Economic Thought and Policy in the Liberal Party, c. 1929-1964

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Abstract

This thesis examines the reception, generation, and use of economic ideas in the British Liberal Party during the period between its decline in the inter-war years and its revival under Jo Grimond. It uses archival sources, party publications, and the political press to reconstruct the Liberal Party's internal discourse about economic policy from the 1920s to the 1960s, and sets this discourse in the context of wider economic and political developments: the 'Keynesian revolution' in economic theory and British public policy, recurrent political interest in economic planning, and growing concern about relative economic decline.

The strength of the two-party system which developed after the First World War meant that the Liberal Party spent most of this period in opposition, and even in the coalition governments of 1931-2 and 1940-5 Liberals had limited input into economic policy-making. As historians have frequently noted, however, the party played an important role in introducing Keynesian ideas to British politics through Lloyd George's 1929 pledge to 'conquer unemployment', and seemed to anticipate the post-war managed economy in important respects. At the same time, the party maintained a close relationship with the economics profession, and vocally championed free trade and competitive markets.

This thesis highlights the eclecticism of the Liberal Party's economic heritage, and its continuing ambivalence towards state intervention. Although Liberals were early and sincere supporters of Keynesian demand-management policies, and took a close interest in economic planning proposals in the 1920s, 1940s and 1960s, their interventionism was frequently constrained by their internationalism and their support for free markets. Most Liberals, then, were neither unreconstructed Gladstonians nor unequivocal supporters of Britain's post-war settlement. Rather, successive party leaders sought to integrate new economic knowledge with traditional Liberal commitments, in order to make both a credible contribution to policy debates and a distinctive appeal to the electorate.

Long Abstract

This thesis examines the reception, generation, and use of economic ideas in the British Liberal Party during the period between its decline under Herbert Asquith and David Lloyd George and its revival under Jo Grimond. It uses archival sources, party publications, and the political press to reconstruct the Liberal Party's internal discourse about economic policy from the 1920s to the 1960s, and sets this discourse in the context of wider economic and political developments: the 'Keynesian revolution' in economic theory and British public policy, recurrent political interest in economic planning, and growing concern about relative economic decline.

The strength of the two-party system which developed after the First World War meant that the Liberal Party spent most of this period in opposition, and even in the coalition governments of 1931-2 and 1940-5 the Liberals had limited input into economic policy-making. However, the party was always well placed to contribute to economic policy debate in Parliament and on the hustings, sometimes by putting new ideas on the political agenda, sometimes by reasserting the importance of older ones. David Lloyd George's 1929 pledge to 'conquer unemployment' through a programme of loan-financed public works has been widely regarded as a landmark in the development of a Keynesian policy approach, and the wider interventionist agenda of the party's 1928 Yellow Book foreshadowed the corporatist mixed economy of the post-war period in important respects. Conversely, Liberals also remained vocal champions of free trade and competitive markets during a period in which classical economics was going out of fashion.

Previous work by historians on Liberal economic policy has tended to focus on particular episodes, such as the 1929 public works policy and the 1931 financial crisis, or on particular dimensions of Liberal thought; it has also leaned heavily on the distinction between 'classical' and 'social' Liberalism to understand the development of the party's thinking. By contrast, this thesis emphasizes the diversity of the Liberal Party's intellectual heritage, and shows that successive Liberal leaders – David Lloyd George, Sir Herbert Samuel, Sir Archibald Sinclair, Clement

Davies, and Jo Grimond – worked to synthesize the party's existing commitments with new economic knowledge, in the light of changing economic and political circumstances.

The Liberal Party's economic thought straddled the centre ground of British economic policy debate, and drew creatively on both right- and left-wing discourses. As heirs of the radical tradition and the Edwardian New Liberals, mid-twentieth-century Liberals were committed to the relief of poverty and unemployment and receptive to proposals for achieving this through state action, including John Maynard Keynes' proposals for demand management and Sir William Beveridge's social security scheme. At the same time, the old Liberal suspicion of the state was difficult to shake, and constrained the party's support for state intervention in important ways. Despite the Yellow Book and the work of Keynes and Beveridge, the 1930s and 1940s witnessed a strong Liberal reaction against central planning which drew on classical and neoliberal arguments about the importance of international trade, the superiority of markets and the dangers of arbitrary power. Classical republican and distributist ideas about the need to spread property ownership and create an independent, self-reliant citizenry also enjoyed a powerful resurgence. As late as the 1950s, therefore, the dominant strain in British Liberal thought was the notion that Keynesian demand management could be synthesized with neoclassical microeconomics and a broadly neoliberal social vision, providing a progressive alternative to the Labour Party's more statist agenda. Only at the end of our period, under Jo Grimond's leadership, did the party move into more conventionally social Liberal terrain, and even this turn towards state activism was more ambivalent than many historians have supposed. In other words, though few mid-century Liberals were unreconstructed Gladstonians, the party should not be identified unproblematically with the rise of collectivist politics and the development of the post-war 'consensus'.

Chapter outline

The thesis develops this argument chapter-by-chapter, weaving together a broadly chronological approach with more detailed analysis of the Liberal Party's changing thinking on issues such as economic management, planning, nationalization and free trade. Chapter 1, entitled 'Economic

inheritances', distinguishes four main economic traditions in the early twentieth-century Liberal Party – classical economics, Georgism, New Liberalism and constructive Liberalism – and traces their development up to 1929. It shows that the constructive tradition enjoyed a marked ascendancy within the party during the late 1920s, symbolized by the Yellow Book, but it was never really dominant, not least because it did not provide a fully-fledged alternative to classical and neoclassical economic doctrines. David Lloyd George's leadership, moreover, divided the party, and many of his Asquithian enemies still thought in terms of restoring the economic order which had existed before the First World War.

Chapter 2 examines the Liberal Party's conduct during the 1929 Parliament, in which it held the balance of power, and challenges the conventional assumption that the party's support for public works was opportunistic, shallow and short-lived. Most Liberal activists and MPs were willing to support the 1929 policy in its own terms, and regarded Lloyd George's unemployment pledge as achievable; the problem was that the party did not really consider the difficulty of pursuing domestic reflation under a free-trade regime, with sterling on the gold standard, and in an unstable economic climate. The international depression which followed the Wall Street Crash prompted growing doubts about the effectiveness of public works and made the classical analysis of unemployment seem more appealing; the 1931 financial crisis sealed the Liberal Party's reversion to largely classical policies. Nevertheless, Liberals continued to regard 'national development' spending as a useful policy measure, which would both improve the nation's infrastructure and provide a short-term stimulus to demand.

Chapters 3 and 4 explore the development of Liberal policy during the National Government years, from the 1931 general election up to the Second World War. Chapter 3 shows that the secession of Sir John Simon's Liberal Nationals and the National Government's embrace of protection put free trade back at the heart of the Liberal Party's identity, and meant that economic internationalism became the party's defining commitment. The same chapter also traces the growth of Liberal hostility to domestic planning measures, especially the Agricultural Marketing Acts, and shows how Sir Herbert Samuel and his colleagues tried to integrate public works with the party's internationalist and free-market approach. Chapter 4 highlights the Liberal Party's ambivalence

towards ‘middle opinion’ groups such as the Next Five Years Group and Political and Economic Planning, and shows that the main drift of Liberal policy after 1935 was towards a more individualistic agenda, based on personal freedom and ‘ownership for all’. Sir Archibald Sinclair, who presided over this shift, also favoured an active macroeconomic policy, as Keynes advocated in his *General Theory*. However, Sinclair’s engagement with Keynesian ideas seems to have been heavily mediated through *The Economist* and other newspapers, and Sinclair placed much greater emphasis than Keynes on the need to prevent booms as well as slumps.

The Second World War witnessed a shift to the left across the political spectrum, in which – as chapter 5 shows – the Liberal Party fully shared. Whilst Sinclair and other senior Liberals took posts in Winston Churchill’s coalition government and helped manage the war effort, Liberal backbenchers and activists revived constructive and New Liberal arguments about the economic functions of the state and canvassed radical proposals for economic planning. After heated arguments between planners and free-marketeers, the party settled on the highly interventionist version of Keynesianism which Sir William Beveridge espoused in *Full Employment in a Free Society*, backed up by piecemeal nationalization measures. This left turn, however, would prove short-lived as enthusiasm for state intervention receded during the Attlee years.

Chapter 6 analyses Liberal economic policy in the period of Clement Davies’ leadership, 1945-56, when the party’s electoral fortunes reached their nadir and both party strategy and agricultural policy provoked severe dissension. The chapter argues that in spite of these divisions, official Liberal policy followed an intellectually coherent trajectory away from Beveridge’s interventionist Keynesianism and towards a more mature version of the liberal Keynesian synthesis which Sinclair had developed in the late 1930s. In common with economists such as Roy Harrod and Lionel Robbins, Davies and his colleagues argued that tight fiscal and monetary policies should be used to remove excess demand from the economy and facilitate the rapid removal of rationing and controls. Liberals also criticized the scope of the Attlee government’s nationalization programme, called for the abolition of food and housing subsidies, and began to suggest that wider private property-ownership and rising living standards might eventually allow the welfare state to be dismantled. The party’s extreme free trade faction, led by Oliver Smedley and S.W. Alexander,

managed to reverse the party's new-found support for guaranteed agricultural prices, but its left-wing rival, the Radical Reform Group, would prove much more significant in the long run, as its critique of liberal Keynesian economic and social policies foreshadowed the direction which Liberal policy would take in the 1960s.

The final chapter documents the transformation in Liberal economic policy which took place under Jo Grimond's leadership, from the anti-statist liberal Keynesianism of the early post-war period to an approach based on indicative planning, public investment, an incomes policy and the pursuit of faster economic growth. This shift is best understood as a response to the contemporary perception that Britain was experiencing relative economic decline, which was propagated by economic journalists such as Andrew Shonfield and formed the crux of a wider debate about Britain's place in the world. Grimond's vision of social and economic modernization drew heavily on common 'soft left' themes, such as John Kenneth Galbraith's denunciation of 'private opulence and public squalor' and Michael Shanks' critique of a complacent 'establishment', but it also included a distinctively Liberal emphasis on the need to promote competition, improve work incentives and engage with the European Common Market. The Liberal Party's changing economic policy was not the only cause of its 1960s revival, nor probably even the main one. The party's new policy nevertheless helped burnish the modern, progressive image which Grimond sought to create, and may have contributed to the party's growing appeal in both suburban England and the Celtic fringe.

Conclusions

The analysis developed in the thesis provides support for five main conclusions. Firstly, the thesis demonstrates the Liberal Party's resilience as a political organization during its wilderness years. The National Liberal Federation, Liberal Party Organisation, and Liberal Parliamentary Party linked the party of Lloyd George with the party of Grimond, and helped maintain the party's credentials as the heir of Victorian and Edwardian Liberalism in the face of the Liberal National challenge. The NLF and LPO also enabled rank-and-file activists to participate in party policy-

making, although successive Liberal leaders held the initiative here, and were usually able to determine both the substance of Liberal policy and the terms on which it was made.

Secondly, the Liberal Party's ambivalence towards state intervention is seen to have stemmed – for the most part – not from philosophical resistance to social Liberal ideas about the need for state action to promote positive liberty, but from the fact that the party had other commitments too, notably to internationalism, the neutrality and integrity of the state, and personal responsibility and choice. The Liberal Party tended to stand on the centre-left when it prioritized poverty reduction, full employment or economic growth, and further to the right when it gave equal or greater weight to these other objectives.

A third conclusion concerns the Liberal Party's relationship with the Keynesian revolution. The 1929 public works policy gave the Liberals a plausible claim to be the first Keynesian party, yet the party's subsequent use of Keynes' ideas was much more cautious and selective than this would suggest. During the early 1930s the Liberals advocated public works within a largely classical economic framework, regarding them as a useful palliative in a world deranged by economic nationalism, and even after the *General Theory* appeared Liberal leaders tended to engage with its contents second-hand, via the financial press or free-market economists. Sinclair, Davies, and the early Grimond consequently espoused a relatively non-interventionist version of Keynesianism, and put much greater emphasis on monetary policy as an economic regulator than Keynes had done in the *General Theory*. In terms of economic theory, therefore, the Liberal Party was hardly more of a Keynesian party than either Labour or the Conservatives. Liberals may have found Keynesian policies particularly appealing as a means of achieving full employment without detailed economic planning, but they shared the other parties' tendency to make selective use of Keynes' insights in constructing a version of Keynesian economics which fitted their prior ideological commitments.

A fourth conclusion is that the Liberal Party's turn away from classical postulates in the field of macroeconomic policy was not replicated in the microeconomic sphere. Instead, the party remained broadly committed to competitive markets and suspicious of monopolies, tending to favour trust-busting in the first instance and regulation or public ownership only where this failed.

In this respect, the Yellow Book was more a deviation from the main current of Liberal thinking than the harbinger of a more corporatist approach. Liberal policy also retained an internationalist orientation, although free trade lost much of its prominence after the Second World War as the party moved from a unilateral to a multilateral approach and then embraced British membership of the Common Market.

Finally, this thesis draws attention to the compatibility of Keynesian and neoliberal economic ideas, at least in their most moderate forms, during the years before and after the Second World War. In modern political debate, it is widely assumed that Keynesianism and neoliberalism are inherently antagonistic, but during the 1930s, 1940s and 1950s many British Liberals did their best to hold them together. In seeking to forge a progressive synthesis of free markets, private ownership and Keynesian demand management, Liberals followed the lead of moderate neoliberal authors such as the American journalist Walter Lippmann and free-market Keynesian economists such as Roy Harrod; before long, the Conservative Party was coming to occupy similar terrain. Only in the late 1950s, as liberal Keynesian policies lost their lustre and neoliberal attitudes to demand management hardened, did the two movements become irreconcilable, forcing British Liberals to choose between Keynesian and neoliberal perspectives. By the mid-1960s the Liberal Party had chosen a Keynesian and social Liberal path, in line with Grimond's vision of realigning the centre-left, and left the neoliberal inheritance to be claimed by the Conservative Party of Enoch Powell and Margaret Thatcher.

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Abbreviations

BL	British Library
CBH	*Contemporary British History*
CPA	Conservative Party Archive, Bodleian Library, Oxford
EHR	*English Historical Review*
EJ	*Economic Journal*
HDE	*Huddersfield Daily Examiner*
HJ	*Historical Journal*
IEA	Institute of Economic Affairs
JLDH	*Journal of Liberal Democrat History*
JLH	*Journal of Liberal History*
JMK	*The Collected Writings of John Maynard Keynes*, ed. D.E. Moggridge and Elizabeth S. Johnson (30 vols., 1971-89)
L&L	*Land & Liberty*
LM	*Liberal Magazine*
LN	*Liberal News*
LPO	Liberal Party Organisation
LSE	London School of Economics
MG	*Manchester Guardian*
NLF	National Liberal Federation
NLYL	National League of Young Liberals
PEP	Political and Economic Planning
RRG	Radical Reform Group
TCBH	*Twentieth Century British History*
WLF	Women's Liberal Federation

Introduction

The historiography of twentieth-century British politics has long been shaped by the concept of Liberalism in decline, but from the perspective of the twenty-first century it is the resilience of British Liberalism which appears more striking. The Liberal Democrats' return to government after the 2010 general election caps a remarkable recovery from the position of near-extinction in which the Liberal Party found itself in the early 1950s. In view of the political difficulties which the party has faced since the formation of the coalition, it would be premature to suggest that the mould of two-party politics has been permanently broken. Nevertheless, for the time being, Liberalism is back.[1]

The Liberal Democrats' participation in the present coalition government gives the history of British Liberalism, and especially of Liberal thought and ideology, particular salience today. Of course, the Liberal Party has never been short of historians, especially in respect of its Victorian and Edwardian heyday, but it is only in the last two decades that scholars have really turned their attention to the post-1929 Liberal Party, and begun to bridge the gap between the historiography of Liberal decline and the party's post-war revival under Jo Grimond.[2] Likewise, it is only since the appearance of *The Orange Book* in 2004 that modern Liberal and Liberal Democrat ideas and policies have received sustained analysis.[3] The present thesis contributes to this literature by providing, for the first time, a detailed account of the development of Liberal thinking on economic

[1] This thesis follows the common practice of using capital-L Liberalism to denote the political tradition and ideology associated with the British Liberal Party and Liberal Democrats, and reserving small-l liberalism for the broader political philosophy.

[2] Malcolm Baines, 'The Survival of the British Liberal Party, 1932-1959' (unpublished University of Oxford D.Phil. thesis, 1989); Geoffrey Sell, 'Liberal Revival: Jo Grimond and the Politics of British Liberalism, 1956-1967' (unpublished University of London Ph.D. thesis, 1996); Mark Egan, 'The Grass-roots Organisation of the Liberal Party, 1945-1964' (University of Oxford D.Phil. thesis, 2000), published as *Coming into Focus: The Transformation of the Liberal Party, 1945-64* (Saarbrücken, 2009); Matthew Cole, 'The Identity of the British Liberal Party, 1945-62' (unpublished University of Birmingham Ph.D. thesis, 2006); Jaime Reynolds and Ian Hunter, 'Decline and disintegration (1929-1955)', in Robert Ingham and Duncan Brack (eds.), *Peace, Reform and Liberation: A History of Liberal Politics in Britain 1679-2011* (2011), 207-40.

[3] See especially Kevin Hickson (ed.), *The Political Thought of the Liberals and Liberal Democrats since 1945* (Manchester, 2009), and Tudor Jones, *The Revival of British Liberalism: From Grimond to Clegg* (Basingstoke, 2011).

questions during the years of the Keynesian revolution and the emergence of government economic management in Britain: that is, roughly between the 1929 and 1964 general elections.

The historical territory which this thesis covers is not wholly uncharted; indeed, many historians have wandered onto it from time to time, seeking to understand Liberal policy as it relates to particular episodes, political figures or ideological movements. Most of these works, however, are problematic in at least one of two respects. Firstly, previous authors have generally focussed on brief episodes in which Liberals were politically influential, such as the *We Can Conquer Unemployment* campaign at the 1929 general election, the party's role in the 1931 political crisis, and the Liberal revival in the 1950s and 1960s, without grounding these events in the larger trajectory of Liberal economic thought. This is especially true of works by political historians and biographers, but Michael Freeden's work on Liberal ideology and Richard Cockett's study of the British neoliberal movement also look at Liberal Party policy selectively and obliquely, instead of studying it for its own sake.[4] Only the short overviews of post-war Liberal economic policy which Andrew Gamble and Duncan Brack have written really avoid this problem.[5]

A second (and related) weakness of existing work is a tendency to collapse Liberal economic thinking into a 'classical'-versus-'social' Liberal framework, and to characterize one side of the dichotomy as dominant according to the evidence considered. Two contrasting mental pictures of the Liberal Party's ideological character in this period therefore recur in the literature. One is of the Liberal Party as the party of John Maynard Keynes and William Beveridge, the consensus party *par excellence*, and the midwife of the managed economy and welfare state which emerged in Britain after 1945. According to this view, the party had completed the transition from classical to social Liberalism by the early twentieth century, amid widening suffrage and growing concern for

[4] Michael Freeden, *Liberalism Divided: A Study in British Political Thought, 1914-1939* (Oxford, 1986); Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931-1983* (1994; paperback edition, 1995). The Liberal Party's leaders in this period have been well served by biographies: John Campbell, *Lloyd George: The Goat in the Wilderness, 1922-1931* (1977); Bernard Wasserstein, *Herbert Samuel: A Political Life* (Oxford, 1992); Gerard J. de Groot, *Liberal Crusader: The Life of Sir Archibald Sinclair* (1993); Alun Wyburn-Powell, *Clement Davies: Liberal Leader* (2003); Michael McManus, *Jo Grimond: Towards the Sound of Gunfire* (Edinburgh, 2001); Peter Barberis, *Liberal Lion. Jo Grimond: A Political Life* (2005). For political historians, see note 9 below.

[5] Andrew Gamble, 'Liberals and the economy', in Vernon Bogdanor (ed.), *Liberal Party Politics* (Oxford, 1982), 191-216; Duncan Brack, 'Political economy', in Hickson (ed.), *Political Thought*, 102-17.

'the condition of the people'.[6] In the social Liberal vision, as characterized by W.H. Greenleaf, the state ceased to be a 'necessary evil' and became a 'vital instrument of reform':

> Liberalism was still formally concerned with countering tyranny and maintaining freedom but the specific objects involved were being radically transformed. The external restraints which had now to be removed were not the cramping effects of arbitrary authority and outmoded privilege but those conditions which inhibited the full life for the mass of citizens, the poverty and distress brought about by unregulated economic growth and technological change.[7]

Once Liberals had abandoned classical strictures against state activism, it was relatively easy to abandon classical economics and to support interventionist measures which were designed to tackle poverty and unemployment. On this reading, classical Liberals were a dying breed by the inter-war years, and the neoliberal movement which emerged from the 1930s onwards had little to do with the Liberal Party. Modern Liberal Democrats like Conrad Russell, historians of neoliberalism such as Cockett, and – more cautiously – historians of political thought such as Freeden have all tended to see mid-century Liberalism in these terms.[8]

A very different mental picture has been created by political historians, and especially by those who have studied the Liberal grassroots and the 1931 political crisis. Here, Ross McKibbin, Andrew Thorpe, Duncan Tanner and Malcolm Baines deserve particular mention.[9] These historians have been impressed by the persistence of traditional free-trade beliefs among Liberal activists during the 1930s and 1940s, and by the party's commitment to Gladstonian orthodoxy in the midst of the depression. The bourgeois social profile of Liberal activists and MPs, and the prevalence of 'anti-socialist' cooperation in inter-war elections, seem to bear out the party's intrinsic conservatism. In this picture, the radicalism of Keynes and Beveridge represents, at best, a social

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[6] See, for instance, Alan Bullock and Maurice Shock (eds.), *The Liberal Tradition from Fox to Keynes* (1956); W.H. Greenleaf, *The British Political Tradition* (3 vols., 1983-7), II, part two.
[7] Greenleaf, *British Political Tradition*, II, 27.
[8] Conrad Russell, *An Intelligent Person's Guide to Liberalism* (1999), 57-69; Cockett, *Thinking the Unthinkable*, 7-8; Freeden, *Liberalism Divided*, *passim*. Cockett's view of the twentieth-century Liberal Party as a predominantly collectivist force echoes Arthur Seldon's attitude: see Arthur Seldon, 'Economic scholarship and political interest: IEA thinking and government policy', in *The Collected Works of Arthur Seldon*, ed. Colin Robertson (7 vols., Indianapolis, 2004-5), VII, 43-68.
[9] Ross McKibbin, *Parties and People: England, 1914-1951* (Oxford, 2010); Andrew Thorpe, *The British General Election of 1931* (Oxford, 1991); Andrew Thorpe, *Parties at War: Political Organisation in Second World War Britain* (Oxford, 2009); Duncan Tanner, 'The strange death of Liberal England', *HJ*, 37 (1994), 971-9; Baines, 'Survival'.

Liberal current which *competed* with the classical tradition (and frequently lost out), and, at worst, a symptom of the party's desperation and opportunism in the face of electoral decline. From this perspective, it is hardly surprising that Keynes and Beveridge undertook their most important work outside the Liberal Party.

The present thesis seeks to offer a more rounded account of Liberal economic thinking in the mid-twentieth century, which moves beyond these two caricatures and resolves the interpretative difficulties they pose. Drawing on a wide range of primary sources, including private papers, party publications and the Liberal press, it emphasizes the diversity and complexity of the Liberal Party's economic traditions and traces their development in the light of changing economic, political, and intellectual contexts. Liberal politicians did not simply apply old economic commitments, or adopt new ideas; rather, they were engaged in an ongoing process of synthesis and adaptation. The adoption of Keynesian ideas during the 1920s and 1930s is the outstanding example of this process, as the party first took up the policy of public works – in 1929 – and then worked to integrate it with classical economic assumptions and its internationalist heritage. Proposals for economic planning were interrogated in a similar way. Significantly, however, Liberals' interest in Keynesianism and planning did not preclude a fruitful relationship with free-market economists at the London School of Economics and the early neoliberal movement. Liberal policy was not always coherent, well-informed or far-sighted, but for most of our period the party's leaders did a better job of holding different strands of Liberal thought together than historians have usually given them credit for.

