

Introduction to Liberal history

In our concise introductory article series, Duncan Brack analyses the formation and record of the arrangement between the Liberal Party and the Labour government in 1977–78.

The Lib-Lab Pact

IN NOVEMBER 1976, the Labour government's tiny majority in the House of Commons (just three, after the October 1974 general election) was wiped out by by-election losses and defections, and the government became increasingly prone to defeat in Parliament. In the wake of soaring inflation and the financial crisis which forced the government to apply for a massive loan from the IMF, there was a real fear that Britain was becoming ungovernable. Matters came to a head in March 1977, when the opposition leader Margaret Thatcher tabled a motion of no confidence.

While the Labour whips tried to do deals with the other minority parties (they were eventually to persuade three Ulster Unionists to abstain) the Liberal Party was the obvious target. After a number of contacts, the Liberal leader David Steel met the Prime Minister, Jim Callaghan on Monday 21 March, two days before the vote was due. Steel made it clear that he was not interested in an agreement just for a single debate; he wanted a longer term framework for cooperation. Callaghan agreed that he would recommend to his cabinet 'the idea of general consultation in return for general support'.¹ After intense discussions over the following two days, agreement was reached and announced by Callaghan and Steel in their speeches in the debate. The no-confidence motion was defeated by 322 to 298; if the 13 Liberal MPs had voted with the opposition, the government would have lost by two.

The joint statement issued by the two leaders set out a framework for cooperation between the parties.² Later extended, it eventually encompassed a Joint Consultative Committee and regular meetings between Labour ministers and their counterparts in the 'Shadow Administration', as the Liberal MPs and peers involved came to call themselves. Liberal proposals on devolution, worker participation, homelessness and small businesses were to be given a serious hearing, and proportional representation for elections to the proposed devolved assemblies in Scotland and Wales and for direct elections to the European Parliament were to be put before the Commons, subject to free votes.

For Callaghan, the reasons for entering the pact were obvious: avoiding an election. A Gallup poll in March had seen the Conservatives lead Labour by 16.5 per cent. The Liberals' reasons were more complex. While they were suffering less than Labour in the polls, the prospect of a Tory majority government was distinctly unappealing. The pact offered stability for the nation at a time of economic crisis on terms at least partly determined by the Liberals, and it would help to demonstrate the party's responsibility in bringing to an end the previous six months of legislative stalemate in the Commons.

Perhaps most importantly, it would demonstrate the practicality of the sort of co-operation entailed by the electoral reform promoted by the Liberal Party and, particularly for Steel, would show that the Liberals



David Steel, leader of the Liberal Party 1976–88; Jim Callaghan, leader of the Labour Party 1976–80 and Prime Minister 1976–79.

were more than just a party of protest and permanent opposition. Steel had long supported the idea of cooperation between parties in addressing the critical economic challenges facing the country. During the Liberal leadership election in 1976 he had observed that: ‘there are occasionally small “l” liberals to be found on particular issues outside the Liberal Party, and we should never fear to co-operate with them effectively to promote some part of our cause’.³ Eighteen months later, at the height of his party’s unhappiness over the pact, he quoted these remarks to Liberal candidates and added: ‘no one can say they did not know where I stood’.⁴

The questions were how long the co-operation should continue and at what price, and it rapidly became clear that Steel would accept a lower price for a longer agreement than many of his colleagues. As the Liberal MP John Pardoe put it, ‘David was determined to do a deal at all costs’. Labour ministers seemed to agree; one source reported that: ‘the “terms” were heard with some incredulity by the Cabinet’, and ‘the [Labour] Party had simply

undertaken to do what it had anyway intended to do and desist from what it could not do’.⁵ Nevertheless, although the pact placed ministers under no obligation to do anything about Liberal proposals other than listen to them, as Callaghan recalled in his memoirs, some of his cabinet ministers argued that ‘some of the provisions were humiliating’, and four Cabinet members (Peter Shore, Tony Benn, Stan Orme and Bruce Millan) voted against it.⁶

The full story of the pact, which in the end lasted for 17 months, has been told in detail elsewhere.⁷ It went through three distinct phases. The first, from March to December 1977, was one of relative harmony within and between the partners; the government’s legislative programme got back on track (though the Liberals occasionally voted against individual measures), inflation began slowly to fall and a few Liberal policies were given a fair wind by government ministers. Liberal support in the polls sank almost immediately into single figures, however, and the party lost three-quarters of its seats in the county council elections in May.

During the winter the pact was tested to destruction. On 13 December the vote for PR in the European elections was lost by 319 to 222. Conservative whipping against the bill did damage (Steel later admitted he had been naive in expecting some Conservative MPs to support it), but more significant for the Liberals was Labour's lukewarm response. Although a majority of Labour MPs voting – 147 to 122 – supported the bill, fewer than half of the Parliamentary Labour Party voted for it, and eleven ministers, four of them Cabinet members, voted against it. This was hardly the 'best endeavours' of the government which Liberals had been promised. An immediate meeting of Liberal MPs decided to continue with the pact by only six votes to four. To achieve this, Steel was obliged to pretend that Callaghan was going to see the Queen to call an election, a prank which made some of his colleagues feel physically sick.⁸

Astonishingly, Callaghan does not even mention the vote in his memoirs, simply listing the bill as one of those that 'caused most trouble' during that parliamentary session.⁹ Later, when free votes on proportional representation for the proposed Scottish and Welsh assemblies went the same way, he observed merely that 'Fortunately, David Steel

The Tory press was consistently hostile to the pact; how the *Daily Mail* portrayed it, 26 September 1977.



