think tank influence worked in practice. In particular, in drawing the focus away from the ministerial center of British politics in the 1980s, the centrality of the No. 10 Policy Unit under Redwood's leadership becomes apparent. It was the transmission belt that transferred the Centre for Policy Studies' neoliberal ideas into government. It took the center's portable personal pensions suggestion and turned it into a set of practical policy proposals, including the abolition of SERPS and the effective privatization and individualization of all pension provision above a minimal basic state pension—via compulsory personal pensions for former SERPS members and incentivizing occupational pension scheme members to transfer into a personal pension. It was the Policy Unit, too, that forced those proposals onto the government's agenda. Given the prime minister's claim during the 1983 election campaign that there were no plans to reform (let alone abolish) SERPS, and her earlier positive endorsement of occupational pensions as vehicles for a people's capitalism, it is a tribute to the power of her Policy Unit that she and other ministers came to support a neoliberal pensions policy revolution in the social security green paper of 1985.

Yet our analysis also reveals the practical constraints on transforming radical ideas emanating from a think tank into practical policy implementation. When pension reform became a live issue in 1983, Fowler's initial inclination had been to reform SERPS to reduce its long-term costs, encourage occupational pension provision,

<sup>121</sup> Nigel Vinson, foreword to Philip Chappell, *Pensions and Privilege: How to End the Scandal, Simplify Taxes and Widen Ownership* (London, 1988), at 5.

<sup>122</sup> John Redwood, *Equity for Everyman: New Ways to Widen Ownership* (London, 1986), 8.

<sup>123</sup> Redwood to the Prime Minister, MISC 111, 14 October 1985, TNA, PREM 19/1640; John Redwood, *The Popular Capitalist Manifesto* (London, 1989).

and implement personal pensions for those who wanted them. That is more or less where things ended up in 1986.<sup>124</sup> Fowler's initial pre-green paper consultation via the Inquiry into Provision for Retirement was plainly intended to construct support for that package. The revolutionary pension proposals contained within his social security green paper in 1985 thus represented a defeat for Fowler and, by extension, the Department of Health and Social Security, though he gamely attempted to try to implement them. They were a product of the neoliberal vision of the Policy Unit, not least in the green paper's proposal to abolish SERPS and ultimately move to a privatized second tier of British pension provision. The Policy Unit's problem, as a *Financial Times* journalist noted, was the lack of support outside government for the green paper's proposals on pensions other than from the Centre for Policy Studies and the "Monday Club, the Institute of Directors and a handful of financial institutions" that stood to gain financially from them. (Even the latter were opposed to compulsory as opposed to voluntary personal pensions as a substitute for SERPS.)<sup>125</sup> As shown above, as a result of that widespread opposition, including opposition from insurance companies that the Policy Unit had expected would welcome the personal pensions revolution with open arms, and on which the government was depending for the success of that revolution, the proposals in the green paper were ultimately a long way away from the plans set out in the subsequent white paper and from the reforms actually implemented in 1986.

In short, while the 1985 green paper represented a major victory for the Policy Unit, it was unable to retain the support of key ministers in implementing its neoliberal vision once it became clear how expensive it would be and how widespread was the extra-governmental opposition. Whatever the long-term ideological attractions of the Policy Unit agenda to ministers such as Thatcher and Lawson, they proved to be political pragmatists in a way that Redwood and Willetts in the Policy Unit were not. It is thus a profound mistake to take the endpoint of the so-called Fowler reforms as representing a Thatcherite neoliberal revolution in pensions. Rather we should see the final settlement as a step back from such a revolution as espoused by the Policy Unit. Certainly, the new institutional structure of pensions embodied elements of a neoliberal agenda (in terms of a new system of voluntary personal pensions that embodied the individualization of pension capital ownership as well as longevity risk bearing, and investment risk). But the implementation of personal pensions did not end up as a wholesale replacement for the extant mixed-economy architecture of pension provision above the basic state pension. Instead of revolutionary change, to the Policy Unit's intense disappointment, the new personal pensions were set within a program of more gradualist evolutionary change of that mixed-economy pensions landscape.

The implementation of personal pensions was, therefore, informed by aspects of neoliberal thought (mediated by the Centre for Policy Studies) in terms of a concern to shrink the role of the state, marketize saving for income replacement in old age, individualize capital ownership, liberate the individual from control both by the state and big business, and promote individual initiative and entrepreneurialism.

<sup>124</sup> T. S. Heppell to Mr. Laurance, A New Pensions Approach, 18 October 1983, TNA, BN 13/308.

<sup>125</sup> Michael Prowse, "Why Few Wish to Join the Fowler Bandwagon," *Financial Times*, 20 September 1985.

But the collision between neoliberal precepts and the practical realities of governing saw significant resistance to the project from a wide range of institutions including government departments, large employers, the financial services sector, and trades unions. The product of that resistance was a settlement that, while later identified as neoliberal and certainly informed by neoliberal ideas, nonetheless profoundly disappointed its original neoliberal architects.