The historical significance of this thesis lies partly in the light it sheds on the Liberal Party as a political organization during its wilderness years – its character, leadership, identity, strategy, and policy-making processes – and on the age-old question of Liberalism's relationship with the state. However, the thesis also carries wider implications for our understanding of the interaction between economics and politics in twentieth-century Britain. From one perspective, it offers a case study of how economic ideas were received, understood, and used by politicians in this period, complementing similar work on the Labour and Conservative parties by Nigel Harris, Elizabeth

Durbin, Noel Thompson, Jim Tomlinson, Richard Toye and Ewen Green.[10] The Liberal Party's enduring appeal to the economics profession up to the 1960s makes this study particularly interesting, since John Maynard Keynes and Dennis Robertson from Cambridge, William Beveridge and Roy Harrod from Oxford, and Frank Paish and Alan Peacock of the LSE all feature prominently in these pages. At the same time, the material presented here also expands the historian's knowledge of the range of economic policy options which were canvassed in Britain in these years, and of the contours of policy debate as it developed at Westminster, in the press, and on the hustings. Even when the Liberal Party was no longer a serious contender to lead a government, Liberal politicians were still well-placed to contribute to economic policy debates inside and outside the House of Commons. This study therefore provides new insights into such longstanding historical controversies as the existence or otherwise of a 'Keynesian revolution' in British policy-making, the political significance of the planning movements of the 1930s, 1940s and 1960s, the emergence of perceptions of relative economic decline, and the nature and extent of Britain's post-war 'consensus'.[11]

This thesis is first and foremost a work of political history, which seeks to explain what Liberals thought and why – though insights drawn from economics and the history of economic thought have helped the author reconstruct the wider intellectual context. Most of the evidence available to the historian relates to the policy discussions of the Liberal leadership, rather than the mass party, so this is not a study of Liberal economic mentalities. However, it should not be considered a pure 'high political' study either. The analysis developed here is concerned with ideas and policies, rather than merely with politicians' machinations, and emphasizes the extent to which

[10] Nigel Harris, *Competition and the Corporate Society: British Conservatives, the State and Industry, 1945-1964* (1972); Elizabeth Durbin, *New Jerusalems: The Labour Party and the Economics of Democratic Socialism* (1985); Noel Thompson, *Political Economy and the Labour Party: The Economics of Democratic Socialism, 1884-2005* (1994; second edition, 2006); Jim Tomlinson, *Democratic Socialism and Economic Policy: The Attlee Years, 1945-1951* (Cambridge, 1997); Richard Toye, *The Labour Party and the Planned Economy, 1931-1951* (Woodbridge, 2003); Richard Toye, 'The Labour Party and Keynes', in E.H.H. Green and D.M. Tanner (eds.), *The Strange Survival of Liberal England: Political Leaders, Moral Values and the Reception of Economic Debate* (Cambridge, 2007), 153-85; Ewen Green, 'The Conservative Party and Keynes', in Green and Tanner (eds.), *Strange Survival*, 186-211.

[11] The literature on these questions is vast, but the most important works include Alan Booth, *British Economic Policy, 1931-49: Was there a Keynesian Revolution?* (1989); Daniel Ritschel, *The Politics of Planning: The Debate on Economic Planning in Britain in the 1930s* (Oxford, 1997); Jim Tomlinson, *The Politics of Decline: Understanding Post-War Britain* (Harlow, 2000); and Glen O'Hara, *From Dreams to Disillusionment: Economic and Social Planning in 1960s Britain* (Basingstoke, 2007).

Liberals were motivated by political and economic commitments as well as party advantage. Following Ewen Green and Duncan Tanner, it takes the political party seriously both as a site in which ideas are 'filtered by rooted languages, traditions and expectations', and as a vehicle which carries ideas into the electoral contest.[12] Just as importantly, backbenchers and activists do not appear merely as 'off-stage' forces 'with unknown natures and unpredictable wills', as Maurice Cowling memorably described them.[13] Given the party's small size and its propensity for discord, the Liberal Parliamentary Party, the National Liberal Federation (until 1936) and the Liberal Party Organisation (thereafter) had to be taken seriously by its leaders. Consequently, the author has paid close attention to the ways in which the Liberal Party at large shaped the context in which policy development took place, and has examined the records of regional and local Liberal organizations where it has seemed profitable to do so.

The Liberal Party after 1929

Before proceeding to the main body of the thesis, it seems appropriate to ground the analysis in some general comments about the character of the twentieth-century Liberal Party, its place in the British political system, its variegated intellectual heritage, and its engagement with economic ideas. The rest of this introduction explores each of these subjects in turn.

The Liberal Party as it existed in the middle decades of the twentieth century was a shadow of its former self, with dwindling parliamentary representation and little realistic prospect of returning to major party status. Tensions between Asquithians and Lloyd Georgeites, and the 1931 secession of Sir John Simon's Liberal Nationals, damaged the party's cohesion in the inter-war period, and ambitious MPs and activists continued to defect to both the larger parties in later years. Nevertheless, the Liberal Party remained an independent political institution with its own identity, its own internal discourse, and its own sense of purpose. It maintained the trappings of a national party inside and outside Parliament, with a London headquarters, annual assemblies, and a large

[12] Ewen Green and Duncan Tanner, 'Introduction' to eid. (eds.), *Strange Survival*, 1-33, at 11.
[13] Maurice Cowling, *The Impact of Labour, 1920-1924: The Beginning of Modern British Politics* (Cambridge, 1971), 3.

network of constituency associations, and probably had more than 250,000 members at the beginning and end of our period, if we include its women's and youth organizations. Indeed, even at its nadir in the early 1950s, the Liberal Party still had more members, ran more candidates, returned more MPs, and won more votes than the Communist Party of Great Britain ever managed.[14] Labour and Conservative leaders, of course, routinely mocked the Liberals' claims to major-party status, but they recognized that the party retained an electoral following, and included the party without hesitation in the coalitions formed in 1931 and 1940.

The Liberal Party's organizational structure was a holdover from the late Victorian period, especially before it was reformed in 1936; in the terms coined by Maurice Duverger, it was essentially a 'cadre' party with a 'mass' wing.[15] The party's parliamentary leaders historically controlled both policy and strategy, and oversaw organization and finances through the Liberal Central Association, which was run by the chief whip. The National Liberal Federation had emerged as a representative body during the Gladstonian era, but its organizational capacity waxed and waned with the party's fortunes in the country, and it faced an ongoing battle to assert the authority of its policy resolutions. The new party constitution adopted in 1936 introduced a more coherent and democratic structure, creating a Liberal Party Organisation in place of the NLF and granting the annual Assembly the right to determine official policy, but the Liberal Parliamentary Party remained essentially autonomous. In practice, successive Liberal leaders proved able to define the structures through which policy ideas were developed throughout the period in question, whether ad hoc meetings between senior Liberals and outside experts (in the late 1920s and 1930s), a shadow cabinet (known as the Liberal Party Committee in the 1940s and 1950s), or policy panels on which the leader could draw; they were also well-placed to determine the content of election

[14] National membership figures for the Liberal Party do not exist before the 1950s, but the Women's National Liberal Federation (later the Women's Liberal Federation) claimed 100,000 members in 1928, and the National League of Young Liberals 30,000 in the following year, so 250,000 seems a plausible overall estimate for the start of our period. Liberal Party membership reached a nadir of around 76,000 in 1953, before climbing to 351,000 in 1963. The CPGB's membership, by contrast, peaked at 56,000 in 1942. See Pat Thane, 'Women, liberalism and citizenship, 1918-1930', in Eugenio F. Biagini (ed.), *Citizenship and Community: Liberals, radicals, and collective identities in the British Isles, 1865-1931* (Cambridge, 1996), 66-92, at 68; *The Liberal Year Book for 1929* (1929), 7; *LN*, 19 Mar. 1964, 1; and Andrew Thorpe, 'The membership of the Communist Party of Great Britain, 1920-1945', *HJ*, 43 (2000), 777-800, at 781.

[15] Maurice Duverger, *Political Parties: Their Organization and Activity in the Modern State* (1954). For a recent overview of the development of Liberal organization, see Sarah Whitehead and Duncan Brack, 'Party organisation from 1859', in Ingham and Brack (eds.), *Peace, Reform and Liberation*, 373-86.

manifestos. One consequence was that Liberal policy-making was a male-dominated exercise, with only a handful of women – most notably, Violet Bonham Carter and Megan Lloyd George – enjoying direct influence on policy at elite level. The Women's Liberal Federation was a significant element of the mass party, and was taken seriously by the party leadership, but it tended to focus its energies quite narrowly on matters which it saw as female issues: women's rights, public health, social welfare – including family allowances – and the cost of living.[16]

Until the Liberal revival began in earnest in the late 1950s, the Liberal Party in the country continued to resemble in microcosm the party of the Edwardian period. The Liberal business elite included both traditionalist free traders, whose interests mostly lay in the City of London and the export industries, and progressive industrialists such as the Cadbury and Rowntree families, whose philanthropy did much to sustain the Liberal press.[17] The party also drew significant support from the London professional classes, including lawyers and retired civil servants and diplomats, and from the universities, where the Liberal clubs – especially at Oxford and Cambridge – remained valuable recruiting-grounds for the party. In the constituencies, Liberal Associations were generally still dominated by middle- and lower-middle-class Nonconformists, with solicitors, small traders, and farmers bulking largest, though of course there were significant regional variations.[18] Party organization tended to be weakest in the inner cities (with the notable exception of London's East End), in mining areas, and in those parts of rural England where Labour had broken through; conversely, it was usually strongest on the Celtic fringe and in the heavily Nonconformist textile towns of the Pennines, which together accounted for all six of the party's MPs during the mid-1950s. This pattern changed as the Liberal revival gathered pace under Grimond, with the party's

[16] Thane, 'Women', 81-92; Krista Cowman, *Women in British Politics, c. 1689-1979* (Basingstoke, 2010), 132-4.
[17] G.R. Searle, 'The Edwardian Liberal Party and business', *EHR*, 98 (1983), 28-60; Paul Gliddon, 'The political importance of provincial newspapers, 1903-1945: The Rowntrees and the Liberal press', *TCBH*, 14 (2003), 24-42.
[18] A.H. Birch, *Small-Town Politics: A Study of Political Life in Glossop* (Oxford, 1959), 53-60; Margaret Stacey, *Tradition and Change: A Study of Banbury* (1960); Garry Tregidga, 'The Liberal Party in Cornwall, 1918-1939' (unpublished University of Exeter M.Phil. thesis, 1991), 24-31.

new members – and its growing local government strength – coming disproportionately from south-east England, suburban constituencies, and seaside towns.[19]

The Liberal Party in the party system

The Liberal Party's political development during the mid-twentieth century can only be understood in the context of its broader environment. '[T]he Liberal Party exists', Vernon Bogdanor wrote in 1983, 'in a political and electoral environment which is alien to it.'[20] If this was true in the 1980s, it was almost certainly truer in the middle decades of the twentieth century, when the party was reduced to a handful of seats in the Commons. The *electoral* problem was Britain's first-past-the-post system, which encouraged political polarization; the *political* problem was the strength of support for the Conservative and Labour parties which emerged after 1918, based primarily on class identities and the ways in which these parties managed to construct or identify with them. As Ross McKibbin has argued, class became 'the dominant variable' in political alignments in this period, steadily squeezing out the influence of religion, region and nationality:

> What primarily determined political allegiance was ideological-sociological identification: a sense among voters that their party stood for the world as they understood it and wished it to be.[21]

Many of the Liberal Party's difficulties in the period considered here stemmed from the basic fact of its third-party status and its lack of a distinct class appeal.

In the present author's view, there was nothing very inevitable about the Conservative-Labour duopoly which emerged after the First World War, or the psephological dominance of class. Once it was established, however, this duopoly was exceptionally difficult for the Liberal Party to puncture, as the experience of the 1929 election showed; and the progressive nationalization of electoral choice, driven partly by the growing influence of radio and television and partly by

[19] Egan, 'Grass-roots Organisation', 241-323.
[20] Vernon Bogdanor, 'Conclusion: The Liberal Party, the Alliance, and the future', in id. (ed.), *Liberal Party Politics*, 275-84, at 275.
[21] McKibbin, *Parties and People*, 185, 193.

Labour's expansion, made the Liberals' task even harder.[22] By the early post-war period, the Liberal Party was only really competitive in about a dozen seats. It is surely no coincidence that Liberal revival finally began at a time when class-based identities were starting to weaken and election swings were starting to become less uniform.

The structure of Britain's party system has significant implications for how Liberal economic policy is analysed. Liberal politicians' attitudes to the economy could shape the party's behaviour and – by extension – the terms of political debate, but taken by itself Liberal policy was unlikely to impact on electoral outcomes except at the margins. Neither Liberal decline nor Liberal revival can really be attributed to changes in the quality or appropriateness of the party's economic proposals.

Why, then – we might ask – did the Liberals continue to develop economic policies in these years? Most parties develop policies to improve their prospects of gaining power and to inform their exercise of it, but neither of these motivations can really be applied to a party of near-perpetual opposition. In this context, Andrew Gamble has noted, '[t]he formulation of policy proceeds in a void; it is all theory and no practice except when Liberal ideas are picked up and implemented by another party.'[23] Liberals nevertheless persisted with policy formulation, partly out of habit and partly because this was what parties did. As Jo Grimond saw it,

> The main task of a party must be to say what its aim is, how it sees politics developing, what will happen if a voter votes Liberal.[24]

Liberals naturally hoped that a cogent economic policy would win the party more votes and seats, and facilitate an electoral recovery. However, policy also fulfilled other functions, as Duncan Brack has noted.[25] It gave Liberal MPs something to say in Parliament, provided material for candidates' speeches, and enabled party activists to believe that Liberal principles remained relevant to contemporary problems. A detailed policy programme could also persuade press commentators and other opinion-formers to take the Liberals more seriously than they would

[22] This point has been well made by Garry Tregidga: Garry Tregidga, *The Liberal Party in South-West England Since 1918: Political Decline, Dormancy and Rebirth* (Exeter, 2000), 206-8.
[23] Gamble, 'Liberals and the economy', 191.
[24] *The Guardian*, 2 Sept. 1971, 12.
[25] Duncan Brack, 'Introduction', in *Liberal Party General Election Manifestos, 1900-1997*, ed. Iain Dale (2000) (hereafter *Liberal Manifestos*), 1-19, at 16-17.

otherwise have done. In other words, Liberal policy-making helped maintain the party's identity as a national party, and gave concrete expression to the party's sense of purpose. If a distinctive and credible policy was not a sufficient condition for Liberal survival and revival, it probably was a necessary one.

Political and economic ideas

British Liberals' ongoing commitment to policy-making reflected the extent to which Liberals saw themselves as a party of ideas. Liberal ideas did not derive from a fixed ideology, as Marxian socialism was often believed to do, but nor was Liberalism wholly open-ended; rather, Liberals tended to define their creed historically. As Michael Bentley has argued in his study of *The Liberal Mind*,

> Liberalism always involved, and sometimes amounted to, an implicit language about the past and how the present had grown out of it.[26]

Victorian and Edwardian Liberalism bequeathed principles, currents of thought, and rhetorical tropes to the latter-day party. Most obviously, the conception of Liberalism as a progressive creed with an emancipatory mission, extending the bounds of 'freedom' and 'citizenship' to the whole community, remained powerful throughout our period. So, too, did the political commitments which had distinguished Liberalism in Gladstone's time, such as internationalism, civil libertarianism, opposition to sectional interests, and concern for the welfare of the masses. Even when Liberals understood these commitments in different ways, they remained the common ideological property of the whole party.

Analysis of the different strands of Liberal thought has usually turned, as we have already seen, on a binary distinction between classical and social varieties of Liberalism. In many respects, this is a useful distinction, not least because so many Liberals and Liberal Democrats have

[26] Michael Bentley, *The Liberal Mind, 1914-1929* (Cambridge, 1977), 14.

understood their politics in these terms since at least the 1950s.[27] Used casually, however, it runs the risk of collapsing diverse economic and political debates into a single frame, depending on which Liberals were on the right or left of a particular argument. If the historian is to avoid this problem, he or she needs to *historicize* the concepts of classical and social Liberalism, recognizing that they have been constructed and reconstructed over time; and also to *disaggregate* them, recognizing that they comprise amalgams of ideological differences, diverse modes of thinking about the economy and the role of the state, and more specific policy commitments.

The ideological element in the classical-social Liberal distinction has been analysed at length by other scholars, and is relatively widely understood.[28] In broad terms, it seems fair to identify classical Liberalism with liberal political thought as it developed up to John Stuart Mill, with its emphasis on 'negative' liberties, and social Liberalism with the thought of the later Mill, T.H. Green, and the New Liberals, who added the concept of 'positive' freedom. In the former vision, the state's role was mainly one of upholding order and securing the civil and political rights of its citizens; in the latter vision, the state was accorded the task of facilitating and promoting citizens' self-development. Even at an ideological level, however, the distinction is not always easy to apply, and some characteristically Liberal ideas, such as the distributist commitment to spreading property-ownership, cannot be accommodated easily within it.

Where economic theory is concerned, on the other hand, the juxtaposition of classical and social Liberalism is much too blunt and simplistic for serious historical analysis. This thesis therefore develops a more nuanced analytical framework, which distinguishes four main currents of economic thought in the twentieth-century Liberal Party: the classical economic tradition carried over from the nineteenth century, and the Georgist, New Liberal, and constructive traditions which developed in the late Victorian and Edwardian periods. These traditions are explored in detail in chapter 1. Keynesianism might be considered a fifth current of economic thought, which could be synthesized with other Liberal traditions in a variety of ways, as later chapters will show.

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[27] See especially Hickson (ed.), *Political Thought*, *passim*.
[28] Greenleaf, *British Political Tradition*, II, part two; Michael Freeden, *Ideologies and Political Theory: A Conceptual Approach* (Oxford, 1996), part two.

The transmission of economic ideas

In some respects, the economic traditions which existed in the Liberal Party constrained its economic thought, and directed Liberal policy along particular channels. At the same time, the traditions themselves were mutable, and always left some scope for policy change. New policy departures could result from perhaps five kinds of developments:

> new economic knowledge (for instance, the Keynesian theoretical revolution);
> new developments in political thought (for instance, the New Liberalism);
> new economic circumstances (for instance, mass unemployment);
> new political circumstances (for instance, a poor election result);
> and a changing balance of forces or factions within the party.

All of these sources of policy change may be seen at work in this thesis, and it is worth emphasizing that the proximate causes of new departures could be quite prosaic: for instance, even the location of a party Assembly could affect the character of the delegates attending and hence of the policies that emerged. In the course of time, however, we would expect ideological developments and new economic knowledge to have much greater impact. John Maynard Keynes was convinced that, in the long run, 'the world is ruled by little else'.[29]

For a thesis focussed on economic policy-making, the transmission of economic ideas from theory into policy is a particularly significant issue. Of course, it is tempting for the historian to posit a direct line of transmission, not least because the years covered in this thesis coincide almost exactly with that 'brief period, between the 1930s and the early 1960s, when academic economists commanded attention and exercised unparalleled influence on policy'.[30] Nevertheless, this 'rationalist fallacy' is as fallacious in respect of a political party as it is in relation to policy-making in Whitehall.[31] Liberal policy-making was messier and more complicated than this, for four

[29] John Maynard Keynes, *The General Theory of Employment Interest and Money* (1936), 383.
[30] Roger Middleton, *Charlatans or Saviours? Economists and the British economy from Marshall to Meade* (Cheltenham, 1998), 103.
[31] Ibid., 4.

reasons. Firstly, and most fundamentally, economic ideas are always mediated through interests, institutions and ideologies.[32] As Duncan Tanner has observed of the Labour Party:

> The structure of the party, and the nature of institutional power at the centre and in the constituencies, may determine what issues are put forward, what issues are selected to dominate the party appeal, and what ideas are put forward as policy in office.[33]

In similar vein, Terence Hutchison has highlighted politicians' tendency to 'select from and distort' economists' ideas 'and infuse them with their own political purposes'.[34]

A second reason for messiness concerns politicians' own intellectual equipment, and their attitudes to economic expertise. Liberal politicians were generally ill-equipped to engage directly with economic theory, as indeed was the case for most politicians, and perhaps still is. Only five of the ninety-nine Liberal MPs elected during our period held economics degrees, of whom four (including Jo Grimond) were Oxford PPEists.[35] Beveridge, as a professional economist, might be added to this list, and Keynes and Walter Layton sat as Liberals in the House of Lords, but these men had many other interests besides Liberal policy. In any case, as George Peden has noted, economic theory has never been the only form of economic knowledge which politicians value.[36] Politicians generally want usable policies which will achieve the desired effects, and so find practical economic experience and 'informed opinion' at least as valuable as academic theory. In line with Peden's argument, the Liberal politicians featured in this thesis paid close attention to the policy views expressed in *The Economist*, the bank journals and the broadsheet newspapers, and took advice from economic and financial journalists like Graham Hutton and Christopher Layton as well as from academics. The views of Liberal-supporting businessmen, financiers, and (less commonly) trade unionists were also taken seriously in their fields of expertise.

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[32] Andrew Gamble, 'Ideas and interests in British economic policy', *CBH*, 10 (1996), 1-21.
[33] Duncan Tanner, *Political Change and the Labour Party, 1900-1918* (Cambridge, 1990), 12.
[34] T.W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge, 1978), 284.
[35] The other PPEists were Richard Acland, Frank Byers and Mark Bonham Carter; the fifth economics graduate was R.T. Evans, MP for Carmarthen 1931-5, who had lectured in economics and political science at the University College of South Wales. Sir Percy Harris gained some economics training at Cambridge in the 1890s, as part of the History tripos, and found that Alfred Marshall's *Principles of Political Economy* 'stood [him] in good stead in after years': Sir Percy Harris, *Forty Years in and out of Parliament* (1947), 16.
[36] G.C. Peden, 'Economic knowledge and the state in modern Britain', in S.J.D. Green and R.C. Whiting (eds.), *The Boundaries of the State in Modern Britain* (Cambridge, 1996), 170-87.

A third reason for messiness was the attitudes of the economists themselves. Just as serious as the 'rationalist fallacy', perhaps, is the temptation to invest economists' political involvement with greater significance than it merits. As the impressive roster of economists who advised or supported the Liberal Party suggests, many economists still regarded the party as a congenial political home in the mid-twentieth century, partly because of its progressive, middle-class culture and partly because – as Gamble notes – it was 'the only consistent defender of the importance of free markets' until the Conservatives moved away from protectionism in the 1950s and 1960s.[37] Alfred Marshall had enjoined economists to have 'cool heads but warm hearts', and public-spiritedness propelled many into the public sphere, where they found policy work an interesting complement to academic study.[38] However, economists also faced countervailing pressures, including the fear that partisan activity would undermine their professional reputations and the suspicion that their energies would be better spent elsewhere. This 'opportunity cost' consideration became more significant as the Liberal Party declined, non-party groups and think-tanks proliferated, and the British government became more receptive to economists' advice. After 1929, the cluster of economists who had advised the Liberal Industrial Inquiry disintegrated, and Keynes found he could achieve greater influence as a freelance (though he later sat as a Liberal in the Lords). In the 1930s the Liberals had nothing to rival the New Fabian Research Bureau, where Evan Durbin, Hugh Gaitskell, and other young socialist economists developed new policies for Labour, and when William Beveridge and Roy Harrod sought careers as Liberal politicians in 1944-5 it was largely because they felt rejected by Whitehall.[39] Frank Paish and Alan Peacock, who advised Clement Davies and Jo Grimond after the war, were more committed to the party, but the overall impression is one of economists drifting in and out of Liberal politics according to their own interest in giving advice and politicians' equally intermittent interest in receiving it. Consequently, it was left to the politicians, rather than the economists, to turn economic ideas into a workable policy programme.

[37] Gamble, 'Liberals and the economy', 200.
[38] Alfred Marshall, *The Present Position of Economics* (1885), 57.
[39] On the New Fabian economists, see Durbin, *New Jerusalems*.