Daily Mail, 26 September 1977

was satisfied that Michael Foot [Leader of the House] and I had fully discharged the undertakings we had given him.'¹⁰ In fact Callaghan and Foot had steadfastly refused to whip their colleagues into supporting PR, and in practice by then the Liberals had lost much of their leverage. Bringing down the government and fighting an election on the basis of electoral reform for institutions that either did not yet exist or that the electorate knew nothing about was hardly a realistic prospect; Jo Grimond described the idea as 'bonkers'.

The pact was now doomed. Although a special Liberal Assembly in January 1978 granted Steel the freedom to continue it for the remainder of the session, most delegates regarded it as allowing the pact a dignified demise in preference to administering a lethal injection. In May Steel announced his intention to end the pact in the summer, and in August the party gave notice that all joint meetings were at an end. The government limped on for a further seven months until, in March 1979, it was defeated by one vote on a motion of no confidence, which all Liberal MPs supported.

For the Liberal sceptics the experiment in co-operation was costly and largely fruitless. In electoral terms, as well as losing hard-won council representation, the Liberals lost ground at every parliamentary by-election during the pact, losing over 10 per cent of the vote in half of the contests between April 1977 and May 1978. Opinion polls suggested that the party lost at least half the support it had gained in the 1974 elections during this period; it only started to recover after the end of the pact.

The tangible rewards in terms of policy were at best thin. After Liberal pressure the budgets of 1977 and 1978 included some income tax cuts and higher tax thresholds, and a new tax incentive for firms which introduced schemes of profit-sharing – a modest scheme but one which was built on by later

Chancellors. The government also provided parliamentary time to pass the landmark Housing (Homeless Persons) Act, which placed a statutory duty on local authorities to house homeless families; this had been introduced by Liberal MP Stephen Ross as a private member's bill. Some Labour proposals for extending state control were dropped. In addition, the economic situation improved markedly during the pact's lifetime, possibly partly as a result of a more stable political environment; the rate of inflation fell from 20 to 8 per cent.

Whether Steel could have achieved more through tougher negotiation is debateable; but for the Liberal leader the concrete outcomes of the pact were probably secondary. In his eyes, it had demonstrated both in general that parties were capable of cooperating in the national interest and in particular that the Liberal Party was able to affect the direction of government, as well as providing political and economic stability. And in the longer term, it helped to lay the foundations of the Liberal-SDP Alliance, Steel's second, and much more sustained, attempt to break the mould of British politics. As Tom McNally, head of Callaghan's office during the pact, later observed, the success of the pact partially lay: 'in loosening the cement of the old two-party system and improving the prospects for cross-party cooperation. It gave the social democrat wing of the Labour Party a place to go when this was later needed.'¹¹

Whatever its legacy, one conclusion seems clear: at the heart of the pact stood the positive relationship between the party leaders who agreed it. Before March 1977, Steel and Callaghan hardly knew each other; they were of entirely different backgrounds and generations. Yet, as Steel recounted, 'we established an easy rapport'.¹² Callaghan explained in his memoirs that 'I had been predisposed to like him from the start ... first impressions were lasting'.¹³ The two men trusted and came to understand each other, and Callaghan took

Steel into his confidence over a much wider range of issues than their formal agreement had contemplated. If the two parties had been led by Callaghan's predecessor Harold Wilson, and Steel's leadership opponent John Pardoe, it is inconceivable that any kind of pact could have come into existence. Steel was right, as he later acknowledged, that: 'it's fair to describe it as a Steel/Callaghan Pact'.¹⁴ ■

Duncan Brack is the Editor of the *Journal of Liberal History*. A slightly shorter version of this article was published as a chapter in Kevin Hickson and Jasper Miles (eds.), *James Callaghan: An Underrated Prime Minister* (Biteback, 2020).

- 1 James Callaghan, *Time and Chance* (Collins, 1987), p. 455.
- 2 Available on the Liberal Democrat History Group website at <https://liberalhistory.org.uk/history/joint-statement-on-the-lib-lab-pact-steel-and-callaghan/>
- 3 David Steel, *A House Divided: The Lib-Lab Pact and the future of British politics* (Weidenfeld & Nicolson, 1980), p. 22.
- 4 David Steel, letter to Liberal candidates, 16 December 1977; cited in Matt Cole, 'Breaking the Mould (1974–1988)' in Robert Ingham and Duncan Brack, *Peace, Reform and Liberation: A history of Liberal politics in Britain 1679–2011* (Biteback Publishing, 2011).
- 5 Philip Whitehead, *The Writing on the Wall: Britain in the Seventies* (Michael Joseph, 1985), p. 259.
- 6 James Callaghan, *Time and Chance* (Collins, 1987), p. 457.
- 7 As well as the other references cited here, see Alistair Michie and Simon Hoggart, *The Pact: the Inside Story of the Lib-Lab Government, 1977–78* (Quartet, 1978), Jonathan Kirkup, *The Lib–Lab Pact – A parliamentary agreement, 1977–78* (Palgrave Macmillan, 2015) and David Laws, *Serpents, Goats and Turkeys: A Century of Liberal–Labour Relations* (Biteback, 2024).
- 8 Cole, 'Breaking the Mould', p. 279.
- 9 Callaghan, *Time and Chance*, p. 498.
- 10 Ibid., p. 508.
- 11 'Working with others: the Lib–Lab Pact – report of July 2008 discussion meeting, *Journal of Liberal History* 60 (autumn 2003).
- 12 Steel, *A House Divided*, p. 155.
- 13 Callaghan, *Time and Chance*, pp. 465–66.
- 14 Quoted in Mark Oaten, *Coalitions* (Harriman House, 2007), p. 193.