Finally, the generational element in the transmission of economic ideas must be recognized. Keynes, of course, emphasized this at the end of the *General Theory*, observing that 'in the field of economic and political philosophy' few men and women 'are influenced by new theories after they are twenty-five or thirty years of age'; indeed, he thought this partly accounted for the time-lag in the influence of ideas.[40] As Paul Samuelson later noted, this was strikingly true of economists' reaction to Keynes' *magnum opus*:

> The *General Theory* caught most economists under the age of thirty-five with the unexpected virulence of a disease… Economists beyond fifty turned out to be quite immune to the ailment.[41]

If economists become set in their intellectual ways in early adulthood, and struggle to adjust their working models to accommodate new knowledge, economic laymen are likely to find this process even more difficult. One of the advantages of studying Liberal policy over thirty-five years or so is the opportunity it gives to trace intellectual changes among politicians and activists across two or three generations, and to see how Keynesian ideas steadily became embedded in the Liberal Party's collective common sense.

Keynesianism and neoliberalism

The economic traditions which the Liberal Party carried forward from the Victorian and Edwardian periods are defined and analysed in the next chapter. At this point, however, it is worth interrogating the concepts of Keynesianism and neoliberalism a little further, both because their meanings have been widely debated by scholars, and because one major theme of this thesis is the extent to which Liberals managed to hold these apparently antagonistic discourses together.

Keynesianism is perhaps the most contested concept in modern economics, straddling as it does the worlds of theory and policy and vulnerable as it is to caricature and distortion by both supporters and critics. For the historian of economic thought, the difficulty stems partly from the

[40] Keynes, *General Theory*, 383-4.
[41] Paul Samuelson, 'Lord Keynes and the General Theory', *Econometrica*, 14 (1946), 187-200, at 187.

way in which Keynes' own ideas developed over time as he sought a robust theoretical basis for the discretionary macroeconomic policies he had long favoured, and partly from the fact that 'Keynesianism' began to take on a life of its own at a very early stage.[42] From a theoretical perspective, it is tempting to take the *General Theory* as the benchmark of mature Keynesian economics, but this is far from unproblematic, since Keynes' later works have done much to shape interpretations of his magnum opus. Broadly speaking, mainstream Keynesian economists have used Keynes' 1937 articles on 'How to avoid a slump' and his 1940 treatise *How to Pay for the War* to justify a hydraulic interpretation of the *General Theory*, on the lines suggested by John Hicks' famous IS-LM diagram, which modelled the relationship between interest rates and real output.[43] By contrast, post-Keynesian economists – including Keynes' Cambridge colleagues Joan Robinson and Richard Kahn – have placed much greater emphasis on a 1937 article in the *Quarterly Journal of Economics*, in which Keynes suggested that the problem of uncertainty and the difficulty of forming accurate expectations in a money economy formed the kernel of his thesis.[44]

In the field of policy, the historian faces the rather different problem of judging how important the *General Theory* actually was. For one thing, Keynes had been a prominent advocate of loan-financed public works for more than a decade before 1936, and most of his fellow economists seem to have supported this policy during the depression on fairly conventional neoclassical grounds.[45] For another, the adoption of demand-management policies in Britain during the 1940s was shaped by a range of other influences besides Keynesian theory, including the development of national income accounting by Colin Clark and Richard Stone, the Treasury's receptiveness to new methods of inflation control in wartime, and the relatively stable international

[42] Peter Clarke, *The Keynesian Revolution in the Making, 1924-1936* (Oxford, 1988); Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (1968).
[43] Don Patinkin, 'In defense of IS-LM', *Banca Nazionale del Lavoro Quarterly Review*, 43 (1990), 119-34. The IS-LM model first appeared in John Hicks, 'Mr. Keynes and the classics – A suggested interpretation', *Econometrica*, 5 (1937), 147-59.
[44] John Maynard Keynes, 'The general theory of employment', *Quarterly Journal of Economics*, 51 (1937), 209-23; Clarke, *Keynesian Revolution*, 302-4; Luigi Pasinetti, *Keynes and the Cambridge Keynesians: A 'Revolution in Economics' to be Accomplished* (Cambridge, 2007).
[45] Hutchison, *On Revolutions*, 121-74.

environment provided by the Bretton Woods system.[46] The significance of the *General Theory* therefore lay not so much in introducing new policy ideas, as in providing a developed theoretical rationale for abandoning the classical assumption that the economy had a long-run tendency to full-employment equilibrium. Hitherto, public works had largely been advocated as a prudential means of reducing unemployment in a world of market imperfections; thereafter, public investment and other discretionary measures came to be seen as the solution to the core economic problem of demand deficiency.

A study of the Liberal Party's developing economic thought must attend to the rise of Keynesianism as a political discourse as well as to the influence of Keynes' theoretical ideas. It therefore makes sense to define the term 'Keynesianism' relatively loosely here, to refer not only to the particular analysis of the *General Theory* but also to the broader policy approach with which Keynes' name became associated – that is, the manipulation of aggregate demand to achieve full employment or a favourable trade-off between unemployment and inflation. However, we may add nuance to the discussion by distinguishing between different varieties of Keynesianism. The policies which Keynes advocated before he had formed his theory of effective demand, which lacked the theoretical grounding of the *General Theory* and were mainly conceived as short-term measures, may be termed 'proto-Keynesian'; the Keynesianism of IS-LM and the 'neoclassical synthesis', which generally focussed on the use of fiscal and monetary policy to manage demand, is termed 'liberal Keynesianism'; and the more radical agenda which Keynes proposed in the 1930s and was later taken up by the post-Keynesians, including control of private investment, trade and capital flows and wages, is termed 'interventionist Keynesianism'. Roughly speaking, the distinction between liberal and interventionist Keynesianism corresponds to the difference between the 1944 White Paper on *Employment Policy* and Beveridge's private report on *Full Employment in a Free Society*.[47]

'Liberal Keynesianism' features very prominently in this thesis, both because the 'neoclassical synthesis' of demand management with neoclassical microeconomics was the

[46] Jim Tomlinson, *Problems of British Economic Policy 1870-1945* (1981), 120-34.
[47] For 'liberal Keynesianism', see Booth, *British Economic Policy*, 107-21, and Scott Newton and Dilwyn Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain since 1900* (1988), 120-32.

dominant economic paradigm in post-war Britain and because its non-interventionist bent fitted well with the Liberal Party's historic commitment to free markets. Nevertheless, it is worth noting here that some of its exponents were more strictly Keynesian than others. Roy Harrod and James Meade, for instance, followed Keynes in regarding fiscal policy as the main tool of demand management, but Meade differed from Keynes in believing that policy should act directly on consumption as well as investment.[48] Treasury officials and free-market economists such as Lionel Robbins, meanwhile, regarded an active monetary policy as a useful means of curbing excess demand, despite Keynes' frequent strictures to the contrary.[49] The liberal demand-management policies which were pursued in Britain after the Second World War, therefore, were much more 'Keynesian' in their analytical focus on influencing aggregate demand than in the methods by which they sought to achieve this. Indeed, as Jim Tomlinson has noted, the buoyancy of the world economy in the post-war period meant that the question of running deficits to maintain full employment did not have to be confronted in practice until the 1970s.[50]

Neoliberalism is a problematic concept for a different reason. In the modern world, the term is widely associated with the economic policies of the Thatcher and Reagan administrations, the 'Washington Consensus', and the activities of free-market think-tanks such as the Institute of Economic Affairs and the Manhattan Institute. Like Keynesianism, however, neoliberalism must be set in historical time and its different forms carefully delineated. As Philip Mirowski and Dieter Plehwe have recently argued, neoliberalism is best understood as a 'thought collective', emerging in diverse national contexts in the 1930s and 1940s and centred on the Mont Pèlerin Society, which has become increasingly cohesive and ambitious as its political influence has grown.[51]

In its early days, Ben Jackson has shown, neoliberalism was a broad church, defined by its exponents' opposition to strong forms of socialist planning, rather than 'a fully-formed, coherent

[48] Booth, *British Economic Policy*, 93.
[49] Clarke, *Keynesian Revolution*, 322-3.
[50] J.D. Tomlinson, 'A "Keynesian revolution" in economic policy-making?', *Economic History Review*, second series, 37 (1984), 258-62.
[51] Dieter Plehwe, 'Introduction', and Philip Mirowski, 'Postscript: Defining neoliberalism', in Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass., 2009), 1-42, 417-55.

and "total" critique of all forms of state intervention in the market'.[52] Some early neoliberals, indeed, were quite willing to support discretionary economic management, on broadly Keynesian lines, and limited forms of state social welfare provision in order to legitimate the capitalist system. This was notably true of Walter Lippmann, the American journalist who inspired a 1938 colloquium at which the neoliberal thought collective first took shape, but it was also true of some of Britain's leading liberal economists, such as Lionel Robbins, in the period after the Second World War.[53] The Liberal Party engaged closely with this broad and moderate variety of neoliberalism during the 1930s, 1940s and 1950s, even as it supported Keynesian demand management. Only during the late 1950s and early 1960s, as neoliberals' hostility to state intervention hardened and the Liberal Party moved leftwards under Jo Grimond's leadership, did the two groups finally dissociate themselves from each other.

The shape of the argument

Having established the assumptions and definitions which undergird this thesis, we may proceed to the analysis itself. Chapter 1 sets the scene for later chapters by distinguishing the four main Liberal economic traditions, and tracing their development up to 1929. The rest of the thesis is structured roughly chronologically, reflecting 'the unavoidably contingent nature of economic policy' and the extent to which its development has always been tied to specific circumstances.[54] After all, if national economic development is path-dependent, then the economic policies which parties canvass are bound to be shaped by the path taken. Within each time period, however, the Liberals' attitudes to key economic questions such as free trade, nationalization, planning, and economic management receive more thematic treatment.

[52] Ben Jackson, 'At the origins of neo-liberalism: The free economy and the strong state, 1930-1947', *HJ*, 53 (2010), 129-51, at 150.
[53] Ibid., 139-49; Keith Tribe, 'Liberalism and neoliberalism in Britain, 1930-1960', in Mirowski and Plehwe (eds.), *Road*, 68-97.
[54] Jim Tomlinson, *Monetarism: Is There an Alternative? Non-Monetarist Strategies for the Economy* (Oxford, 1986), 157.

Across the middle decades of the twentieth century, we see a significant shift in the Liberal Party's understanding of the economy, from a predominantly classical analysis to a broadly Keynesian one, with a concomitant downgrading of the party's emphasis on free trade and free markets. In a sense, then, the party's economic analysis came belatedly into line with its turn to social Liberalism in the realm of political thought during the late Victorian and Edwardian periods. However, this was neither a complete transition, nor a remotely linear one. Rather, we see successive Liberal leaders engaging in an ongoing task of reconfiguring the party's economic inheritance in the light of new economic knowledge and changing situations. At times, the Liberal Party turned leftward, and urged an assault on poverty and unemployment; at other times, it proved more receptive to neoliberal arguments against state intervention. In other words, the Liberal Party's ambivalence towards the state was not resolved by the advent of Keynesian economics; it simply took on new expression.

1. Economic inheritances

British Liberalism is first and foremost a historical creed. It has no shortage of great texts, from John Locke's *Two Treatises on Government* to John Stuart Mill's *On Liberty*, which provide a philosophical framework for Liberal political activity. Yet the purchase of these texts within the Liberal Party has derived in large part from their contribution to the long Whig and Liberal struggle to control executive power and challenge privilege, which can be dated back at least to 1688. Every generation of Liberals stands in some sense in the shadow of the party's past, its choices informed by the commitments into which its predecessors have entered.

The place of economic ideas in the Liberal tradition can be viewed in different ways. For the late historian and Liberal Democrat peer Conrad Russell, British Liberalism was a political movement to which economics was fundamentally extraneous. Partly because Liberalism antedated the discipline of economics,

> the party does not have an economic philosophy. It has brought to economics a mixture of pragmatism and a series of philosophical convictions such as attachment to equal competition and support for the underdog, whose origins in party thinking lie well outside economics.[1]

It is certainly true that Liberals have generally thought about economic policy in terms of a broader political vision, and as a means of meeting political ends. However, Russell's statement neglects the extent to which economic ideas have embedded themselves in the Liberal Party's identity. If the Liberal Party has lacked an economic philosophy, it has nevertheless played host to several economic traditions which have been regarded as having a distinctively Liberal pedigree.

During the nineteenth century, the Liberal Party's economic horizons were dominated by the classical tradition. However, the Gladstonian identification of Liberal politics with classical economics never went unchallenged, and by the Edwardian period at least three alternative approaches to economic policy had emerged within the party: Henry George's single tax, the ethical and communitarian approach of the New Liberals, and the 'constructive' proposals of

[1] Russell, *Intelligent Person's Guide to Liberalism*, 57.

centrist Liberals such as Sir John Brunner. The present chapter explores the economic inheritance of inter-war Liberals by sketching the development of these four traditions up to the First World War, and then examining how they structured Liberal policy debate in the 1920s.

Two preliminary points should be noted. Firstly, the terms 'tradition' and 'currents of thought' are used deliberately (and interchangeably). Many Liberal politicians were influenced by two or more of them, and they do not map in any simple way onto the party's factional divisions. Secondly, although each of these traditions assumed a distinctive form within the Liberal Party, most of them originated outside it and were shared to varying degrees by members of other parties. The classical economists were predominantly Whigs or Radicals, but not uniformly so, and by the late nineteenth century their prescriptions for domestic policy were accepted as readily by Conservatives as by Liberals. Similarly, Henry George's ideas were framed in an American context, and influenced British socialists as well as Liberals; J.A. Hobson, the New Liberals' most original economist, was more of a critical friend of the Liberal Party than a committed foot-soldier, and defected to Labour after 1918; and the constructive tradition by its very nature tended to elevate expert judgment over party principles. Since none of these traditions was intrinsically and uniquely Liberal, the influence of each one within the Liberal Party depended not only on its economic merits, but also on how effectively its advocates portrayed it as an expression of Liberal principles.

Classical economics

The tradition of classical political economy which provided the starting-point for Liberal economic analysis in the early twentieth century can be traced directly to the work of the classical economists: Adam Smith in the 1760s and 1770s, David Ricardo and his contemporaries – Thomas Malthus, Jean-Baptiste Say, James Mill, Robert Torrens and Nassau Senior – a generation later, and John Stuart Mill, J.E. Cairnes and Henry Fawcett in the Victorian era.[2] The classical economists were not a homogeneous group, but there were significant interconnections between

[2] D.P. O'Brien, *The Classical Economists* (Oxford, 1975), 2-5.

them, and they shared a belief that the market had 'an inherent tendency towards self-adjustment', which rested, of course, on assumptions of perfect knowledge and accurate expectations.[3]

During the twentieth century, the classical economists developed a reputation as champions of *laissez-faire*. This was a label which many would have disclaimed, and indeed it contains a large element of caricature. As Lionel Robbins pointed out in the 1950s, the classical vision of a market order presupposed a strong framework of law, which would underpin property rights, ensure a stable business environment, and prevent the development of monopolies.[4] Most of the classical economists were also willing to recognize a role for the state in the provision of public goods such as roads, harbours, public health, elementary education, and defence.[5]

Nevertheless, the classical economists did regard the *laissez-faire* principle as a sound guide to policy in most cases. Impressed alike by the effectiveness of the market as an allocative system and by the propensity for government to be captured by vested interests, the classical economists tended to argue that government could best contribute to economic welfare by removing obstacles to the efficient operation of markets. This was most obviously true in the case of international trade, where protectionist measures such as tariffs, quotas, and subsidies seemed to prevent nations from realizing the benefits of specialization. Smith's case for free trade in terms of absolute advantage was strengthened by Ricardo's doctrine of comparative advantage and John Stuart Mill's theory of reciprocal demand.[6] Within the domestic economy, too, preferential treatment of particular industries seemed likely to retard growth by diverting resources away from their most productive uses.

The classical economists were similarly opposed to government interference with the wage bargain, at least for adult workers. This reflected a theory of wages, profits and rents which grew out of Smith's *Wealth of Nations* and received its most distinctive form in Ricardo's *Principles of Political Economy*, although later classical economists challenged important aspects of the Ricardian model. For the short run, Smith and Ricardo suggested that wages depended on the size

[3] Hutchison, *On Revolutions*, 125.
[4] Lionel Robbins, *The Theory of Economic Policy in English Classical Political Economy* (1952), lectures II, III and VI.
[5] O'Brien, *Classical Economists*, 272-7.
[6] Ibid., 170-205.

of the wage fund – that is, the stock of previously accumulated capital available for paying wages – and the labour supply. For the long run, Ricardo drew on Malthus' theory of population to suggest that wages would tend to settle at subsistence level.[7] This did not necessarily rule out real wage increases, but it did suggest that such increases could only be sustained if population growth was restrained through delayed marriage or birth control.[8] It also suggested that attempts to fix wages above the market equilibrium, either by the state or by workers through trade unions, were likely to increase unemployment.[9] (Conversely, most classical economists were prepared to countenance trade-union activity to prevent employers holding wages *below* equilibrium level.[10])

The classical economists believed that the economic system itself, like factor and product markets, possessed strong self-equilibrating tendencies. This vision of the macroeconomy rested on three main theoretical claims, which Keynes would sharply criticize in his *General Theory*. Firstly, following Smith's lead, the classical economists believed that the interest rate adjusted automatically to keep saving and investment in balance.[11] Secondly, they assumed that demand was necessarily sufficient to maintain economic activity at full-employment level, a belief usually expressed in terms of Say's Law of Markets: that general over-production is impossible, because supply tends to create its own demand.[12] Thirdly, the classical economists denied or neglected the possibility of hoarding, and tended to accept a quantity theory of money. Together, these three doctrines suggested that there was no need for government to act to establish macroeconomic equilibrium. Indeed, government action was potentially counter-productive, because the creation of public debt was liable to reduce private investment, add to the burden of future taxation, and so on balance to depress economic activity.[13] Ricardo's famous doctrine of equivalence, which held that 'individuals wrote down the capitalized value of their income streams to allow for future payments

[7] Ibid., 111-7.
[8] Robbins, *Theory*, 73-9.
[9] Ibid., 103-4.
[10] O'Brien, *Classical Economists*, 284.
[11] Ibid., 33.
[12] As Roger Backhouse has pointed out, most classical economists except Ricardo recognized that this was a general tendency rather than an immutable law: Roger Backhouse, *A History of Modern Economic Analysis* (Oxford, 1985), 49-53.
[13] O'Brien, *Classical Economists*, 259-65.

of debt service taxes', was not widely supported, but all the classical economists shared his opposition to peacetime deficits.[14]

The Liberal Party and the classical tradition

The classical economists' attitude to the state was coloured by a suspicion that any government would succumb to the temptation to interfere with the economic system, to the detriment of the nation's ultimate interest, unless it was constrained from doing so by a framework of rules and institutions. This view was fundamentally congruent with the Whig Party's longstanding commitment to limited and accountable government. During the agitation against the Corn Laws it was radicals such as Richard Cobden and liberal Tories such as Sir Robert Peel who applied classical doctrines most confidently, but the realignment of British politics after 1846 brought Whigs, radicals and Peelites together, and William Gladstone's budgets in the 1850s and 1860s established free trade, balanced budgets, and low taxation as the distinctive political economy of the new Liberal Party.[15] Gladstone's commitment to abolishing indirect taxes, and his insistence that direct taxation should be proportional rather than progressive, were explicitly underpinned by Adam Smith's four canons of taxation. They also provided the basis for a significant popular appeal, by reducing the tax burden on the working classes and allowing as much wealth as possible to 'fructify in the pockets of the people'.[16]

Central to Gladstonian political economy was the discipline provided by the gold standard, first established in Britain in the eighteenth century and revived after 1815. For the classical economists, the gold standard served as an invaluable instrument of adjustment, which held exchange rates stable and imposed an apparently automatic link between price levels and interest rates.[17] The gold standard also helped safeguard government rectitude, since in conjunction with

[14] Ibid., 263.
[15] On the genesis of Gladstone's budgets, see H.C.G. Matthew, 'Disraeli, Gladstone, and the politics of mid-Victorian budgets', *HJ*, 22 (1979), 615-43.
[16] Eugenio F. Biagini, *Liberty, Retrenchment and Reform: Popular Liberalism in the Age of Gladstone, 1860-1880* (Cambridge, 1992), 84-138.
[17] Joseph Schumpeter, *History of Economic Analysis* (1954), 732.

the 1844 Bank Charter Act, which linked the note issue to the Bank of England's gold stock, it prevented deliberate inflation of the currency.[18] By the late nineteenth century, the gold standard was hallowed by its antiquity, and proposals for its replacement with a bimetallic standard were given short shrift by Liberal ministers. As Anthony Howe has argued, '[t]he gold standard, like free trade, seemed part of the social contract upon which the Victorian state was based, with advantages not lightly to be jeopardized to assuage farmers and faddists.'[19]

With the marginalist revolution of the 1870s, the economics profession in Britain moved beyond the classical models and developed a series of new justifications for state interference with the market. Classical political economy soon faced a similar challenge from Georgist, New Liberal, and constructive economic ideas, which would inform many of the Campbell-Bannerman and Asquith governments' reforms. Nevertheless, it is important to recognize the continuing purchase of classical ideas within the Liberal Party up to the First World War.

In the international sphere, the Edwardian Liberal Party remained rigorously orthodox, maintaining the gold standard and defending free trade against Unionist tariff reformers in the 1906 and 1910 general elections. Modern historians have rightly emphasized that Liberals valued free trade for ethical and political reasons – as a means of raising working-class living standards, protecting government from the influence of vested interests, and promoting peace – as much as for specifically economic ones.[20] This was perhaps especially true in the Edwardian period. Even so, free trade could never be a *purely* ethical commitment, since every restatement of the free-trade case, on the hustings or on the doorstep, implicitly reaffirmed the value of specialization and trade and highlighted the possibility that government intervention could harm the welfare of the masses.

In domestic policy, the Campbell-Bannerman and Asquith governments departed from Gladstonian orthodoxy in several important respects. In the field of taxation, the simplicity of Gladstone's income tax was lost when Asquith introduced a higher rate for unearned incomes in 1907; two years later Lloyd George added a super-tax, imposed land taxes, and raised Sir William

[18] Backhouse, *History*, 49-50; Robbins, *Theory*, 29-32.
[19] Anthony Howe, *Free Trade and Liberal England, 1846-1946* (Oxford, 1997), 203.
[20] Frank Trentmann, *Free Trade Nation: Consumption, Civil Society and Commerce in Modern Britain* (Oxford, 2008), 33-80; Biagini, *Liberty, Retrenchment and Reform*, 84-138.

Harcourt's death duties. Old age pensions, financed by these new levies, and contributory national health and unemployment insurance schemes marked the beginnings of a 'welfare state'. The sanctity of the wage bargain was disturbed by the Trade Boards Act 1909, which provided for the establishment of minimum wages in industries with 'sweated' or weakly unionized labour, and the Coal Mines (Minimum Wage) Act 1912 extended the trade boards model to the strike-plagued coal industry.[21] Finally, the Development Fund and Road Fund established in the 1909 budget provided funds for investment in land reclamation, afforestation, smallholdings, agricultural and scientific education, and roads, which could be timed to counteract the fluctuations of the trade cycle – a significant step towards discretionary macroeconomic management.[22]

In political terms, these social and economic reforms made an important contribution to the redefinition of Liberalism as a constructive force, willing to use state power and interfere with private property rights in the interests of the larger community. Nevertheless, there are good reasons for believing that many of these innovations were undertaken within an essentially classical intellectual framework. The introduction of progressive taxation could be justified – for instance, by Liberal MP Donald Maclean – by an elastic interpretation of Smith's canon of proportionality, and more generally by the need to show that social reforms could be financed without tariffs; consequently, the 1909 budget faced opposition only from the most traditionalist Liberals, many of them with business or City interests, who seem to have comprised less than one-fifth of the parliamentary party.[23] Unemployment and health insurance enjoyed similarly broad support, perhaps because they were not expected to interfere with the operation of demand and supply in any significant way.[24] Despite the introduction of trade boards, meanwhile, ministers strongly resisted Labour demands for a general minimum wage, which they believed would be 'in defiance of both economic laws and principles, and of experience' – as junior trade minister H.J.

[21] Sheila Blackburn, *A Fair Day's Wage for a Fair Day's Work? Sweated Labour and the Origins of Minimum Wage Legislation in Britain* (Aldershot, 2007), 91-117.
[22] José Harris, *Unemployment and Politics: A Study in English Social Policy, 1886-1914* (Oxford, 1972), 334-46.
[23] H.C. Deb., fifth series, 12, 2 Nov. 1909, 1720-5, at 1721; Bruce K. Murray, *The People's Budget 1909/10: Lloyd George and Liberal Politics* (Oxford, 1980), 178-81. Murray estimates the 'cave' of Liberal opponents of land taxes in 1909 at about thirty MPs, with another thirty believed to be sympathetic to the rebel cause.
[24] This point is suggested by H.V. Emy, *Liberals, Radicals and Social Politics, 1892-1914* (Cambridge, 1973), 157.

Tennant told the Commons in 1911.[25] H.H. Asquith also remained a fiscal hawk, insisting that loan financing should be restricted to those assets which would produce sufficient revenue to service and redeem the debts incurred. The Development Fund and Road Fund were therefore financed mainly by taxation.[26] If Liberals were increasingly willing to sanction departures from *laissez-faire* principles in the period before 1914, classical doctrines still seem to have provided the starting-point for the party's economic analysis – and the orthodox position against which new ideas were judged.

Georgism

Henry George has justifiably been described as 'the last of the classical economists'.[27] Like Karl Marx, he developed radical proposals for the elimination of poverty and injustice within a largely Ricardian framework, whilst criticizing Ricardo sharply at some points.[28] Unlike Marx, however, George believed that his proposals were broadly compatible with classical principles, and was an ardent free trader. Indeed, twentieth-century Georgists frequently argued that the taxation of land values would obviate the need for most other forms of state intervention.

In his 1879 book *Progress and Poverty*, which became the canonical text of the Georgist movement, George sought to explain the apparent paradox that wages were continuing to tend to subsistence level in spite of rapidly increasing productive capacity. His explanation focussed on the land problem. Inverting Ricardo's view of rent as the residual which remained after wages and profits were paid, George argued that high rents reduced the amount available to pay labour and capital; he also noted that, since the supply of land was fixed, economic progress and rising demand increased rents and brought windfall gains to landowners. As a solution, George proposed that the state should tax the site value of land, thereby encouraging its most productive use, making

[25] H.C. Deb., fifth series, 24, 26 Apr. 1911, 1919-24, at 1919.
[26] G.C. Peden, *The Treasury and British Public Policy, 1906-1959* (Oxford, 2000), 38-40.
[27] Terence M. Dwyer, 'Henry George's thought in relation to modern economics', *American Journal of Economics and Sociology*, 41 (1982), 363-73, at 366.
[28] Bernard Newton, 'The impact of Henry George on British economists, I', *American Journal of Economics and Sociology*, 30 (1971), 179-86, esp. 180-1.

it less attractive to speculators, and preventing landowners from benefiting from the values created by communal action. With the benefit of this new source of revenue, the state would be able to reduce or abolish existing taxes on industry and labour.

George was a San Francisco newspaper editor, not an academic, and his economics was largely self-taught. Partly for this reason, few professional economists took his ideas seriously, and those who did were generally critical: Alfred Marshall, for instance, argued that George had misunderstood the classical writers and greatly exaggerated the importance of rent as a cause of poverty.[29] Despite this academic hostility, however, *Progress and Poverty* had an enormous impact on both sides of the Atlantic. About 100,000 copies of *Progress and Poverty* had been sold in Britain by the end of 1883, and a series of speaking tours during the 1880s boosted George's profile further.[30]

George's political impact is best understood in the context of the much broader debate about land ownership which took place in late nineteenth-century Britain. The land question, long a concern of the British left, grew in political salience during the 1870s and 1880s as a result of the activities of English land reform groups and the agitation of Irish tenants and Scottish crofters for fair rent, free sale, and fixity of tenure.[31] The proposals canvassed by reformers, however, were diverse and even contradictory, ranging from the Cobdenite vision of 'free trade in land' to John Stuart Mill's call for taxation of the 'unearned increment' in rent and Alfred Russel Wallace's campaign for land nationalization. George's approach was different to all these schemes, though at first it was widely regarded as a variant of nationalization. Perhaps sensibly, Liberal ministers focussed first on resolving Irish and Scottish grievances, and later on expanding smallholdings, which seemed popular with agricultural labourers.[32]

During the 1880s George developed a devoted following in Britain, organized in the English and Scottish Leagues for the Taxation of Land Values, and by the end of the decade the single tax

[29] Bernard Newton, 'The impact of Henry George on British economists, II', *American Journal of Economics and Sociology*, 30 (1971), 317-27, at 320-2.
[30] Newton, 'Impact, I', 179.
[31] Roy Douglas, *Land, People and Politics: A History of the Land Question in the United Kingdom, 1878-1952* (1976), 21-95.
[32] Paul Readman, *Land and Nation in England: Patriotism, National Identity, and the Politics of Land, 1880-1914* (Woodbridge, Suffolk, 2008), 23-6.

was clearly identified as a radical Liberal cause, with strong grassroots support for the policy emerging in London and Glasgow. [33] In 1889, taxation of land values was endorsed by the Council of the National Liberal Federation, and two years later it appeared in the NLF's Newcastle Programme, sealing its credentials as an orthodox Liberal policy in spite of Gladstone's scepticism.[34] Thereafter, land value taxation figured prominently in Liberal election addresses, appealing especially to urban Liberals as a solution to housing shortages and the growing problem of local government finance.[35] When Liberal MP J.H. Whitley formed a Land Values Parliamentary Campaign Committee after the 1906 election, no fewer than 280 Liberal and Labour MPs joined within three months. However, only a handful of the committee's members seem to have been out-and-out single taxers. Many more favoured land nationalization, whilst others seem to have regarded land values as a useful revenue source and the appropriate basis for municipal rating, without sharing Georgists' belief in their wider economic significance.[36]

Under Asquith's government, land reform became central to the Liberal Party's strategy for social change. The land taxes introduced in the 1909 budget featured prominently in the 1910 elections, when Liberal meetings across the country ended with the Georgist song 'The Land', and Lloyd George intended to base the party's appeal at a putative 1914 election on the recommendations of a Land Enquiry Committee chaired by his friend Arthur Acland.[37] Outside the Georgist movement and its main centres of activity, however, there are good reasons for thinking that Liberal enthusiasm for land taxes in 1909-10 derived mainly from their symbolic significance as an assault on landed power, rather than from a considered appraisal of their likely economic effects. During this period, as Paul Readman has argued, the Liberal case for land reform 'drew more heavily on history' – and especially on myths of enclosure and dispossession – 'than it did on

[33] Douglas, *Land*, 111-3.
[34] Ibid., 114.
[35] Readman, *Land and Nation*, 26-8; see also Ian Packer, *Lloyd George, Liberalism and the Land: The Land Issue and Party Politics in England, 1906-1914* (Woodbridge, Suffolk, 2001), 54.
[36] Emy, *Liberals, Radicals, and Social Politics*, 209.
[37] H.V. Emy, 'The Land Campaign: Lloyd George as a social reformer, 1909-14', in A.J.P. Taylor (ed.), *Lloyd George: Twelve Essays* (1971), 35-68.

abstract political economy'.[38] The Asquith government could thus maintain the rhetoric of land reform after 1910, even as its policy focus moved away from the taxation of land values.

The experience of the 1910 elections seems to have convinced Lloyd George of the political salience of the land issue, but not that the solution lay in Georgist measures. Instead, Lloyd George turned Liberal policy towards a more direct engagement with wages, rents, tenants' rights and land ownership. In the rural report of the Land Enquiry Committee, written largely by Seebohm Rowntree, minimum wages for agricultural labourers formed the keystone of a wide-ranging interventionist policy, which also included regulation of rents and the creation of land courts to give farmers security of tenure.[39] The committee's parallel report on urban land proposed that existing local rates should be transferred gradually to site values, but it rejected a national land value tax, and the weight of its proposals lay elsewhere: in requiring local authorities to ensure adequate housing provision for their working-class residents and establishing an urban minimum wage so that they could afford to pay the rents.[40] Although some land tax advocates found it prudent to support the Land Enquiry's recommendations, Georgist ideas were clearly on the retreat within the Liberal Party on the eve of the First World War.[41]

Georgist Liberals would never regain the influence they had enjoyed in the Edwardian period. The 1909 land taxes were repealed by the post-war coalition, and, weakened by the defection of Josiah Wedgwood, C.P. Trevelyan, and R.B. Outhwaite to Labour, Georgist activists were ill-equipped to press the case for the single tax when Lloyd George returned to the land issue in the mid-1920s.[42] Nevertheless, they managed to maintain a vocal presence within the Liberal Party during the inter-war period. Georgist true believers like Ashley Mitchell were well-entrenched in local and regional Liberal organizations, especially in Scotland and Yorkshire, and could point to NLF resolutions from 1889 onwards as evidence that land value taxation was orthodox Liberal

[38] Readman, *Land and Nation*, 151.
[39] Land Enquiry Committee, *The Land: The Report of the Land Enquiry Committee* (2 vols., 1913-14), I.
[40] Land Enquiry Committee, *The Land*, II.
[41] Packer, *Lloyd George*, 113.
[42] The policy agreed at the 1926 Land Conference made only a brief reference to the possibility of basing rural rates on site values: Douglas, *Land*, 193.

policy.[43] Though few Liberal MPs were committed to the full Georgist programme, most could be persuaded to support in principle the transfer of property rates onto site values, or the introduction of a land tax as an additional source of revenue. It was in this sense that the Liberal Party remained a land-taxing party in the inter-war years.

New Liberalism

Of much greater importance than Georgism for the Liberal Party's long-term development was the New Liberalism which emerged at the turn of the twentieth century, and the tradition of left-leaning Liberalism which stemmed from it. 'New Liberalism' is, of course, frequently used as shorthand for the whole range of social and economic reforms which the Campbell-Bannerman and Asquith governments enacted, but in the realm of political thought the term refers more specifically to the ideas developed by the Liberal intellectuals who gathered around *The Nation*, the *Manchester Guardian* and the Rainbow Circle at the turn of the century, which Michael Freeden, Peter Clarke and Stefan Collini have meticulously documented.[44] Though the boundaries of this group are difficult to draw, it is clear that J.A. Hobson, J.M. Robertson and L.T. Hobhouse were its most significant thinkers. After the First World War, much of the common purpose of the New Liberals was lost, as the group fractured between Labour and Liberal camps. What survived was a distinctive way of thinking about the state and its role in the economy which militated against any rigid application of classical precepts, and which would continue to influence Liberal MPs and activists during the decades that followed.

New Liberal thought is perhaps best understood as an attempt to recover the idea of the fullest development of the individual's potential, which Mill had elevated into the highest Liberal principle, from the classical and utilitarian assumptions in which it had become embedded.[45]

[43] For Mitchell's 'conversion experience', see Ashley Mitchell, *Memoirs of a Fallen Political Warrior* (1974), 4.
[44] Michael Freeden, *The New Liberalism: An Ideology of Social Reform* (Oxford, 1978); Peter Clarke, *Liberals and Social Democrats* (Cambridge, 1978); Stefan Collini, *Liberalism and Sociology: L.T. Hobhouse and Political Argument in England, 1880-1914* (Cambridge, 1979).
[45] Freeden, *Ideologies and Political Theory*, 178-225.

Drawing on the work of his Oxford tutor T.H. Green, Hobhouse argued that man was necessarily a social being, and that citizens' rights should therefore be considered relative to the welfare of the society in which they were exercised.[46] He also contended that individuals' personalities were most perfectly developed when they were in harmony with each other, and regarded the state both as an expression of harmony and solidarity between citizens and as an instrument for bringing it about.[47] Hobson went further, developing an influential view of society as an organism in which the state functioned as a conscious mind, deriving and pursuing the general will.[48] In both formulations, the old contractarian view of the relationship between the state and the individual was replaced by an emphasis on the state's ability to represent the community and the individual's dependence on the state.

With the notable exception of Hobson, the New Liberals' originality as political theorists was not matched in the field of economic theory. Their enduring contribution to Liberal thinking about the economy lay rather in establishing three priorities. Firstly, they insisted that economics should be subordinate to ethics. 'The trunk of the tree of Liberalism', Herbert Samuel declared, 'is rooted in the soil of ethics.'[49] Hobson strongly disputed the validity of many of the 'laws' of classical political economy, but even if these laws were empirically valid he could not accept them as a basis for action because they paid insufficient attention to the welfare of the people. The fundamental problem with classical economics, which neoclassical economists had only partly rectified, was that it focussed too narrowly on the production of marketable wealth, and correspondingly neglected consumption, non-marketable activities, and non-economic motivations.[50] For Hobson, following John Ruskin, economic ideas had to be judged instead in terms of their implications for human feelings and social utility.[51]

Secondly, the New Liberals insisted that the welfare of the individual should be judged in terms of the welfare of society as a whole. This priority stemmed directly from their organic view

[46] Freeden, *New Liberalism*, 66-7.
[47] L.T. Hobhouse, *Liberalism* (1911), 116-66.
[48] Freeden, *New Liberalism*, 105-9.
[49] Herbert Samuel, *Liberalism* (1902), 6.
[50] J.A. Hobson, *The Social Problem* (1902), 17-32.
[51] Ibid., 33-8, 51-69; Freeden, *New Liberalism*, 99-102.

of society and their communitarian view of the relationship between the individual and the state. The New Liberals were much readier than classical Liberals to assert that certain resources and revenues properly belonged to society, and that the state was also justified in taking other revenues from individuals – for instance, through taxation – to use for communal purposes.[52] In Hobson's hands, Mill's idea of unearned increment was developed into the broader concept of 'surplus', covering all payments to land, labour and capital which exceeded the return they would receive in a competitive market; this provided a useful justification for graduated income tax, differential taxation of unearned incomes, death duties, and land taxes.[53] The New Liberals were also keen to emphasize the reciprocal obligations which existed between the individual and the state, symbolized on the one hand by progressive taxation and on the other by the state's provision of a national minimum for all citizens.[54] In this communitarian vision, both the nationalization of basic industries and collective provision for basic needs could be portrayed as logical and desirable.[55]

Thirdly, the New Liberals argued that the distribution of wealth was at least as important as its production, and was a matter in which the state should take an interest.[56] 'The central point of Liberal economics', Hobhouse contended, 'is the equation of social service and reward.'[57] This view stemmed both from the New Liberals' ethical approach and from their belief in state action, and provided an important point of contact with the burgeoning Labour movement. Although neither Hobhouse nor Hobson favoured strict equality of incomes, both men were adamant that the market distribution of income was unjust, since it failed to take sufficient account of either needs or effort.[58] Progressive taxation and a national minimum seemed to offer the best means of reducing inequality and ensuring basic needs were met under a capitalist system. Of course, the Asquith government's social reforms made only modest progress in this direction, but the

[52] See, for instance, Hobhouse, *Liberalism*, 189-202.
[53] T.W. Hutchison, *A Review of Economic Doctrines, 1870-1929* (Oxford, 1953), 123-7.
[54] Freeden, *New Liberalism*, 135-6, 163-5.
[55] Ibid., 70-4.
[56] Ibid., 128-34.
[57] Hobhouse, *Liberalism*, 209.
[58] For a full discussion of Edwardian debates over distributive justice, see Ben Jackson, *Equality and the British Left: A Study in Progressive Political Thought, 1900-64* (Manchester, 2007), part one.

principles involved were important ones, and these policies were hailed by New Liberals as important steps towards social justice.[59]

The ethical, communitarian, and egalitarian emphases of the New Liberalism were all evident in the movement's most significant contribution to economic theory, namely Hobson's theory of underconsumption. Hobson, like Henry George, was a largely self-taught economist, and he gloried in his reputation as an economic heretic, attributing the criticisms of orthodox economists to prejudice, dogmatism, or class interest.[60] As Keynes recognized in the *General Theory*, the core of Hobson's achievement lay in his recognition that capital accumulation was determined by actual or expected consumer demand rather than the availability of savings.[61] Hobson combined this insight with the empirical observation that an individual's propensity to save increased as his income rose, and argued that the income inequalities which existed in late nineteenth-century Britain served to depress consumption below the level at which resources would be fully employed. By reframing the economic problem in this way, Hobson could show that the redistribution of income through taxation, social welfare provision, and high wages would not inhibit production but increase it. In times of high unemployment, relief works could also play a useful role in increasing demand.[62]

Hobson's underconsumptionism received little credit from orthodox economists until Keynes' *General Theory* simultaneously legitimated and moved beyond it. Within the Liberal Party, only fellow New Liberals such as J.M. Robertson and Percy Alden seem to have accepted Hobson's analysis in its entirety, but others found the *idea* of underconsumption much easier to swallow than the *theory* that lay beneath it.[63] Underconsumptionist arguments may well have influenced the Asquith government's fiscal policies; they certainly provided a convenient rationale for them.[64] Hobson's economic analysis proved even more influential in the Labour Party. As José Harris has noted, 'the idea that unemployment was caused by shortage of demand… was central to the

[59] Freeden, *New Liberalism*, 195-244.
[60] J.A. Hobson, *Confessions of an Economic Heretic* (1938).
[61] Keynes, *General Theory*, 368.
[62] Hutchison, *Review*, 413-4.
[63] See especially Percy Alden, *The Unemployed: A National Question* (1905). Robertson developed a similar analysis to Hobson in *The Fallacy of Saving* (1892).
[64] Harris, *Unemployment*, 367.

unemployment policy of the I.L.P. from 1895 onwards', and formed the basis of the 'Living Wage' proposals of the 1920s, which Hobson helped develop.[65]

After 1914, as Michael Freeden has shown, the New Liberalism gave way to a looser left-Liberal tradition in the context of Liberal decline and progressive fragmentation.[66] During this period, attitudes to the state became more cautious, as New Liberals reacted against the militaristic character of much state intervention during wartime and the Labour Party's adoption of a state socialist objective (in its 1918 constitution) which seemed to lack organic grounding. Most strikingly, Hobhouse gave vent to his longstanding anti-Hegelianism in a pointed critique of Idealist philosophy, which he believed neglected individual freedom, regarded individuals as part of the universal, and failed to distinguish adequately between the state and society.[67] At the same time, the defection of Hobson and other radicals to Labour weakened the New Liberals' personal influence within the Liberal Party. By the 1930s, Herbert Samuel was one of only a handful of Liberal politicians who still engaged directly with New Liberal thought, and younger left-wing Liberals such as Megan Lloyd George and Richard Acland made little effort to draw on Hobson and Hobhouse's theories.[68]

Even so, New Liberal ideas exerted a substantial ongoing influence on Liberal thought. The New Liberal view of the state as the instrument of the community, uniquely able to facilitate individual development and establish the common good, continued to shape the thinking of the Liberal left in the inter-war years, while the concepts of positive liberty and social justice became commonplace within the party. Henceforth, economic proposals would be judged in ethical as well as economic terms, and on the basis of their likely impact on distribution as well as production. In this way, New Liberal ideas provided important validation for the reformist instincts of a younger generation.

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[65] Ibid., 235.
[66] Freeden, *Liberalism Divided*, 9-14.
[67] Ibid., 26-40.
[68] Samuel's widely-read study of *Belief and Action: An Everyday Philosophy* (1937) combined a defence of piecemeal state intervention with a rejection of the Hegelian doctrine of the living state. The Liberal activist Harold Stoner, who attempted to revive interest in Green and Hobhouse during the Second World War, was scathing about Acland's philosophical shallowness: see Bodleian Library, Oxford, MS. Balfour 69/2, Harold Stoner to Lancelot Spicer, 10 Aug. 1942.

Constructive Liberalism

In his study of inter-war liberal thought, *Liberalism Divided*, Michael Freeden has contrasted the left-liberalism of Hobson and Hobhouse with centrist-liberalism:

> an older, capitalist, commercial and more individualist tradition that re-emerged strongly as a reaction to economic and institutional weaknesses in the 1920s, seeking liberal hope in past images of man and society, though often attached to new institutional and technical solutions.[69]

As an analytical framework for studying inter-war liberal ideology, Freeden's distinction has much to commend it. However, Freeden's centrist-liberals cannot be said to have been influenced by a single economic tradition. Rather, the 'older, capitalist, commercial and more individualist' tradition of classical economics was refracted through a concern to develop 'new institutional and technical solutions' to economic problems. This may be termed constructive Liberalism, although, of course, Liberals of all intellectual stripes were liable to emphasize that their proposals were 'constructive'. The constructive Liberal tradition, as identified here, received its most developed expression in the Liberal Industrial Inquiry of 1926-8, but its roots can be traced to the late Victorian period. Much more than Georgism or New Liberalism, constructive Liberalism drew momentum from developments in mainstream economic theory. Ethical concerns were not wholly absent, but the emphasis of the constructive tradition lay in the development of practical remedies for the shortcomings of the market.

In a sense, it was the welfare economics developed by the early neoclassical economists that made a constructive Liberalism possible. In the work of W.S. Jevons, Henry Sidgwick, Alfred Marshall, F.Y. Edgeworth, and A.C. Pigou, we find a growing awareness of the ways in which imperfect information, externalities, unequal bargaining power, and the existence of public goods prevented markets from working as effectively as classical theory suggested, and a growing

[69] Freeden, *Liberalism Divided*, 13.

receptiveness to compensatory state action.[70] All of these economists recognized the risks which government intervention entailed, but the cumulative effect of their work was to suggest that the classical presumption against state activity no longer applied in many policy fields.

The possibility of reconstituting Liberalism on a more interventionist basis seems to have been recognized by Joseph Chamberlain, but the 1886 Home Rule split prevented him from developing his ideas fully. The first sustained attempt to develop a constructive Liberalism therefore came from the Liberal Imperialists who clustered around Lord Rosebery at the turn of the century. The Liberal Imperialists were distinguished not only by their support for the Second Boer War, but also by a conviction that the party needed to shed its 'faddism' and demonstrate its moderation in order to regain power.[71] Though personally '[u]ninterested in economics', Rosebery was deeply concerned by evidence of national inefficiency, and urged the Liberal Party to respond by shifting its focus from Gladstonian 'measures of emancipation' to 'measures of construction'.[72] Younger Liberal Imperialists such as Asquith and R.B. Haldane became enthusiastic advocates of technical education, industrial arbitration, and measures to organize the labour market; and although Rosebery never regained the wider influence he sought, many of his followers later received high office in Campbell-Bannerman's government.

The imperialistic tone of Rosebery's 'national efficiency' rhetoric initially repelled many orthodox Liberals, but concern with efficiency steadily spread across the party.[73] Probably the most committed exponent of a constructive policy in the Edwardian Liberal Party was the Germanophile MP and chemical manufacturer Sir John Brunner. Brunner's economic vision was one in which the state worked to establish the conditions under which private enterprise could flourish, notably by investing in infrastructure, education, and scientific research and by promoting harmonious industrial relations. At his most radical, Brunner was prepared to support nationalization of the

[70] See especially W.S. Jevons, *The State in Relation to Labour* (1882); Henry Sidgwick, *The Principles of Political Economy* (1883); and A.C. Pigou, *The Economics of Welfare* (1920).
[71] H.C.G. Matthew, *The Liberal Imperialists: The Ideas and Politics of a Post-Gladstonian Elite* (Oxford, 1973), 125-35.
[72] John Davis, 'Primrose, Archibald Philip, fifth earl of Rosebery and first earl of Midlothian (1847-1929)', *Oxford Dictionary of National Biography* (60 vols., Oxford, 2004), XLV, 370-83, at 380; Rosebery at Glasgow, 10 Mar. 1902, quoted in Matthew, *Liberal Imperialists*, 140.
[73] G.R. Searle, *The Quest for National Efficiency: A Study in British Politics and Political Thought, 1899-1914* (Oxford, 1971), 101-6.

railways in order to reduce freight transport costs.[74] From a rather different perspective, Seebohm Rowntree's investigations into urban poverty focussed attention on the poor 'physical efficiency' of the working class, a problem which had already been highlighted by military recruiters during the Boer War.[75]

The Asquith government's interventionist policies were doubtless motivated by an ethical desire to eliminate poverty and unemployment, as well as by concern for efficiency. The shape which those policies took, however, generally owed much more to constructive ideas than New Liberal theories. Labour exchanges and trade boards were characteristically constructive measures, designed to remedy market failures and remove specific sources of distress; the Development Fund and Road Fund involved infrastructure spending, on the Brunnerite model, which also promised to reduce unemployment; and Lloyd George's land campaign of 1913-14 similarly comprised a series of targeted interventions. Even the unemployment and health insurance schemes, which can be seen to have embodied the New Liberal principle of reciprocal obligation, were more proximately influenced by continental models. The social and economic reforms which Liberals undertook before the First World War should therefore be understood as examples of constructive policy-making.

Liberals and the economy in the 1920s

Classical Liberalism: Restoring 1914

The First World War destroyed both the cohesion of the Edwardian Liberal Party and the Gladstonian economic order which Liberals had defended. With an unprecedented commitment to a large continental army, the Asquith government found it necessary to borrow heavily for the war effort.[76] Currency notes ceased to be backed by gold, gold exports were severely restricted, and

[74] Stephen Koss, *Sir John Brunner: Radical Plutocrat, 1842-1919* (Cambridge, 1970), 189-99, 232-3.
[75] B. Seebohm Rowntree, *Poverty: A Study of Town Life* (1901); Asa Briggs, *Social Thought and Social Action: A Study in the Work of Seebohm Rowntree, 1871-1954* (1961), 25-45.
[76] Peden, *Treasury*, 74, 80.

eventually – in 1919 – Britain was forced to abandon the gold standard.[77] The McKenna duties of 1915 signalled the end of free trade, and their retention by the Lloyd George coalition after the war – along with the introduction of 'safeguarding' for key industries and a measure of imperial preference – suggested that the pre-war 'open door' was closed for good.[78] Direct controls on wages, prices, production and investment were imposed in the core war industries, and backed up by food rationing, labour conscription, and Excess Profits Duty.[79] Internationally, the war left a legacy of unstable exchange rates, reparations, and inter-Allied war debts which politicians and central bankers spent most of the next decade trying to resolve.[80] At home, rising trade-union membership and the growing strength of the Labour Party put nationalization and 'socialism' firmly on the political agenda.[81]

As wartime prosperity and a post-war boom gave way to mass unemployment after 1920, politicians of all parties sought remedies. Of the Liberal Party's four economic traditions, it was the classical and constructive strands which offered the most credible guides to policy. Proponents of classical economic theory could plausibly attribute Britain's economic malaise to the accumulation of interferences with the market system which the war had brought. In consequence, the post-war period witnessed a revival of sorts for classical political economy within the Liberal Party and among Britain's broader policy-making elite, which emphasized the need to restore pre-war institutions. This restorationism was symbolized by the decision to return sterling to the gold standard at its pre-war parity of $4.68, recommended by the Cunliffe Committee in 1918, accepted by the Lloyd George coalition in 1919, and implemented by Winston Churchill – as a Conservative Chancellor – in 1925. The return to gold at par compelled a relatively deflationary domestic policy, involving retrenchment and dear money, and implied that high wage rates constituted the main obstacle to greater competitiveness and full employment.

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[77] Ibid., 80-3, 98-9, 112.
[78] Howe, *Free Trade*, 280-1.
[79] Sidney Pollard, *The Development of the British Economy, 1914-1950* (1962), 42-62.
[80] These efforts have been documented in exhaustive detail by Robert Boyce: Robert W.D. Boyce, *British Capitalism at the Crossroads, 1919-1932: A Study in Politics, Economics, and International Relations* (Cambridge, 1987).
[81] Tanner, *Political Change*, 351-417; Kenneth O. Morgan, *Consensus and Disunity: The Lloyd George Coalition Government, 1918-1922* (Oxford, 1979), 213-35.

Classical restorationism received vigorous expression from the Liberal Party's financial elite, which showed few reservations about applying classical doctrines to Britain's contemporary situation. For the banker and sometime Liberal MP D.M. Mason, the gold standard alone could provide a solid basis for the revival of international trade, and temporary deflation was a price worth paying for its restoration. The Sound Currency Association which Mason founded in 1919 drew strong backing from Liberals with City connections, with Lord D'Abernon and later Earl Beauchamp serving as president and Sir Charles Hobhouse, Sir George Paish, and Francis Hirst among its members.[82] Many of the same men were also prominent in the Free Trade Union, and undertook private initiatives to promote the reduction of tariffs and the settlement of war debts.[83] Orthodox economists such as Edwin Cannan provided academic validation for these efforts.[84]

Most, though not all, City Liberals took Asquith's side in the split which developed after 1916, and blamed Lloyd George's coalition for the nation's ills. Asquithian politicians, in turn, identified themselves closely with the restorationist agenda, which fitted well with their much-vaunted commitment to 'principles' and threw into sharp relief Lloyd George's tenuous attachment to free trade and balanced budgets.[85] Indeed, in Asquithian hands the concern to remove obstacles to trade meshed with a belief that rising public spending threatened the integrity of the constitution. Sir Donald Maclean's campaign against coalition 'extravagance' was followed by persistent criticism of the size of the civil service and armed forces, and the relaxation of the link between insurance contributions and unemployment benefit from 1921 onwards provoked forceful demands that the scheme should be re-established on an actuarial basis. Policy discussions at the Liberal Council, founded in 1926 to resist Lloyd George's leadership, were dominated by these themes, and the Council published a monthly bulletin which criticized the growing *Burdens on Industry*.[86] By the end of the decade, the 'race for expenditure' which seemed to have developed between the

[82] D.M. Mason, *Monetary Policy, 1914-1928* (1928), 24-9.
[83] For instance, Beauchamp, who would lead the Liberals in the House of Lords from 1924 to 1931, was also president of the FTU, whilst Paish worked with Sir Charles Mallet, Sir Hugh Bell, and Lord Sheffield to issue a manifesto on 'Barriers to European Trade' in 1926: *The Times*, 19 Oct. 1923, 9; British Library of Political and Economic Science (BLPES), Sir George Paish papers, 1, 'My Memoirs' by Paish, n.d. [1949-51].
[84] BLPES, Edwin Cannan papers, 985, speech to Sound Currency Association AGM, 25 Jan. 1921.
[85] On the post-war Asquithian elite, see especially Bentley, *Liberal Mind*, *passim*.
[86] *Burdens of Industry* was launched in autumn 1927: see University of Bristol Special Collections, Liberal Council papers, Executive Committee minute book, 1927-1937, minutes of meeting, 21 Sept. 1927.

parties led the former Foreign Secretary Viscount Grey to fear that financial control might be incompatible with mass democracy.[87]

Constructive Liberalism: The end of laissez-faire

Support for free trade remained a unifying bond between Liberals throughout the 1920s, but in other fields of policy constructive Liberalism provided an important alternative to restorationism. Indeed, in a sense the First World War brought the constructive tradition into its own. In its own terms, as a means of mobilizing Britain's resources for the war effort and managing a scarcity of food and raw materials, the wartime apparatus of state control appeared to have been relatively successful. Moreover, though most direct controls were dismantled after the armistice, not all of the wartime changes in the domestic economy were so easily reversed. The wartime production drive highlighted the value of scientific management and economies of scale, and set in motion a wave of consolidation in the basic industries which continued into the 1920s.[88] At the same time, the labour market was transformed by rising union membership, the expansion of unemployment insurance and the trade boards system, and the establishment of arbitration machinery under the 1919 Industrial Courts Act (which, though non-binding, helped institutionalize national pay awards).[89] Wartime experience also prompted a new interest in industrial democracy, reflected in the Whitley Committee's proposals for a system of Joint Industrial Councils to facilitate employer-employee cooperation over pay and working conditions. Although the committee's ambitions were never fully realized, the Councils covered over 3,500,000 workers by the end of 1920.[90] From the classical perspective, these developments seemed likely to hamper economic adjustment, but to the progressive Liberal they offered a basis for a more rational and more humane economic order.

[87] *MG*, 15 Jan. 1930, 5.
[88] Briggs, *Social Thought*, 112-63, 268-77; Pollard, *Development*, 53-62, 110-25; Julian Greaves, *Industrial Reorganization and Government Policy in Interwar Britain* (Aldershot, 2005).
[89] W.R. Garside, *British Unemployment, 1919-1939: A Study in Public Policy* (Cambridge, 1990), 34-8; Pollard, *Development*, 267-72.
[90] Pollard, *Development*, 271-2.

The constructive Liberal position as it developed in the 1920s was stated most cogently in John Maynard Keynes' 1924 lecture 'The end of laissez-faire', and in the paper 'Am I a Liberal?' which he gave to the following year's Liberal Summer School.[91] Keynes' critique of the laissez-faire approach included penetrating criticism of the psychological foundations on which it rested, but at the heart of his argument lay the assertion that the economic and political context had changed since the nineteenth century. Drawing on an analysis developed by the American institutional economist John R. Commons, Keynes argued that Britain was moving from an era of abundance to one of stabilization, in which the classical model of the competitive market was rendered obsolete by the growth of large firms, trade associations and trade unions.[92] Keynes shared the classical fear that these corporate institutions might clash or conspire against the public interest, but he argued that conflict and conspiracy could be avoided if they were brought into harmony by the state.[93]

> The transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political. I suggest, nevertheless, that the true destiny of New Liberalism is to seek their solution.[94]

As Keynes saw it, the state's harmonizing role – its Agenda – in the modern economy took two distinct forms. On the one hand, it should integrate corporate bodies into the state, especially by transforming the most powerful private firms into semi-autonomous public corporations.[95] On the other hand, it should also exercise 'directive intelligence' over the economy as a whole, through the control of currency and credit and the coordination of savings and investment.[96] If government did not take these decisions, they would not be taken at all.

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[91] In identifying Keynes' inter-war thought with the constructive tradition, rather than with New Liberalism, I follow Michael Freeden and Robert Skidelsky: Freeden, *Liberalism Divided*, 154-73; Robert Skidelsky, *John Maynard Keynes* (3 vols., 1983-2001), II, 222-4. For an alternative perspective, see Clarke, *Keynesian Revolution*, 78-81.
[92] John Maynard Keynes, 'Am I a Liberal?', in *JMK*, IX, 295-306, at 303-4.
[93] John Maynard Keynes, 'The end of laissez-faire', in *JMK*, IX, 272-94, at 288-90.
[94] Keynes, 'Am I a Liberal?', 305.
[95] Keynes, 'The end of laissez-faire', 288-91.
[96] Ibid., 291-2, at 292. Keynes also included population policy in this category.

The dual focus of Keynes' Agenda corresponds loosely to the two strands of constructive Liberalism which existed during the 1920s, associated respectively with Manchester and Cambridge.[97] In Manchester, the progressive Liberals Ernest Simon and Ramsay Muir were articulate exponents of institutional reforms in industry, which they believed were necessary to demonstrate Liberal vitality. Muir's book *Liberalism and Industry* (1920) outlined a wide-ranging interventionist programme, including Industrial Councils to fix minimum wages in all industries, statutory limitation of the return on private capital, encouragement for profit-sharing, and the experimental transfer of the railways and coal mines to public ownership.[98] Not all of this vision was acceptable to the Asquithian Liberal leadership, but the idea of minimum wages set by Joint Industrial Councils formed the centrepiece of the Industrial Policy which the NLF adopted in 1921.[99]

It would be wrong to suppose that Keynes and the other Cambridge economists who worked with the Mancunians in the Liberal Summer School neglected industrial organization. Indeed, Keynes accepted the trend towards amalgamation and monopoly more readily than most Liberals, and strongly advocated the rationalization of the cotton and coal industries to eliminate excess capacity.[100] Nevertheless, the idea that the government should pursue discretionary macroeconomic policies was the Cambridge economists' distinctive contribution. Here, Keynes' perspicacity and his flair for controversy made him the dominant figure, although Hubert Henderson and Dennis Robertson helped refine Keynes' ideas and made important contributions of their own.[101]

At the core of Keynes' analysis in the 1920s lay a conviction that domestic wages were much too 'sticky' for the British economy to respond to the post-war reduction in demand by adjusting costs downwards in the way that classical theory predicted. Keynes did not deny that mass unemployment resulted from structural maladjustment, nor did he seriously challenge the classical

[97] John Campbell, 'The renewal of Liberalism: Liberalism without Liberals', in Chris Cook and Gillian Peele (eds.), *The Politics of Reappraisal, 1918-1939* (1975), 88-113, at 94.
[98] Ramsay Muir, *Liberalism and Industry* (1920).
[99] Stewart Faulkes, 'The Strange Death of British Liberalism: The Liberal Summer School Movement and the Making of the Yellow Book in the 1920s' (unpublished University of London Ph.D. thesis, 2000), 86-116.
[100] Skidelsky, *Keynes*, II, 258-64.
[101] Ibid., II, 190-1.

argument that trade-union power and unemployment insurance contributed to wage rigidity.[102] However, he rejected the classical remedy of using deflation to reduce wages to a level consistent with full employment, both on grounds of practicability and social justice and because he believed that prices were likely to fall faster than money wages in the short term. Instead of returning to gold at par, Keynes recommended that the British government should actively manage the currency in order to stabilize the price level, thereby tacitly accepting the devaluation which had taken place since the war and gaining the freedom to pursue a cheap money policy.

During 1923 and 1924, Keynes and his Cambridge colleagues conceived of macroeconomic stabilization mainly in terms of an active monetary policy, but Keynes was coming to believe that this was an insufficient remedy for the unemployment problem. Prompted by a lengthy controversy over unemployment in the pages of *The Nation*, Keynes emerged in 1924 as a vocal advocate of public works as a means of providing 'the stimulus which shall initiate a cumulative prosperity'.[103] By the 1920s, most academic economists accepted that public works would tend to reduce unemployment, on the basis – first articulated by Pigou in 1908 – that only part of the taxation used to pay for them would take funds away from productive uses.[104] Keynes added the idea that an initial stimulus would have cumulative effects, and the contention that the lack of investment demand at home was driving capital abroad and depressing domestic employment. In Keynes' view, this maldistribution of capital between domestic and overseas uses justified the financing of public works through government borrowing:

> The Chancellor of the Exchequer should devote his sinking fund and his surplus resources, not to redeeming old debt with the result of driving the national savings to find a foreign outlet, but to replacing unproductive debt by productive debt. The Treasury should not shrink from promoting expenditure up to (say) £100,000,000 a year on the construction of capital works at home, enlisting in various ways the aid of private genius, temperament, and skill.[105]

[102] Ibid., II, 120-4.
[103] John Maynard Keynes, 'Does unemployment need a drastic remedy?', *The Nation and Athenaeum*, 24 May 1924, reprinted in *JMK*, XIX, 219-23.
[104] Hutchison, *Review*, 416-7.
[105] Keynes, 'Does unemployment need a drastic remedy?', 222.

Over the next five years Keynes steadily fleshed out this case, and felt his way towards the argument that state intervention was needed to bring savings and investment into balance, which he would theorize in his 1930 *Treatise on Money*.[106] In the meantime, as a result of the return to gold, Keynes' public works policy was burdened with the additional task of counteracting the depressive impact of an overvalued currency and high interest rates. Decoupled from monetary reform, public works became a stand-alone solution for unemployment.

The Liberal Party's reception of Keynes' two reflationary proposals could scarcely have differed more sharply. In the monetary field, Keynes failed to shake Liberals' instinctive support for the gold standard: when Churchill announced in April 1925 that Britain would return to gold at par, only Sir Alfred Mond offered criticism from the Liberal benches, and the Liberal Parliamentary Party decided without acrimony to back the government's decision.[107] As the Hull MP J.M. Kenworthy – who would later defect to Labour – explained, the return to gold was 'absolutely right' because it would provide a stable basis for trade:

> If it may mean a little more deflation and a little unemployment temporarily, we have got to go through that stage, and we ought to have done it long ago... There are advantages and disadvantages, but the advantages are in favour of an export trading nation like this.[108]

By contrast, Keynes' public works proposals fed into an existing Liberal interest in 'national development' as a remedy for unemployment, which dated back to the 1909 Development Act. The 1923 Liberal manifesto called for the government to use the national credit 'on enterprises that would permanently improve and develop the home country and the Empire', such as roads, afforestation, power generation, and land drainage, and Keynes' 1924 call for the state to help facilitate domestic investment was immediately echoed by Asquith.[109] The Liberal case for public works up to 1929 was perhaps less radical than it seemed, since the insistence that capital spending must be 'productive' constrained the range of suitable projects, and the question of loan-versus-tax financing was rarely considered. Nevertheless, it is clear that most Liberals had already turned

[106] Clarke, *Keynesian Revolution*, 83-7.
[107] H.C. Deb., fifth series, 183, 29 Apr. 1925, 191-206; *MG*, 5 May 1925, 10.
[108] H.C. Deb., fifth series, 183, 4 May 1925, 688-91, at 688, 691.
[109] *NLF Proceedings, 1924* (1924), 28, 90.

away from the principle of Ricardian equivalence which had constrained fiscal activism in the nineteenth century.

Britain's Industrial Future

During the early 1920s, both the Manchester Liberals and the Cambridge economists involved in the Liberal Summer School associated with the party's Asquithian wing. Over time, however, Lloyd George began to rehabilitate himself in radical eyes. The enquiries into *Coal and Power* and *Land and the Nation* which Lloyd George funded in 1923-5 helped to re-establish his progressive credentials, but the crucial moment followed the 1926 General Strike, when Asquith and his allies attempted to use his non-attendance at a Shadow Cabinet meeting as grounds for expelling him from the party. Keynes was convinced that Lloyd George was right, not only on the procedural question but in his even-handed attitude towards the strike, which contrasted with Asquith's support for the government's position.[110] Thereafter, the Summer School Liberals worked constructively with Lloyd George. Within a month of the General Strike, the former Prime Minister had agreed to finance an Industrial Inquiry, chaired by the editor of *The Economist* (and former Cambridge economist) Walter Layton, which would enable the radical Liberals to develop a comprehensive economic policy.[111]

The Liberal Industrial Inquiry, and the report on *Britain's Industrial Future* (the 'Yellow Book') which it produced, brought together the Mancunian and Cantabrigian strands of constructive Liberalism and added Lloyd George's own constructive instincts. The membership, organization, and deliberations of the inquiry have been documented so thoroughly elsewhere that it hardly seems necessary to discuss them in detail here.[112] Nevertheless, the Yellow Book's contents are important, since it represented the culmination of the constructive thought of the previous thirty years. It is no exaggeration for Michael Freeden to claim that 'the result of the

[110] On this incident, see Campbell, *Lloyd George*, 136-56.
[111] Faulkes, 'Strange Death', 244-5.
[112] Ibid., 236-72; Campbell, 'Renewal'.

Yellow Book was to incorporate state interventionism decisively within liberal ideology as no document had ever done before'.[113]

The Yellow Book's main thesis was fundamentally that of Keynes' paper on 'The end of laissez-faire': that as industrial units grew in size, and the limitations of the market became more apparent, '[t]he scope of useful intervention by the whole Society' was 'seen to be much larger than was formerly supposed'.[114] In line with this principle, the authors recommended a range of new forms of intervention. At macro level, the report proposed an Economic General Staff to advise the government on economic policy, a census of production to inform government decisions, closer public control of the Bank of England, more deliberate regulation of the volume of credit, a new budgetary distinction between capital and current spending, and a Board of National Investment to organize government investment, issue bonds for domestic investment and vet overseas loans. At micro level, it proposed an extensive system of industrial democracy and joint consultation based on the Whitley Councils, Works Councils, and trade boards, with minimum wages fixed in each industry, official encouragement for profit-sharing, and a representative Council of Industry at the system's apex. Large monopolistic firms would become 'Public Corporations', privately owned but subject to stringent publicity requirements, or would become 'Public Concerns' on the model of the Port of London Authority and the BBC. Linking the macro and the micro were the proposals for national development which gave the Yellow Book its immediate political force. A Liberal government would use a wide-ranging programme of capital works, financed by borrowing, a betterment duty and land value taxes, to reduce unemployment.

The Yellow Book's proposals for state intervention placed it firmly in the constructive tradition. Most strikingly, its treatment of the large firm broke decisively with the classical Liberal hostility to monopolies and collusive behaviour:

> In modern conditions a tendency towards some degree of monopoly in an increasing number of industries is, in our opinion, inevitable and even, quite often, desirable in the interests of efficiency. It is, therefore, no longer useful to treat trusts, cartels,

[113] Freeden, *Liberalism Divided*, 118.
[114] Liberal Industrial Inquiry, *Britain's Industrial Future* (1928), xix.

> combinations, holding companies, and trade associations as inexpedient abnormalities in the economic system.[115]

The natural monopoly power enjoyed by public utilities (such as electricity) and the railways seemed to the authors of the Yellow Book to justify public ownership.[116] Outside these fields, however, monopolies would be left in private hands, and the public interest safeguarded by publicity and inspection, with the Board of Trade able to fix prices 'in exceptional circumstances' where monopoly power was abused.[117] The report also proposed that trade associations which represented more than half of an industry should receive official recognition, and – in certain circumstances – the right to organize other firms.[118] Although some liberal economists criticized the Yellow Book's tolerant attitude towards monopoly, none of these proposals faced serious opposition at the special NLF conference held to consider the report.[119] The implicit tension between the acceptance of monopolies and trusts and the party's free-trade commitment was thus left largely unexamined.

Conclusion

The endorsement of the Yellow Book by the NLF in March 1928 signalled the ascendancy of the constructive approach to economic policy within the Liberal Party, and marked the culmination of a movement away from classical Liberalism which had begun in the 1890s. Traditionalist Liberals, including the Liberal Council, viewed the report with mistrust, but there was no concerted attempt to rally opposition; indeed, Sir John Simon signed it, and Walter Runciman eventually gave his qualified approval.[120] The extensive involvement of academic economists in the Inquiry, including D.H. Macgregor and Hubert Phillips as well as Keynes, Henderson, Robertson and Layton, seemed

[115] Ibid., 93.
[116] Ibid., 81-2.
[117] Ibid., 94-6, at 96.
[118] Ibid., 97-100.
[119] *MG*, 10 Mar. 1928, 15, and 29 Mar. 1928, 6. The proposal that firms should be required to share financial information with Works Councils proved much more controversial, but was carried by 215 votes to 78. Francis Hirst tried to amend the resolution on trusts to demand abolition of the statutory monopoly in the dye industry, but abandoned his amendment after an intervention by the chairman.
[120] Liberal Council papers, Executive Committee minute book, 1927-1937, minutes of meeting, 21 Feb. 1928. For Runciman's qualified endorsement of the Yellow Book, see *MG*, 28 Mar. 1928, 12.

to give its interventionist conclusions expert authority, whilst radical MPs and candidates, progressive industrialists like Seebohm Rowntree and E.H. Gilpin, and social reformers such as Margery Corbett Ashby were also enthusiastic.[121] There were therefore good reasons for thinking that the weight of opinion within the Liberal Party had moved decisively in a constructive direction by the late 1920s. Certainly, only a minority of Liberals retained unqualified faith in the old classical precepts, and most radicals recognized that neither land value taxation nor redistribution from rich to poor was likely to do much, by itself, to remedy Britain's industrial malaise.

Nevertheless, constructive Liberalism was ascendant rather than dominant for three reasons. Firstly, proponents of classical restorationism remained influential, even though they declined to challenge the Yellow Book head-on. The Liberal Council provided a centre for resistance to Lloyd George within the party, and its ageing leaders offered only grudging support for his policies; its literature pressed for public economy and lower taxation, and the by-election candidates which it sponsored generally campaigned on traditional Liberal themes.[122] More generally, the Gladstonian canons of sound money and balanced budgets, restated forcefully by D.M. Mason and Francis Hirst, were still the guiding principles of the financial community and the Treasury.

Secondly, free trade remained an article of faith for Liberals, and party propaganda in the late 1920s relentlessly criticized the Conservative government's safeguarding duties, the protectionist Dyestuffs Act, and the beet sugar subsidy.[123] Constructive Liberals insisted that the Yellow Book's proposals for industrial organization were compatible with a free-trade regime, but it could equally be argued – from a free-trade perspective – that the institutionalization of monopolies and trade associations was bound to retard the workings of the free market and distort the allocation of resources between different uses. Certainly, Liberals remained suspicious of concentrations of economic power in private hands, and of proposals for the state to assist particular firms and industries by subsidies or legislation. During the 1930s, Liberals would make clear that their

[121] Macgregor was Professor of Political Economy at the University of Manchester. Phillips was a former head of economics at the University of Bristol, and served as the Inquiry's economic adviser and secretary.
[122] Notably, Harcourt Johnstone at Westbury in 1927 and Hilda Runciman at St Ives in 1928: *MG*, 18 June 1927, 13, and 20 Feb. 1928, 9.
[123] Parliamentary Archives, Graham White papers, WHI/1/1/32, 'Free Trade Facts', and 1/1/77, 'The Sugar Beet Scandal', Liberal Publication Department leaflets, late 1920s.

support for amalgamations in the interests of efficiency did not extend to restrictive measures, such as output quotas, which were intended to push up prices.

Finally, but perhaps most importantly, it is clear that the intellectual basis for a wholesale repudiation of the classical inheritance was not yet fully formed. 'At the opening of the 1930s', G.L.S. Shackle has noted, 'economic theory still rested on the assumption of a basically orderly and tranquil world.'[124] In microeconomics, Piero Sraffa, Joan Robinson and Edward Chamberlin were only beginning to shake the primacy of the idea of the perfectly competitive market as 'the established image of the economic world'; in macroeconomics, as Robert Skidelsky has shown, 'Keynes rejected laissez-faire as a policy before he developed a convincing economic theory explaining why laissez-faire would not work.'[125] Consequently, classical precepts, as modified by the neoclassical economists, continued to provide the intellectual parameters within which economic debate was joined, even by those whose policy views were radical; as yet, the constructive tradition did not offer a fully-fledged theoretical alternative. As long as this was the case, the Liberal Party's support for state intervention and fiscal activism was bound to be somewhat contingent, and open to revision in the light of changing circumstances.

[124] G.L.S. Shackle, *The Years of High Theory: Invention and Tradition in Economic Thought, 1926-1939* (Cambridge, 1967), 5.
[125] Ibid., 43; Skidelsky, *Keynes*, II, 219.

2. The Liberals, Keynes, and the slump, 1929-1931

It is perhaps appropriate that a study of economic thought in the Liberal Party during the middle decades of the twentieth century should start in 1929. Armed with the Yellow Book and Lloyd George's Keynes-inspired plan to 'conquer unemployment', the Liberals stood at the forefront of constructive thinking about economic policy on the eve of the great depression; indeed, in retrospect the Liberals' 1929 programme appears as a landmark in the development of a Keynesian policy approach. The inconclusive results of the 1929 general election, moreover, left the party holding the balance of power, and when economic malaise gave way to financial and political crisis in 1931, the Liberals would play a central role in the fall of Ramsay MacDonald's Labour administration and the formation of a National Government. These years were difficult, even traumatic ones for Liberal politicians and activists, but there can be no doubt that the party occupied centre-stage.

Political debate in the 1929 Parliament was dominated by the unemployment question, joined during 1931 by the linked issue of public finance. Following on from Lloyd George's pledge, the Liberals focussed their energies on pressing the case for public works on the Labour government, and only on rare occasions – such as the debate over the 1930 Coal Mines Act – did the government give the Liberals the opportunity to promote the broader reorganization proposals outlined in the Yellow Book. In this sense, the constructive Liberal agenda of 1928 was narrowed at an early stage to the question of whether domestic reflation could be undertaken successfully. It is therefore inevitable that this chapter should focus on macroeconomic themes.

Lloyd George's 1929 unemployment policy and the Liberal Party's involvement in the formation of the National Government have attracted significant historical attention to the party in this period. In the light of the apparent success of Franklin D. Roosevelt's New Deal, and the effectiveness of Keynesian policies in Britain after the Second World War, the Liberals' reversion to orthodox policies in 1931 has tended to be seen as an intellectual regression which helped close off the political space for a vigorous assault on unemployment. From this perspective, the salient

question is when and why the Liberals turned away from Keynes. For Robert Skidelsky and Philip Williamson, the crucial moment came in February 1931, when the Liberals dropped their demand for a large development loan and agreed to work with the Labour government on public works schemes.[1] In Michael Hart's view, the shift can be dated rather earlier, to the 1930 policy document *How to Tackle Unemployment* which called for a cut in public spending.[2] In either case, the party's radicalism was clearly dissipated. 'By mid-1931', Andrew Thorpe affirms, '[t]he Liberals' positive policy of 1929 was nowhere to be seen. In its place, *de facto* if not *de jure*, was an unreconstructed and unattractive Gladstonianism.'[3]

The belief that Liberal support for public works was shallow and short-lived pervades the historical literature on the 1931 crisis. In some cases, historians have gone even further, and argued that the party's advocacy of a proto-Keynesian programme in 1929 was essentially insincere. According to Herbert Samuel's biographer, Bernard Wasserstein, Lloyd George's 'eclectic, unorthodox, opportunist mind' found public works inherently attractive, but the Liberal leader 'no more believed in Keynesianism on principle than the Celt in him believed in leprechauns'.[4] Samuel, meanwhile, 'paid lip-service' to the 'Yellow Book', but 'his economic thinking remained fundamentally unaffected by Keynes'.[5] In similar vein, Duncan Tanner singled out Samuel, Sir Donald Maclean, and Sir John Simon as three Liberal leaders who, though publicly endorsing the national development plans, 'had not believed in them for a moment'.[6] In consequence, Tanner argued,

> The Liberals' support for Keynesian proposals did not result from a unique receptiveness to new ideas (by contrast with the hide bound old Labour party). It stemmed from political desperation. Unhappy with proposals for increased expenditure, most Liberals dropped Keynes as quickly as possible after the 1929 election, and not simply because circumstances were changing.[7]

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[1] Robert Skidelsky, *Politicians and the Slump: The Labour Government of 1929-1931* (1967), esp. 297-302, 343-52; Philip Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926-1932* (Cambridge, 1992), 209.
[2] Michael Hart, 'The Decline of the Liberal Party in Parliament and in the Constituencies, 1914-1931' (unpublished University of Oxford D.Phil. thesis, 1982), 365-412.
[3] Thorpe, *1931*, 62.
[4] Wasserstein, *Herbert Samuel*, 312.
[5] Ibid.
[6] Tanner, 'Strange death', 975.
[7] Ibid., 977.

A more nuanced version of this argument accepts Lloyd George's sincerity, but emphasizes the extent to which the Yellow Book, the unemployment pledge, and the pro-Labour strategy of 1929-31 were personal initiatives, to which the bulk of the Liberal Party was only weakly committed. This interpretation emerges especially from Ross McKibbin's recent survey of *Parties and People*, and fits well with McKibbin's argument that the National Government's formation and the 1931 Liberal split transformed the three-party system of the 1920s into a polarized system dominated by an anti-socialist bloc. According to McKibbin, the unpopularity of Lloyd George's alliance with Labour reflected the fact that the party had fought the 1929 election 'on a programme neither the majority of its voters nor its MPs believed in'.[8] Given the 'fundamentally anti-socialist' orientation of the Liberal Parliamentary Party and the party's rank-and-file, Sir John Simon, not Lloyd George, was 'the representative Liberal leader'.[9] It was therefore entirely natural both that the Liberals would insist on an orthodox policy in the summer of 1931, and that half the party's MPs would follow Simon into a permanent alliance with the Conservatives at the October general election.

This chapter reconstructs economic debates within the Liberal Party during the 1929 Parliament in order to assess the merits of the foregoing interpretations. It shows that Liberal politicians did revert to classical analysis during the depression, but that most of the party did so gradually and reluctantly, and remained committed to the idea that public works could alleviate unemployment in the right circumstances. The vocal espousal of restorationist principles by the Liberal Council, and Lloyd George's political need to keep right-wing Liberals on side, help explain the party's emphasis on retrenchment during the spring and summer of 1931, but the practical difficulties involved in carrying through fiscal reflation during an economic crisis seem to have been at least as important. In other words, the economic radicalism of Lloyd George and his colleagues foundered neither on insincerity nor simply on party division, but also on the theoretical

[8] McKibbin, *Parties and People*, 67.
[9] Ibid., 92.

immaturity of the developing Keynesian alternative and a growing awareness of the policy constraints which the British government faced.[10]

We Can Conquer Unemployment and the 1929 general election

The 1929 general election campaign was dominated by Lloyd George's pledge that, if returned to government, the Liberals would reduce unemployment to 'normal proportions' within one year by means of a £250,000,000 programme of loan-financed public works, without additional cost to the taxpayer. The possibility of reducing unemployment though national development works had been discussed in *Britain's Industrial Future*, and it seems to have been Seebohm Rowntree, who chaired the party's Unemployment Committee, who came up with the idea of making a specific time-limited commitment.[11] This idea was taken up by Lloyd George as a means of attracting voters' attention during the election, and especially of winning working-class voters back from Labour.[12] The committee's detailed proposals, written up by Rowntree's secretary William Wallace, were published under the title *We Can Conquer Unemployment*, and Keynes and Hubert Henderson wrote a spirited pamphlet, *Can Lloyd George Do It?*, which affirmed the pledge's practicability.[13]

Peter Clarke has called attention to the fact that the economic justification which Keynes offered for national development works evolved significantly between the publication of *We Can Conquer Unemployment* in March 1929 and the general election in May, in the face of the intellectual assault mounted on the pledge by ministers and Treasury officials.[14] *We Can Conquer Unemployment* suggested that government investment would increase employment by causing frozen savings, which had accumulated in banks as time deposits during the years of depression, to be directed to more productive uses. By the spring of 1929, however, Keynes was well aware of

[10] These theoretical and practical constraints have been emphasized by McKibbin: Ross McKibbin, 'The economic policy of the second Labour government', *Past and Present*, 68 (1975), 95-123.
[11] Faulkes, 'Strange Death', 276.
[12] Williamson, *National Crisis*, 29-30.
[13] Liberal Party, *We Can Conquer Unemployment: Mr. Lloyd George's Pledge* (1929); J.M. Keynes and H.D. Henderson, *Can Lloyd George Do It? An Examination of the Liberal Pledge* (1929).
[14] Clarke, *Keynesian Revolution*, 83-102.

the limitations of this argument, and began to argue instead that aggregate investment had to be brought into equilibrium with savings.[15] One way of achieving this was to impose a temporary embargo on foreign loans; another was to raise Bank Rate, and so make domestic investment more attractive.[16] At the same time, Keynes was feeling his way towards the idea which Richard Kahn would shortly conceptualize as the multiplier effect: that an initial government investment in national development projects would generate new resources for consumption and investment through successive rounds of spending.[17]

During the 1920s, Keynes frequently suggested that he regarded public works as a second-best strategy for economic recovery, made necessary by the inflexibility of wages and other production costs. In principle, the best means of eliminating the abnormal unemployment which had developed since 1920 was a reduction in money wages to make the export industries more competitive, but this was likely to be resisted furiously by the trade unions, and in any case Keynes doubted whether wage cuts would or could be implemented on an equitable basis.[18] In working out theoretical foundations for Lloyd George's pledge, Keynes seems to have become more firmly convinced of the intellectual deficiencies of the orthodox approach as well as of its impracticality. If a public works programme could stimulate cumulative rounds of spending leading to the restoration of prosperity, perhaps this offered the *first-best* rather than the *second-best* solution to unemployment. This was more or less where Keynes ended up by the time he drafted the *General Theory* in the mid-1930s, his earlier doubts about classical theory having been buttressed by his development of the concept of the liquidity trap (in which an expansion of the money supply would fail to stimulate greater output) and the theory of effective demand.[19]

The specificity of Lloyd George's pledge, its reliance on loan finance, and its implicit invocation of a multiplier effect marked it out from earlier public works proposals. Nevertheless, the 1929 Liberal programme is best regarded as a proto-Keynesian one, because it stopped short of the *General Theory* in several important respects. Firstly, the Liberal pledge was presented as an

[15] Ibid., 83-8.
[16] Ibid., 89-91.
[17] Ibid., 95, 99.
[18] Skidelsky, *Keynes*, II, 202, 297.
[19] Clarke, *Keynesian Revolution*, 256-310.

emergency policy for dealing with abnormal unemployment in the context of economic rigidities, and Lloyd George remained convinced that 'the permanent problem' of unemployment could only be solved 'by the restoration of our general trade'.[20] Secondly, the case for public works was conditional on their likely impact on business and financial confidence. Keynes and Henderson argued that public works would create 'a mood favourable to enterprise and capital extensions' in the economic circumstances then prevailing, but they did not claim such a policy would be appropriate in every situation.[21] Thirdly, to defuse allegations of financial unsoundness, Lloyd George played down the net spending increase which the programme involved, and framed it as a *transfer* of resources from unemployment benefit payments to 'productive' public works.[22] Finally, Lloyd George's emphasis on the practical value of investment in roads, telephones, and agriculture made it possible to conceive of public works as a supply-side measure, which would 'equip [the nation] for successfully competing with all its rivals in the business of the world'.[23] In this sense, the new Liberal proposals stood firmly within the party's existing discourse of 'national development'.

In retrospect, there are good reasons for questioning whether Lloyd George's pledge was achievable. Econometric models of the likely impact of the £250,000,000 investment programme have produced widely varying results, but the weight of opinion suggests that it would have been too small to eliminate abnormal unemployment in one year, especially given the countervailing impact of the Wall Street Crash and the practical difficulties involved in putting men to work on infrastructure schemes.[24] Perhaps more damagingly, Roger Middleton has pointed out the difficulties which the Liberals would have faced in carrying through a large fiscal stimulus without imposing restrictions on trade and exchange, or leaving the gold standard. Strong import demand

[20] Liberal Party, *We Can Conquer Unemployment*, 6-8; David Lloyd George, speech in London, 1 Mar. 1929, quoted in H.C. Deb., fifth series, 226, 25 Mar. 1929, 2200.
[21] Keynes and Henderson, *Can Lloyd George Do It?*, 25.
[22] *MG*, 27 Mar. 1929, 5.
[23] *MG*, 2 Mar. 1929, 13.
[24] See especially T. Thomas, 'Aggregate demand in the United Kingdom, 1918-1945', in Roderick Floud and Deirdre McCloskey (eds.), *The Economic History of Britain since 1700* (2 vols., Cambridge, 1981), II, 332-46; T.J. Hatton, 'The outlines of a Keynesian solution', in Sean Glynn and Alan Booth (eds.), *The Road to Full Employment* (1987), 82-94; and Nicholas H. Dimsdale and Nicholas Horsewood, 'Fiscal policy and employment in interwar Britain: Some evidence from a new model', *Oxford Economic Papers*, 47 (1995), 369-96. For an insightful recent overview, see Roger Middleton, 'British monetary and fiscal policy in the 1930s', *Oxford Review of Economic Policy*, 26 (2010), 414-41.

and unprecedented peacetime borrowing might well have caused 'a capital flight of gigantic proportions'.[25] It was partly for this reason that Keynes became an advocate of tariffs and import controls in 1930.

Despite these objective shortcomings, Lloyd George's pledge was enthusiastically received by most of the Liberal Party. It appealed to activists as a means of setting the political agenda during the election, and seemed to rest on strong technical and practical foundations.[26] According to an analysis by E.A. Rowe, four-fifths of Liberal candidates strongly emphasized unemployment in their election addresses, with more than half explicitly mentioning the pledge, and there seems little reason to doubt that most thought the policy would be effective.[27] The only overt critics of the pledge were the party's traditionalist Asquithians, mostly associated with the Liberal Council, who treated all Lloyd George's initiatives with suspicion.

The position of the Asquithian elite deserves careful elucidation. It seems clear that most members of this group inclined towards classical restorationism, and shared in the scepticism towards public works which was prevalent in Whitehall: in particular, they doubted that public works could be organized quickly, and feared that they would exacerbate unemployment by damaging business confidence.[28] Walter Runciman and Sir John Simon were the best-known exponents of this position. Speaking at Penzance in August 1928, Runciman argued that Britain's economic malaise could largely be attributed to the post-war growth of public spending, which had damaged the nation's credit and kept the rate of interest high; later in the year, he told the Commons that the 'large public works' previously undertaken had 'brought very little return', and the nation had 'passed from the stage' where public works could solve the unemployment problem.[29] More memorably, Simon used a speech in September to warn that the Liberals would look 'like a cheap-jack in a fair' if they claimed to offer a 'patent remedy' to 'sweep away

[25] Roger Middleton, *Towards the Managed Economy: Keynes, the Treasury, and the Fiscal Policy Debate of the 1930s* (1985), 179.
[26] Faulkes, 'Strange Death', 289.
[27] E.A. Rowe, 'The British General Election of 1929' (unpublished University of Oxford B.Litt. thesis, 1959), 198.
[28] The importance of these practical considerations in the famous 'Treasury View' has been highlighted by Jim Tomlinson and Roger Middleton: Jim Tomlinson, *Problems of British Economic Policy 1870-1945* (1981), 76-91; Middleton, *Towards the Managed Economy*, 149-65.
[29] *The Times*, 4 Aug. 1928, 14; H.C. Deb., fifth series, 222, 8 Nov. 1928, 273-82, at 275.

unemployment without question and without delay', a comment which Conservative propagandists would quote extensively during the 1929 election campaign.[30] However, the potential for policy conflict was diminished by the fact that both Runciman and Simon were willing to accept public works as *part* of an unemployment policy, especially if they were remunerative and helped to reduce industry's costs. Indeed, by spring 1929 even Runciman was willing to offer a qualified endorsement of the Liberal proposals, on the grounds that well-conceived development schemes would 'mop up… surplus labour, add to the national wealth, and increase our national equipment'.[31]

The logic of the Asquithian position was neatly stated by Sir Donald Maclean in a March 1929 speech at Launceston. Maclean distinguished between the *policy* of national development and Lloyd George's *pledge*, declaring that the policy itself was sound but that he was not prepared to predict how many jobs could be created within a given time frame.[32] When Viscount Grey echoed this distinction in 10 April, with the caveat that public works should not 'prejudice' private-sector expansion by disturbing 'the money market or the labour market', it became the conventional Liberal Council line, and provided a basis on which Asquithians could support the Liberal campaign.[33] The Liberal Council's honorary secretary, Vivian Phillipps, was almost deselected as candidate for West Edinburgh because of his vocal criticism of the pledge, but most other Asquithians were more conciliatory, and emphasized the strong Liberal pedigree of national development works.[34] The fundamental obstacle to Liberal unity, it seems, was not the unemployment policy, nor even the 'gimmicky' pledge, but Lloyd George's leadership of the party, the influence of his ill-gotten fund, and the belief that he would abandon his stated principles in pursuit of political gain.[35]

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[30] *The Scotsman*, 4 Sept. 1928, 8.
[31] *MG*, 12 Mar. 1929, 7.
[32] *The Times*, 28 Mar. 1929, 16.
[33] Liberal Council, *Report of the Annual Meeting… 1929* (1929), 4-16, at 9.
[34] *The Scotsman*, 4 Apr. 1929, 8; Bodleian Library, Oxford, Conservative Party Archive (CPA), PUB 229/5 (election addresses, 1929), 14/42 (Barbara Bliss, East Grinstead), 14/80 (F.C. Thornborough, Swindon), and 18/74 (Godfrey Collins, Greenock).
[35] Barbara Bliss, 'Lloyd George fund', *New Outlook*, 59 (Nov. 1966), 34-7, at 35.

How to Tackle Unemployment

The electoral impact of the unemployment pledge fell far short of what the Liberal leadership had hoped, especially in industrial areas, where Labour performed very well. Michael Hart has concluded from this 'that Keynesian economics was, as yet, no match for the class-consciousness of labour / trade unionism'; Philip Williamson, that the Conservative and Labour leaderships successfully portrayed the pledge as an election stunt which Lloyd George could not be trusted to carry out.[36] Overall, Labour won 287 seats, the Conservatives 260, and the Liberals fifty-nine – one of which was lost immediately when William Jowitt agreed to become MacDonald's Attorney-General. Lloyd George had achieved his minimum objective of holding the balance of power, but the other leaders' determination to avoid negotiating with him meant that the Liberals remained on the opposition benches. In private, Lloyd George revealed a willingness to abandon the idea of loan-financed public works, but publicly he pressed it strongly on the new Labour Cabinet; indeed, Liberal criticisms of the government initially revolved around its poor unemployment record.[37] Even if, as Williamson suggests, '[t]he Liberal leadership's politics were about survival… and only conditionally about economic radicalism', the 1929 election campaign had woven the idea that government could reduce unemployment firmly into the Liberal Party's identity, and it could not easily be removed.[38]

Lloyd George had hoped to work constructively with a Labour government, but MacDonald's intransigence left him in a reactive posture as he tried to force it to come to terms. For the first year of the new Parliament, Lloyd George engaged in tactical manoeuvring which exposed the Liberal Party's divisions and alienated MPs who should have been his allies. Part of the problem was poor communication with the parliamentary party: for example, Williamson believes that Lloyd George's objective during the Coal Bill debates in the winter of 1929-30 was to force the

[36] Hart, 'Decline', 363; Philip Williamson, '"Safety first": Baldwin, the Conservative Party, and the 1929 general election', *HJ*, 25 (1982), 385-409.
[37] For Lloyd George's willingness to abandon public works, see Williamson, *National Crisis*, 109; for Liberal criticism of government unemployment policy, see H.C. Deb., fifth series, 231, 4 Nov. 1929, 657-770.
[38] Williamson, *National Crisis*, 31.

government to acknowledge its need for Liberal support, but Liberal MPs such as Ernest Simon feared that he was trying to bring the government down.[39] Disaffection with Lloyd George's leadership came to a head at parliamentary party meetings in March 1930, after he had controversially decided to abandon opposition to the Coal Bill, and in July, after he had imposed a party line on the budget which would have caused the government's defeat if Liberal backbenchers had not rebelled.[40] Thereafter, Lloyd George's pursuit of an arrangement with Labour became somewhat more open, and opposition to his leadership came increasingly from right-wingers who opposed a Lib-Lab alliance; but his earlier manoeuvrings had permanently damaged MPs' confidence in his leadership, and dissipated much of the sense of moral purpose which had characterized the 1929 election campaign.

The winter of 1929-30 witnessed a ballooning of unemployment in Britain, resulting from the international economic contraction which followed the Wall Street Crash. W.R. Garside, using Charles Feinstein's statistics, estimates that the total number of unemployed workers in Britain rose from an average of 1,503,000 in 1929 to 2,379,000 in 1930 – an increase of over fifty per cent.[41] The increased scale of the unemployment problem, and concern that loan-financed public works might damage rather than improve business confidence, prompted a renewed focus on the classical diagnosis of Britain's post-war malaise. Asquithian traditionalists, such as Viscount Grey, predictably revived their calls for orthodox policies, but concerns about the private-sector confidence spread well beyond these usual suspects.[42] Even Keynes, who had redirected his energies from the Liberal Party to the government's Economic Advisory Committee, seems to have grown more pessimistic about public works by the summer of 1930, believing that 'the effect of [the Liberal national development schemes] on unemployment and business psychology would be very small compared with what their effect would have been before the world depression began'.[43] Keynes' preferred solution at this stage was to introduce a temporary revenue tariff so that British

[39] Ibid., 110.
[40] Manchester Archives, Ernest Simon papers, M11/11/5, Parliamentary Diary 1929-33, section A, fos. 21-2, entry for 10 July 1930.
[41] Garside, *British Unemployment*, 5.
[42] Liberal Council, *Report of the Annual Meeting… 1930* (1930), 10-14.
[43] National Archives of Scotland, Lothian papers, GD40/17/140/456-8, 'The Views of Mr. J.M. Keynes', memorandum by G.C. Allen, n.d. [summer 1930], at fo. 458.

producers could gain the domestic market, a course of action which free-trade Liberals were quite unwilling to contemplate.[44]

It was in this intellectual climate that MacDonald invited the Liberals to discuss unemployment and agricultural policy with the government in June 1930. The Liberals drew up a new memorandum of proposals, held several meetings with senior ministers during the summer, and – after the discussions broke down – published a revised version of their memorandum in October under the title *How to Tackle Unemployment.*[45] Significantly, Lloyd George did not really engage Liberal MPs in this process, nor did he turn to the Liberal Summer School. Instead, he enlisted Seebohm Rowntree and Lord Lothian, a Liberal peer and former member of his wartime 'garden suburb', to assist him in bringing the previous year's plans up to date, and engaged the young lecturer G.C. Allen as an economic adviser.[46] Allen's task was to look over the preliminary proposals which Lloyd George, Lothian and Rowntree had sketched out and solicit the opinions of 'distinguished professional economists' on the unemployment question.[47] During the summer of 1930, he sounded out Keynes, Henderson, Edwin Cannan, Ralph Hawtrey, Henry Clay, Sir Josiah Stamp, and several Liberal merchant bankers. Sir Arthur Salter, the former head of the League of Nations' economic section, also provided advice via Lord Lothian.

Allen began his enquiries 'deeply pessimistic' about the impact public works could have on unemployment, and the economic opinions he gathered confirmed his pessimism. For Cannan and Salter, mass unemployment mainly reflected the rigidity of the British economy, and the only solution was to make it more flexible by reducing taxation, reforming unemployment insurance, and persuading the trade unions to accept wage cuts.[48] Clay, who was working at the Bank of England, accepted the theoretical case for public works but was impressed by the practical difficulties, and placed more faith in the reduction of costs and rationalization of the basic

[44] Ibid., fo. 457.
[45] David Lloyd George, the Marquess of Lothian, and B. Seebohm Rowntree, *How to Tackle Unemployment: The Liberal Plans as laid before the Government and the Nation* (1930).
[46] Allen later described his involvement in G.C. Allen, 'Economic advice for Lloyd George', in id., *British Industry and Economic Policy* (1979), 196-207.
[47] Ibid., 200.
[48] Ibid., 202-3; Lothian papers, GD40/17/134/129-38, 'Sir Arthur Salter's Memo', n.d. [June 1930].

industries.[49] As we have seen, Keynes also seemed to be moving away from the 1929 programme. The Liberal bankers, meanwhile, emphasized the need for public economy, and for the government to pursue policies which would maintain confidence in sterling.[50]

Lord Lothian shared Allen's scepticism about public works, as he indicated in a memorandum for Lloyd George, because he felt that 'palliatives, short-cuts, and "raids"' would not deal with the fundamental causes of depression.[51] Lothian believed that high wage levels, high taxation, and the expansion of the social services were sapping 'the vitality of the productive machine', and had little confidence that public works could stimulate private-sector employment:

> A programme of public works, however well devised, cannot save or vitally improve the position unless at the same time the mainsprings of private enterprise are functioning freely. Public works can act as a balancing wheel and can improve the general national equipment in certain important and well defined fields. But the vital thing is the buoyancy of the great machine of private enterprise, which can absorb or throw out of work hundreds of thousands of men and women in a few weeks, according to whether it is active or stagnant.[52]

In a second memorandum, Lothian added that Britain risked being pulled into a vicious cycle of rising unemployment benefit rolls and a rising tax burden, which might provoke a flight from sterling. Indeed, the economic crisis which Australia was experiencing seemed to demonstrate the consequences of failing to bring production costs down.[53]

The strategy for economic recovery which emerged in *How to Tackle Unemployment* was an awkward synthesis of the 1929 public works policy with the classical approach which Lothian's thinking and Allen's advice implied. The Liberals continued to advocate a bold public works policy, and argued that £250,000,000 of loan-financed investment in roads, agriculture, regional development, housing and telephones would create 650,000 jobs directly, despite the government's

[49] Lothian papers, GD40/17/135/156-7, Clay to Lothian, 12 Aug. 1930, and GD40/17/135/158-67, 'Committee on Finance and Industry. Memorandum by Professor Henry Clay on Unemployment Since the War', 3 July 1930.
[50] Allen, 'Economic advice', 204.
[51] Lothian papers, GD40/17/134/88-116, memorandum by Lothian on the unemployment problem, 10 June 1930, at fo. 88.
[52] Ibid., fos. 98, 103.
[53] Lothian papers, GD40/17/135/185-96, 'Unemployment', memorandum by Lothian, 1 Sept. 1930, at fo. 195. On the Australian crisis, see Allan G.B. Fisher, 'Crisis and readjustment in Australia', *Journal of Political Economy*, 42 (1934), 753-82.

insistence that public works could not be undertaken on this scale.[54] The intellectual weight of the document lay, however, in its argument that production costs would have to be reduced by ten per cent through rationalisation, efficiency measures, and the abolition of restrictive practices in order to restore competitiveness to British industry. Significantly, the authors proposed that the government should give a lead by cutting its own spending by one-tenth, and emphasized that national development had to be understood as a complement to these measures, rather than an alternative to them.[55] Skidelsky's claim that the spending cut 'was by no means an integral part of the policy', but was included as a concession to business confidence, is unconvincing; in fact, a direct attack on wage rates seems to have been ruled out only because Lloyd George knew the Labour government would not accept it.[56] It is difficult to avoid the conclusion that the classical analysis of unemployment was regaining its hold on Liberal thinking as faith in the effectiveness of public works diminished.

Nevertheless, the Liberal Party's commitment to national development had been recast rather than abandoned. Lloyd George used the annual meetings of the NLF in October 1930 to report on his discussions with the government, and emphasized that there was no contradiction between capital investment and public economy.[57] In the debate on national development, the East Dorset MP Alec Glassey made a homely call for the government to adopt the Liberal plans:

> We are shivering with cold when there's coal in the cellar, wood on the pile, and matches on the chimney shelf. The Liberal proposals are to lay a fire in the grate and put a match to it.[58]

James Blindell, MP for Holland-with-Boston and a future Liberal National, predicted that this policy would form 'the basis of the Party's next appeal to the country'.[59] In political, as opposed to economic, terms, there was no turning back.

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[54] Lloyd George et al., *How to Tackle Unemployment*, 85-7. The 1930 scheme accorded a much larger role to agricultural development than the 1929 programme had done, partly reflecting the diminished influence of academic economists – who distrusted Lloyd George's rural revivalism – on the Liberal proposals: see Lothian papers, GD40/17/253/772-3, E.D. Simon to Lothian, 18 Oct. 1930.
[55] Lloyd George et al., *How to Tackle Unemployment*, 7-31.
[56] Skidelsky, *Politicians*, 227; Allen, 'Economic advice', 205-6.
[57] *NLF Proceedings, 1930* (1930), 37-55.
[58] Ibid., 31-3.

The Friends of Economy and the 'landslide towards protection'

The available evidence suggests that *How to Tackle Unemployment* commanded support from most active Liberals. Nevertheless, two major intellectual challenges to the Liberal leadership's policy emerged during 1930. Firstly, Viscount Grey's criticism of post-war public spending at the Liberal Council annual meeting in January sparked a movement for public economy which gained momentum among City Liberals during the year.[60] In July, *The Times* printed a 'Manifesto on National Economy' signed by eleven – mostly Liberal – businessmen, financiers and journalists, including Sir Hugh Bell and Lords Cowdray and Leverhulme, and Sir Ernest Benn began to construct a non-party 'Friends of Economy' campaign, which would call attention to the dangers of rising government spending.[61] The Friends of Economy movement finally launched in January 1931, in parallel with a Liberal Council campaign run by Harcourt Johnstone, which had Grey and Runciman at its head. The two initiatives were poorly coordinated, but both served to demonstrate the purchase which classical ideas still enjoyed among the Liberal elite.[62]

Grey and Runciman's antipathy to Lloyd George was so well-known that they posed little direct threat to his leadership. In any case, Grey was aged and almost blind, whilst Runciman was increasingly preoccupied by his business interests and announced in February 1931 that he would not stand for Parliament again.[63] Sir John Simon, who had held himself aloof from the Liberal Council, was a much more credible potential leader. Simon had suspended his doubts about public works during the 1929 election campaign, but his economic instincts were conservative, and by 1930 he was perturbed by Lloyd George's pursuit of a Lib-Lab arrangement.[64] As a strong critic of trade-union power, Simon was especially alarmed at the prospect that Lloyd George might allow the government to repeal the 1927 Trades Disputes Act in exchange for electoral reform. In

[59] Ibid., 33.
[60] *MG*, 15 Jan. 1930, 5.
[61] *The Times*, 16 July 1930, 9, and 7 Aug. 1930, 12.
[62] Liberal Council papers, Executive Committee minute book, 1927-1937, minutes of meeting, 21 Jan. 1931.
[63] Williamson, *National Crisis*, 212.
[64] David Dutton, *Simon: A Political Biography of Sir John Simon* (1992), 102.

October 1930, Simon wrote to Lloyd George, declaring that the protracted effort to win policy concessions from MacDonald had proved fruitless and that he had lost confidence in the government; in November, he led four other Liberal MPs – including erstwhile chief whip Sir Robert Hutchison – in support of a Conservative motion of censure; and shortly afterwards he used a speech in his Spen Valley constituency to advocate 'drastic and vigorous economy'.[65] Simon amplified his call for retrenchment in January 1931, when he told a meeting at South Molton in Devon that rising spending, taxes and debt were hampering recovery. In particular, the unemployment insurance scheme had to be restored to an actuarial basis in order to lighten the burden on the taxpayer.[66]

From the offices of the Liberal Council, Johnstone and Phillipps urged Simon to join their economy campaign. Backed by the prestige of Grey and Runciman, and committed to restoring the party 'to its old standard of straightness and honour', Simon could 'leave Ll.-G. standing with a mere rump of venal hangers-on'.[67] Simon, however, was an ambitious man, and seems to have viewed Asquithian intrigue as a futile endeavour. Instead, he discussed with Neville Chamberlain the possibility of developing a bloc of right-leaning Liberal MPs, who would help defeat the government and install the Conservatives in office.[68] The price of cooperation with the Conservatives was support for protection, but Simon was willing to compromise on this point. 'I have not been dogmatic over economic policy', he explained to a correspondent, 'for I do feel I want here to get an impartial survey and fresh guidance from those who know.'[69]

The tariff issue posed the second challenge to Lloyd George's policy. By the autumn of 1930, free traders were alarmed by indications of growing support for protection, including the apparent success of Lord Beaverbrook's Empire Crusade, a 'Bankers' Manifesto' in favour of tariffs, and signs of disillusionment with free trade in the trade-union movement.[70] This 'landslide to protection' mostly took place outside the Liberal Party, but Liberals were not wholly immune to it.

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[65] *MG*, 6 Nov. 1930, 9, and 17 Nov. 1930, 14; *The Times*, 17 Nov. 1930, 19.
[66] *LM*, 39 (1931), 122-4.
[67] Bodleian Library, MS. Simon 249, fo. 102, Phillipps and Johnstone to Simon, 1 Dec. 1930, and fo. 110, Phillipps to D.R. Evans, 16 Dec. 1930.
[68] MS. Simon 249, fos. 45-6, Note by Simon, 1 Dec. 1930.
[69] MS. Simon 67, fos. 23-4, Simon to Lord Inchcape, 21 Nov. 1930, at fo. 23.
[70] Skidelsky, *Politicians*, 227-31. For the Empire Crusade, see Williamson, *National Crisis*, 118-32.

Most significantly, the 1930 Liberal Summer School witnessed a robust debate over protection, sparked by Ernest Simon's suggestion that buying a British-made motor car, rather than an American-made one, was bound to have a beneficial effect on domestic employment. Simon's choice of example was telling, since Britain's motor industry, covered by the McKenna duties, was one of the few industries which had visibly benefited from protection during the 1920s.[71] Moreover, as Frank Trentmann has noted, Edwardian tariff reform propagandists had used the motor car to symbolize the modernity of their cause.[72]

Ernest Simon's critique of orthodox free-trade theory may be viewed as an extension of constructive Liberal thinking to the trade question. Sir Walter Layton remained adamant that buying a British rather than an American-made car would have no impact on employment, but Keynes told Simon that this was 'obviously absurd'; J.A. Hobson also endorsed Simon's iconoclasm, and even Ted Scott of the *Manchester Guardian* felt that Simon had identified a weak point in the free-trade case.[73] Simon believed that the existence of a 'permanent surplus of unemployed labour' made free-trade theory inapplicable, and suggested a temporary revenue tariff of ten per cent.[74] Though he subsequently abandoned his call for a revenue tariff, Ernest Simon remained the most articulate left-wing critic of free trade in the Liberal Party, as the debate over renewal of the Dyestuffs Act in the winter of 1930-1 showed. Simon opposed the government's decision to allow the protective Dyestuffs Act, passed in 1920 for a ten-year period, to lapse, but he failed to persuade the Liberal leadership to press for renewal. Simon was particularly frustrated by the attitude of deputy leader Sir Herbert Samuel, whom he considered 'a "religious" Free Trader of the worst type', 'utterly unable to consider a question of this sort scientifically and on its merits'.[75]

Samuel may have been a doctrinaire free trader, but Lloyd George certainly was not. He consistently defended free trade as Liberal leader, but Asquithians did not forget that it was Lloyd George's coalition which had introduced safeguarding duties after the war, or that rumours of

[71] Trentmann, *Free Trade Nation*, 323-4.
[72] Ibid., 43.
[73] E.D. Simon, 'Some questions about free trade', *Political Quarterly*, 1 (1930), 479-95, at 479; Trinity College Library, Cambridge, Layton papers, 75/21(2), Hobson to Simon, 21 Oct. 1930, and 75/1, E.T. Scott to Layton, 5 Aug. 1930.
[74] Simon, 'Some questions about free trade', 481, 490-2.
[75] Ernest Simon papers, M11/11/5, Parliamentary Diary 1929-33, section A, fo. 37, entry for 4 Dec. 1930.

Lloyd George's conversion to protection had circulated widely in 1923 before Baldwin's decision to call a tariff election rallied him to the free-trade flag. The main reason Lloyd George's commitment to cheap food could never become 'religious' was that it was combined with a concern for agricultural prosperity and employment which urban Liberals – and economists – found difficult to understand.[76] The Liberals' growing reliance on agricultural constituencies, where they performed well in 1929 but were always vulnerable to protectionist sentiment, added an electoral dimension to this concern. During 1930, rural Liberal MPs called for new measures to ward off agricultural depression, and Lloyd George urged the Minister of Agriculture to investigate the 'dumping' of foodstuffs by foreign producers at below cost price.[77] These comments led some observers to believe that Lloyd George would accept tariffs if the political situation dictated.[78] However, Lloyd George's dominant strategy in 1930-1 was to pursue cooperation with Labour, which required him to emphasize rather than downplay the importance of free trade, and his sally against dumping is probably best understood as a tactical manoeuvre to defend the free traders' most exposed position. Indeed, the necessity of free trade for economic recovery became a more prominent theme of Lloyd George's speeches as Lib-Lab cooperation intensified.

The economics of a progressive bloc

The months between the publication of *How to Tackle Unemployment* in October 1930 and the onset of financial and political crisis in the following summer saw the formation and consolidation of a semi-secret alliance between the Liberals and the Labour government, which moved forward by fits and starts as Lloyd George secured the policy concessions he needed to make the arrangement palatable to his party. Frank Owen claimed in his 1954 biography of Lloyd George that, by the early summer of 1931, the Liberal leader expected to enter the Cabinet in an imminent reshuffle, creating a coalition government which perhaps two-thirds of Liberal MPs would have

[76] Lothian papers, GD40/17/253/772-3, E.D. Simon to Lothian, 18 Oct. 1930.
[77] *MG*, 22 Mar. 1930, 17, and 20 Nov. 1930, 15.
[78] MS. Simon 249, fos. 18-27, 'The Fiscal Controversy in Relation to the Political Parties', memorandum by D.R. Evans, Nov. 1930, at fo. 25.

supported.[79] In line with Owen's claim, Philip Williamson has argued convincingly that the developing alliances between Lloyd George and MacDonald, on the one hand, and Sir John Simon and the Conservative Party, on the other, pointed towards the emergence of a political system polarized between progressive and conservative blocs.[80] Lib-Lab cooperation was underpinned by the development of a shared approach to economic policy. At the same time, however, underlying differences of perspective meant that this alliance rested on fragile foundations.

In November 1930, following Simon and Hutchison's rebellion in the debate on the Address, Lloyd George and Samuel sought the support of Liberal MPs and peers for a formal two-year pact with the government, covering unemployment and agricultural policy, unemployment insurance, Trades Disputes Act repeal, and the alternative vote. This outline deal was not well-received, and even when Lloyd George proposed a less ambitious one-year pact he could not secure enough support to make it worth pushing the issue to a vote.[81] However, it seems clear that several MPs and peers who disliked the idea of formal cooperation with Labour were still keen to avoid an election. Sir Donald Maclean, MP for North Cornwall, 'felt greatly perturbed at the probable result of an early Tory victory on Free Trade and Disarmament', and the Marquess of Crewe was 'prepared to contemplate some sort of bargain for the sake of Free Trade', while Isaac Foot and Sir Tudor Walters, who opposed a time-limited pact, believed the Liberals should keep Labour in office provided it pursued an acceptable policy.[82] Similar sentiments were expressed by Liberal candidates and activists, and even – in the spring of 1931 – by Viscount Grey.[83] The prospect of a formal pact with Labour seemed likely to split the party, and Asquithians felt that Lloyd George's manoeuvrings made the party look like 'hucksters in the political market-place'.[84] Nevertheless,

[79] Frank Owen, *Tempestuous Journey: Lloyd George, His Life and Times* (1954), 717.
[80] Williamson, *National Crisis*, 229-52.
[81] MS. Simon 249, fos. 5-8 and 15-16, memoranda by Simon on meetings of leading Liberals, 20 and 27 Nov. 1930.
[82] MS. Simon 249, fos. 5-8, memorandum by Simon on meeting of leading Liberals, 20 Nov. 1930, at fos. 7-8; MS. Simon 249, fos. 15-16, memorandum by Simon on meeting of leading Liberals, 27 Nov. 1930.
[83] MS. Simon 249, fos. 48-56, manuscript report of Liberal candidates' meeting, 4 Dec. 1930; Manchester Archives, Lancashire, Cheshire and North Western Liberal Federation papers, M390/1/7, minute book, 1928-31, 'Report of Conference of Chairmen and Secretaries held 22 Nov. 1930'; Liberal Council, *Report of the Annual Meeting… 1931* (1931), 6.
[84] Viscount Cowdray in Liberal Council, *Report of the Annual Meeting… 1931*, 4.

the threat which a Conservative victory posed to free trade provided a powerful justification for Lloyd George's general approach.

The first months of 1931 witnessed fierce parliamentary clashes over Trades Disputes Act repeal, which ended in the withdrawal of the government's bill following a Liberal revolt in committee stage. *Inter alia*, this episode showed the reluctance of Liberal MPs to subordinate issues of principle to wider strategic aims, and allowed Sir John Simon to start cultivating a following among the party's dissidents.[85] At roughly the same time, however, Lloyd George was at last winning economic policy concessions from the government, reflecting both MacDonald's growing recognition of the parliamentary arithmetic and a new readiness on Lloyd George's part to play down his differences with Labour. Commons debates on retrenchment and unemployment on 11 and 12 February demonstrated how far the Liberal and Labour leaderships were prepared to coalesce around a shared short-term agenda. After Conservatives put down a motion for 11 February, censuring the government for its failure to restrain the growth of public spending, the Liberals consulted with the Cabinet and then tabled an alternative motion which called for a committee to be established to propose economies. The Liberal motion, moved by Maclean, was carried with Labour support, and Sir George May was appointed as the committee's chairman. The establishment of the May Committee suited MacDonald and Snowden's needs, since it seemed likely to help them win Cabinet consent for a reduction in unemployment benefit spending; it also enabled Lloyd George to show Asquithians that their demands for public economy could be met in the framework of Lib-Lab cooperation.[86]

The debate on unemployment on 12 February revealed an even more striking rapprochement. Sir Herbert Samuel moved a motion which reiterated the Liberals' demand for national development works, but broke with the 1929 policy by declaring that the Liberals would be happy for the schemes to be financed piecemeal out of loans and economies, if it was felt that a large development loan would disturb the money markets.[87] Samuel also stated emphatically that public works would have to be accompanied by 'a restoration of industry and the opening of foreign

[85] Williamson, *National Crisis*, 203-13.
[86] Ibid., 218-22, 237-41.
[87] H.C. Deb., fifth series, 248, 12 Feb. 1931, 631-46.

markets' if recovery was to be sustained in the long run.[88] Lloyd George acknowledged that the motion embodied 'substantially the same programme' as that outlined in Labour's 1928 manifesto *Labour and the Nation*, and it is quite reasonable to interpret this debate – as Philip Williamson does – as the point at which 'the Liberal leadership capitulated to the Labour position and buried *We Can Conquer Unemployment*'.[89] At the same time, the policy outlined in the Liberal motion was the logical result of the reappraisal of public works which Lloyd George and his colleagues had undertaken in 1930, and the Liberals accepted the practical and intellectual framework for public works set by the Labour government precisely so that they could secure a significant expansion of development spending within it. National development was still a Liberal cause; the difference was that Lloyd George was now committed to working with the government to put schemes into practice. The first fruit of this collaboration was the government's adoption of Sir John Tudor Walters' scheme for the building of 100,000 rural houses, which Lloyd George was able to announce to the NLF annual meetings at Buxton in May.[90]

In his April budget, Snowden attempted to lay another stone in this emerging progressive edifice: a penny-in-the-pound annual tax on site values. Initially, this was warmly welcomed by Liberals as an attempt to revive the cause of land value taxation, along the same broad lines as Lloyd George's 1909 measures, but it backfired badly as its details became clear, and by the end of May a vocal section of Liberal opinion was agitating against it. Sir John Simon complained that Snowden's tax failed to distinguish between unearned increment and the values which landowners created through their own enterprise, whilst Liverpool industrialist Sir Benjamin Johnson felt that it was 'a penal exercise in confiscation'.[91] Alarmed by the prospect of a full-blown Liberal revolt, Lloyd George declared that the 'double taxation' of land which had already been subject to income tax under Schedule A was unjust, and organized an amendment to the Finance Bill which would

[88] Ibid., at 643.
[89] H.C. Deb., fifth series, 248, 12 Feb. 1931, 725-34, at 728; Williamson, *National Crisis*, 209.
[90] *MG*, 16 May 1931, 13. Tudor Walters later became chairman of the Advisory Committee appointed to oversee the scheme under the Housing (Rural Authorities) Act 1931, before it was severely emasculated by the National Government: *Daily Herald*, 18 July 1931, 3.
[91] *MG*, 20 May 1931, 9; *The Times*, 29 May 1931, 15.

have allowed landowners to offset income tax payments against their land tax liability.[92] After a lengthy stand-off with the government, a compromise was reached in which the incidence of double taxation was greatly reduced but the principle was not conceded. Sir John Simon, Sir Robert Hutchison and Ernest Brown then resigned the Liberal whip in protest at the party's apparent humiliation, and several Liberal grandees including Lord Rosebery and Lord Stanley of Alderley announced their withdrawal from active politics.[93] Snowden and Lloyd George clearly mishandled the land tax proposals, but the fundamental problem was that Simon wanted a pretext for a split, while many elite Liberals were unwilling to accept the Georgist principle that land was different from other forms of property. The result was that a policy initiative which should have strengthened the Lib-Lab alliance instead temporarily destabilized it.

Sir John Simon's secession from the Liberal ranks over the land tax in June 1931 might have attracted a larger following if he had not converted to protection in March, on the grounds that a revenue tariff was necessary to balance the budget.[94] This move cut Simon off from most of his potential supporters, including Asquithians such as Grey and Maclean, and aided Lloyd George's efforts to clothe his pro-Labour strategy in the free-trade mantle. After facing down his critics at a party meeting in March and at the NLF meetings in May, Lloyd George launched a national campaign in defence of free trade, and persuaded erstwhile dissidents such as Leslie Hore-Belisha and Geoffrey Shakespeare to participate in it.[95] A few free traders, most notably Ernest Brown, felt the land tax humiliation so keenly that they were prepared to follow Simon in June in spite of his altered fiscal views, but most of those who opposed Lib-Lab cooperation were repelled by Simon's new line: throwing over free trade in pursuit of an alliance with the Conservatives seemed a more egregious surrender of Liberal independence than Lloyd George's strategy did.[96] Suspicion of Lloyd George ran deep, but it would be quite wrong to conclude from this, as Ross McKibbin does, that Simon had become '[t]he representative Liberal leader'.[97]

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[92] *MG*, 12 June 1931, 9.
[93] *The Observer*, 28 June 1931, 19; *The Times*, 26 June 1931, 14, and 3 July 1931, 9.
[94] *The Times*, 4 Mar. 1931, 8.
[95] Thurso papers, I 20/2, Sinclair to C.E. Taylor, 26 May 1931.
[96] For Brown's position, see *HDE*, 29 June 1931, 2.
[97] McKibbin, *Parties and People*, 92.

Liberal support – or consent – for Lloyd George's pro-Labour strategy in the spring of 1931 rested, then, on quite definite economic policy foundations: the defence of free trade, which Simon could not offer, and the emergence of compatible Liberal and government positions on retrenchment and national development. The crucial question, though, is whether this coalescence of economic positions could have provided a permanent basis for cooperation; and the answer to this should probably be negative. The problem which confronted the Liberal and Labour leaders was not merely that disagreements over policy details (like the land tax) and external shocks (like the European financial crisis which developed in July) were liable to destabilize the Lib-Lab alliance, but that MacDonald and Snowden's belief in the necessity of retrenchment was not shared by the Labour Party at large. The May Committee's recommendations for spending cuts were due to appear over the summer, and there was clearly a significant gap between the response which the Liberal Party expected from Snowden and that which Labour MPs and the trade-union movement would allow him to deliver.

The May Report and the August crisis

In many respects, the crisis of August 1931 was the moment Lloyd George had feared and Simon had hoped for, when the incompatibility of the prevailing Liberal and Labour attitudes to economic policy became starkly apparent. By August, however, neither Lloyd George nor Simon was really able to shape the party's behaviour directly: Simon had left the parliamentary party, stage right, and Lloyd George was bed-ridden, recuperating from a serious illness in late July and an operation to remove his prostate gland. The influence of both men was indirect, setting the political parameters within which the party's acting leader, Sir Herbert Samuel, and his colleagues acted. In particular, the danger that other MPs would join Simon, Hutchison and Brown as independent Liberals made it imperative for Samuel to retain the confidence of the party's right wing.

The May Committee's report was received by the government in the last week of July, and Snowden sent advance copies to Baldwin and Samuel, asking them to consult their colleagues about it. The majority report, signed by all but the Labour members of the committee, estimated

that on current trends the budget deficit for 1932-3 would hit £120,000,000, and recommended that this gap should be closed by £25,000,000 of additional taxation and £96,500,000 of new economies. Most controversially, £66,500,000 would be saved from the unemployment insurance scheme by reducing benefit rates by one-fifth, increasing contributions, and imposing a means test on transitional benefit.[98] When these recommendations were published on 31 July, Liberal reaction was ambivalent, as a glance at the main Liberal newspapers shows. The *Manchester Guardian* agreed that it was 'life and death' for Britain to balance her budget and maintain her credit, but pointed out that the proposed savings on unemployment insurance went well beyond what was necessary to make the Unemployment Fund solvent. The newspaper also argued that the proposed cuts would only be equitable if an equivalent sacrifice was imposed on higher-income groups:

> The proposals of the Economy Committee do not, taken by themselves, constitute a truly national effort. The brunt of them falls upon specific classes of men and women, and those not the strongest to sustain the load… To make the economies suggested without some kind of additional direct taxation would be neither just nor adequate.[99]

In similar vein, *The Economist* noted that the committee's estimate of a £120,000,000 deficit 'rather seriously overpaints the gloom of the immediate budgetary prospect', because it included £50,000,000 of sinking fund payments and £40,000,000 of Unemployment Fund borrowings, which were not normally counted as government expenditure. The journal also sympathized with the complaint of Labour nominees Arthur Pugh and Charles Latham, in their minority report, that the majority report articulated an inadequate conception of equality of sacrifice and failed to meet even this principle. However, the budgetary situation had to be dealt with, and *The Economist* hoped that the government would use the majority report as its starting point in devising a scheme which would distribute sacrifices fairly across the whole community.[100]

Many progressive Liberals seem to have agreed that the May report was 'suspiciously one-sided'.[101] The most widely canvassed alternative was a 'National Treaty' for an all-round reduction

[98] For a succinct account of the May Committee's work, see Williamson, *National Crisis*, 267-73.
[99] *MG*, 1 Aug. 1931, 10.
[100] *Economist*, 8 Aug. 1931, 255-6. The *News Chronicle*'s assessment was similar: see *NC*, 1 Aug. 1931, 6.
[101] *MG*, 11 Aug. 1931, 8.

in costs and wages, on the lines proposed by Keynes, Reginald McKenna, and other radicals in their addendum to the report of the Macmillan Committee on Finance and Industry, and recently implemented in Australia as a solution to that country's difficulties.[102] A National Treaty seemed to have two advantages over the May Committee's proposals: it would spread sacrifices more widely, and would improve the competitiveness of British exports by reducing labour costs. At the Liberal Summer School in Cambridge on 31 July, Sir Walter Layton and Ernest Simon both came out in favour of a National Treaty to introduce cuts, by agreement, in all wages, salaries and benefits, in the incomes of the 'rentiers class', and in retail prices.[103] Layton developed the National Treaty idea further in private correspondence with Snowden, and suggested that it should also involve a special tax on fixed-interest-bearing securities and the raising of a large loan to shore up sterling; this synthesis of ideas, he felt, might meet the needs of the 'psychological moment' in a way that mere budget cuts would not.[104] The treaty idea was a powerful one, and won support from the dramatist and Liberal candidate Reginald Berkeley and from the Liberal journalist Elliott Dodds.[105] Ramsay Muir, speaking at the Guildford by-election on 21 August, put a more progressive slant on it, arguing that an emergency tax on the yield of securities could 'practically wipe out the Budget deficit' and suggesting that low earners should be insulated from measures to reduce real wages to 1929 levels.[106]

In political terms, a National Treaty might well have offered a means of making economy measures acceptable to the Labour Party, and thereby preserving the Lib-Lab alliance. However, the idea does not seem to have carried much weight with MacDonald and Snowden, and the negotiations which took place within the Cabinet and between the party leaders in August 1931 were focussed on the much narrower issue of the budget deficit. The significance of Liberal calls for a National Treaty lies not in their political impact, but in the evidence they provide that progressive Liberals, as well as traditionalists, were now resigning themselves to a direct assault on

[102] Cmd. 3897, *Report of Committee on Finance and Industry* (1931), 190-209, esp. 200.
[103] *NC*, 1 Aug. 1931, 2.
[104] Layton papers, 101/4, Layton to Snowden, 11 Aug. 1931, and 101/7, Layton to Snowden, 16 Aug. 1931. In his second letter, Layton also advocated mobilization of Britain's foreign investments.
[105] *NC*, 3 Aug. 1931, 2; *British Weekly*, 20 Aug. 1931, 403.
[106] *NC*, 22 Aug. 1931, 2.

wages. Liberals like Muir were still enthusiastic about public works, and still believed that the Yellow Book pointed the way to progress, but the budgetary situation and the instability of the financial markets made a constructive Liberal approach impracticable.[107] Conversely, the growing atmosphere of crisis made the classical solution to unemployment seem politically feasible in a way it had not been in the 1920s, whilst Keynes' association with the National Treaty idea suggested that it was not a direct repudiation of the party's 1929 policy.

Snowden's initial plan for dealing with the May report was to use the summer recess to agree an economy package within government, and then present it to the Liberal and Conservative leaders for approval. However, there were already signs that Britain was vulnerable to the financial instability that had recently thrown Germany into crisis, and the flight from sterling which began on 5 August forced the government to respond to the May report more quickly.[108] Between 12 and 23 August, Snowden and MacDonald held an exhausting series of meetings with their Cabinet colleagues, the Liberal and Conservative leaders, and Sir Ernest Harvey and Edward Peacock of the Bank of England in an effort to produce a mutually acceptable programme of spending cuts and tax increases. It was at this point that Lloyd George's absence from the leadership began to affect the Liberal strategy. Samuel chose Sir Donald Maclean to accompany him into these conferences, partly because Maclean was able to attend at short notice, and partly because – as he told Sinclair – 'Donald has been our protagonist on the economy question and moved the resolution which originated the May Committee'.[109] In retrospect, this was a significant choice, because Maclean had already indicated that he was inclined to work with the Conservatives to press for cuts.[110] Maclean was also highly sensitive to City opinion, and during the crisis he worked to 'keep the Bank of England in close touch with the real position'.[111]

Bernard Wasserstein has suggested that Samuel's behaviour in the Downing Street negotiations should be understood in terms of a deep-seated attachment to classical principles.[112] In

[107] For Muir's continuing enthusiasm for the Yellow Book, see *NC*, 3 Aug. 1931, 2.
[108] Williamson, *National Crisis*, 285-90.
[109] Thurso papers, III, 3/5, Samuel to Sinclair, 18 Aug. 1931.
[110] *The Times*, 13 Aug. 1931, 12, and Thurso papers, III, 3/5, Sinclair to Samuel, 14 Aug. 1931.
[111] Bodleian Library, dep. c. 468 (Maclean papers), 127, Maclean to his family, 24 Aug. 1931.
[112] Wasserstein, *Herbert Samuel*, 312.

fact, though Samuel was a passionate free trader, he had always associated with the Liberal left and had forcefully advocated loan-financed public works during the previous three years. No one – not even Keynes – suggested in August 1931 that the ordinary budget did not need to be balanced; in the midst of a developing financial crisis, this seemed essential to keep sterling on the gold standard.[113] The question at issue was *how* budgetary balance would be achieved, and here Samuel's position reflected a mixture of political and economic judgments. Firstly, it was essential to reassure Liberals that the Labour government would not shirk the task of retrenchment by trying to plug the deficit with heavy new taxation or a revenue tariff, both of which seemed likely to inhibit recovery.[114] Secondly, Samuel believed that a package of measures which left unemployment benefit untouched would not be perceived as fair by the upper and middle classes.[115] Thirdly, and perhaps most importantly, Samuel recognized that the composition as well as the size of the deficit-reduction package would influence the response of the financial markets. On this point, Samuel and Maclean deferred to the judgment of the Bank of England, and accepted its view that only a cut in unemployment benefit could stem the run on the pound.[116]

In the light of these considerations, Samuel and Maclean – along with Neville Chamberlain and Samuel Hoare for the Conservatives – told MacDonald and Snowden on 20 August that an unemployment benefit cut was an 'indispensable' component of an economy scheme.[117] This, of course, was also MacDonald and Snowden's view, though they faced strong resistance from Cabinet ministers. Nevertheless, as Williamson notes, it represented a significant strategic shift by the Liberals away from the position of critical support for the government which they had previously maintained.[118] It is at least conceivable that a more flexible attitude from the Liberal negotiators, such as Sir Archibald Sinclair had urged on Samuel, might have allowed Labour to

[113] At this stage, Keynes proposed to continue borrowing for the Unemployment Fund, suspend the sinking fund, and impose a revenue tariff to help eliminate the ordinary deficit: *New Statesman*, 15 Aug. 1931, quoted in Skidelsky, *Politicians*, 346.
[114] Thurso papers, III, 3/5, Samuel to Sinclair, 18 Aug. 1931.
[115] Parliamentary Archives, Samuel papers, SAM/A/77/7, 'Course of Events – August 20th-23rd, 1931', memorandum by Samuel, 23 Aug. 1931.
[116] Ibid; Williamson, *National Crisis*, 316-7.
[117] Samuel papers, SAM/A/77/7, 'Course of Events'.
[118] Williamson, *National Crisis*, 310.

stay in office.[119] On the other hand, it seems unlikely that the modest economy programme which the Cabinet was prepared to support would have been sufficient to save sterling.

The National Government

The Labour government fell on 23 August 1931 after the Cabinet proved unable to agree on a cut in unemployment benefit. During the preceding days, Samuel's consultations with Maclean, Lloyd George, and other Liberals had confirmed his view that both party and national interests would be best served by the formation of a National Government under MacDonald's leadership.[120] Samuel recommended a National Government to the King, and MacDonald and Baldwin were persuaded to assent, MacDonald forming a ten-man National Cabinet on 24 August. Samuel became Home Secretary and the Marquess of Reading Foreign Secretary within the Cabinet, and several other Liberals received posts outside it. Maclean was appointed President of the Board of Education, Sinclair Secretary of State for Scotland, and Lothian Chancellor of the Duchy of Lancaster.

After the October 1931 general election, when he broke with the main body of the Liberal Party, Lloyd George portrayed the August crisis as a coup by the party's 'Whigs', who had never liked the 1929 pledge and were 'glad of this opportunity of throwing it over'.[121] The crisis certainly showed the continuing influence of the party's Asquithian elite, and brought the Liberal Council 'back into the centre of Liberal party politics'.[122] Maclean, 'the perfect representative of that older type of Liberalism', brought classical concerns about the growth of public expenditure to bear on the Liberal negotiating position, and Runciman later congratulated him on making retrenchment 'the keystone'.[123] When Liberal MPs, peers and candidates met to endorse the new government at the National Liberal Club on 28 August, Lord Grey attended to pronounce his blessing, and even

[119] Thurso papers, III, 3/5, Sinclair to Samuel, 14 Aug. 1931.
[120] Williamson, *National Crisis*, 335.
[121] *MG*, 2 Nov. 1931, 4.
[122] Williamson, *National Crisis*, 354.
[123] Stuart Hodgson in *NC*, 26 Aug. 1931, 6; Bodleian Library, dep. c. 468 (Maclean papers), 143-6, Runciman to Maclean, 25 Aug. 1931, at fo. 143.

Sir John Simon sent a message of support.[124] The inclusion of the aged Crewe and Reading in the National Government added to the atmosphere of Asquithian restoration.

It would, however, be misguided to interpret Liberal support for the National Government wholly in these terms. Samuel himself was no Asquithian, and remained closely in touch with Lloyd George during the crisis; he also received strong backing from the Liberal shadow cabinet, and the party meeting on 28 August – attended by approximately 250 Liberals – passed a resolution approving of his actions with just one dissentient, who was not an MP.[125] Samuel's claim that Lloyd George fully supported the National Government was somewhat exaggerated, since the bed-ridden leader was frustrated at the way 'foreign financiers' were being allowed to dictate government policy; but he had no problems with the benefit cut, and as he was unable to develop an alternative strategy he publicly backed the new administration and allowed his son Gwilym to join it.[126] Lloyd George also ensured that recent critics of his leadership, such as Sir John Simon and Ernest Brown, did not receive office.[127] Following Samuel and Lloyd George's lead, most progressive Liberals accepted the economy programme as a regrettable necessity and focussed their energies on making it as equitable as possible.[128] Only one Liberal MP, Frank Owen, openly criticized the leadership's support for the benefit cut.[129]

The National Government largely took over the economy scheme which had been proposed by MacDonald on 22 August and rejected by the Labour Cabinet, and combined it with the tax increases which Snowden had drawn up before the Labour government fell.[130] Snowden's emergency budget on 10 September reduced unemployment benefit rates by one-tenth, increased insurance contributions, imposed a means test on transitional benefit, and cut public sector salaries by between one-tenth and one-fifth; it also raised taxes on beer, tobacco, petrol and entertainments, and introduced £57,000,000 of new direct taxation, including rises in income tax and surtax and

[124] *MG*, 29 Aug. 1931, 11, 15.
[125] Samuel papers, SAM/A/78/3, memorandum by Samuel, 13 Aug. 1931; *NC*, 24 Aug. 1931, 2; *MG*, 29 Aug. 1931, 11.
[126] Campbell, *Lloyd George*, 298; Samuel papers, SAM/A/77/12, Lloyd George to Samuel, 25 Aug. 1931.
[127] British Library (BL), MSS. Eur. F118 (Reading private papers), fos. 131-3, memorandum by Reading on meeting with Lloyd George, 11 Sept. 1931.
[128] For instance, Percy Harris in H.C. Deb., fifth series, 256, 11 Sept. 1931, 450-8.
[129] H.C. Deb, fifth series, 257, 28 Sept. 1931, 83-7.
[130] Williamson, *National Crisis*, 362-7.

reductions in allowances.[131] The rhetoric used by Snowden in his budget speech, and echoed by MacDonald, Samuel, and other ministers, was one of equality of sacrifice; the justification for the cut in unemployment benefit was that prices had fallen significantly in recent years, so that the real value of benefit would still be slightly above its 1929 level.[132] Following advice from Henry Clay, ministers also argued that the cuts entailed a less serious reduction of working-class living standards than that which would ensue if Britain was forced off the gold standard.[133]

Liberal concerns about the National Government's policy took two main forms. Their overriding concern was that the government's rhetoric of equal sacrifice should be borne out by its measures. At times, this led Liberals to oppose specific cuts which they perceived to be unjust, most notably the fifteen per cent cut in teachers' salaries, which the party's Education Advisory Committee condemned on the grounds that it exceeded the sacrifice required from most other public servants.[134] The government eventually agreed to reduce the teachers' pay cut to ten per cent in late September, following the departure from the gold standard.[135] More commonly, however, Liberals sought to make sacrifices broader and wider. Within government, Lothian urged a special effort to show 'that the rich as well as the poor are going to bear their fair share of the burden'.[136] Lothian supported the cuts in social spending, but he argued that the government should also impose a capital levy to cancel £2,000,000,000 of war debt, which would 'permanently balance… the budget' and facilitate some targeted tax reductions 'or an expanded programme of national development to absorb the unemployed'.[137] The possibility of a capital levy was taken seriously by Samuel and Neville Chamberlain, but Sir Ernest Harvey of the Bank of England warned that it might precipitate a renewed flight from sterling.[138] The government settled instead for increasing

[131] *MG*, 11 Sept. 1931, 9.
[132] H.C. Deb., fifth series, 256, 10 Sept. 1931, 297-312; *The Times*, 26 Aug. 1931, 10.
[133] Lothian papers, GD40/17/143/31-3, 'The Pound and the Gold Standard', memorandum by Clay, 25 Aug. 1931.
[134] *NC*, 3 Sept. 1931, 2.
[135] *NC*, 22 Sept. 1931, 1.
[136] BL, MSS. Eur. F118 (Reading private papers), fos. 112-7, Lothian to Samuel, 25 Aug. 1931, at fo. 113.
[137] Ibid., fo. 113.
[138] Williamson, *National Crisis*, 364.

the tax differentiation between earned and unearned income and reviving plans to convert war loan to a lower rate of interest.[139]

Liberals outside the government sought to keep the National Treaty idea alive more explicitly. In mid-September, faced by the prospect of 'a catastrophic fall in the £' and keen to stave off 'a dog fight election' over tariffs, thirteen prominent Liberals including Layton, Rowntree, and the financial journalist Norman Crump drew up a memorandum on 'Liberalism and the Crisis of the £' which Lothian circulated to senior Liberal ministers.[140] The memorandum argued that the collapse of international confidence in Britain stemmed not only from the budget deficit but also, more fundamentally, from her weak export position. '[A]n all round reduction of British money costs of the order of from 10 to 20%' was therefore essential.[141] Devaluation and protection were possible means of achieving this, but both were unacceptable: the former because it would destabilize the international financial system, the latter because it would require extensive government intervention and undermine efforts to obtain tariff reductions from other nations.[142] The inescapable conclusion was that the government should seek to cut domestic costs by reducing wages, salaries, capital, rents and retail prices 'on some generally agreed scale', perhaps through 'a deal with the T.U.C.'.[143] 'Liberalism and the Crisis of the £' was rendered out of date when sterling was forced off the gold standard on 21 September, and historians' verdicts have not been sympathetic: Williamson, for instance, takes it as evidence that the 'Liberals had almost nothing new to offer' and that 'Keynes's influence had… been virtually erased'.[144] However, this interpretation neglects the purchase which the National Treaty idea held among Liberals, as a way of giving 'equal sacrifices' more concrete meaning and establishing a firm foundation for recovery.

A second, and subsidiary, Liberal concern involved the treatment of public investment within the government's economy package. In contrast to his acceptance of the unemployment benefit cuts, Lloyd George was infuriated by the proposed reductions in capital spending, especially on

[139] Ibid., 364-5.
[140] Lothian papers, GD40/17/144/57-67, 'Liberalism and the Crisis of the £', n.d. [c. 16 Sept. 1931], fo. 58, and GD40/17/144/54, Crump to Lothian, 18 Sept. 1931.
[141] Lothian papers, GD40/17/144/57-67, 'Liberalism and the Crisis of the £', fos. 57-8, 60.
[142] Ibid., fos. 60-3.
[143] Ibid., fos. 64-5.
[144] Williamson, *National Crisis*, 396.

smallholdings, land reclamation, and other agricultural projects.[145] Liberals ministers such as Lothian and Graham White, the Assistant Postmaster-General, took a similar attitude.[146] Outside government, the authors of 'Liberalism and the Crisis of the £' proposed to continue 'a wise policy of national development' within a National Treaty scheme, whilst Philip Oliver, MP for Manchester Blackley, lamented that the need 'to go slow with schemes of national reconstruction' was the Liberals' 'part of the sacrifice'.[147] Clearly, then, national development continued to occupy a prominent place in the Liberal Party's political economy during the 1931 crisis. It is indicative of the Liberals' reduced bargaining power after the National Government was formed, and the political difficulties involved in finding alternative savings elsewhere, that deep public investment cuts went ahead anyway.

By the time the National Government went to the polls in October 1931, the issue of protection was coming to dominate political debate and split the Liberal Party, a development which will be explored in the next chapter. However, it would be wrong to leave behind the 1931 political crisis without noting that Britain's departure from the gold standard in September transformed the context in which economic policy was made. Most obviously, the devaluation of sterling improved the competitiveness of British exports, and made it quite unnecessary to mount a direct attack on costs; as Nicholas Dimsdale has noted, concern with wage rates as a cause of unemployment largely disappeared in the 1930s.[148] The final quarter of 1931 witnessed a modest manufacturing boom, concentrated in the export industries, though this was rapidly choked off by trade restrictions and competitive devaluations; Keynes meanwhile concluded that protection was no longer really necessary.[149] Over time, the departure from gold also facilitated a shift to cheap money, with the reduction of Bank Rate from six to two per cent between February and June 1932 followed by a massive conversion of war loan to three and a half per cent stock. Cheap money, in

[145] Samuel papers, SAM/A/77/12, Lloyd George to Samuel, 25 Aug. 1931.
[146] Lothian papers, GD40/17/143/26-28, Lothian to Samuel, 31 Aug. 1931, at fo. 27, and Graham White papers, WHI/5/8/35, notes for speech in Birkenhead, n.d. [Oct. 1931].
[147] Lothian papers, GD40/17/144/57-67, 'Liberalism and the Crisis of the £', fo. 63; Thurso papers, III 3/5, Oliver to Sinclair, 27 Aug. 1931.
[148] N.H. Dimsdale, 'Employment and real wages in the inter-war period', *National Institute Economic Review*, 110 (Nov. 1984), 94-103.
[149] G.D.N. Worswick, 'The sources of recovery in the UK in the 1930s', *National Institute Economic Review*, 110 (Nov. 1984), 85-93, at 87-9; John Maynard Keynes, letter to *The Times*, 29 Sept. 1931, reprinted in *JMK*, IX, 243-4.

turn, was central to the private house-building boom which led a sustained, if regionally concentrated, domestic recovery.[150] The National Government still showed little interest in public works, perhaps partly because it perceived a trade-off with low interest rates.[151] Nevertheless, there are good reasons for believing that a Keynesian programme would have been more practicable, and would have had a much greater impact on employment, under the post-1931 regime of managed exchange rates than under the gold standard.

Conclusion

The evidence presented in this chapter leaves little doubt that senior Liberals drew back from their support for loan-financed public works during the 1929 Parliament, and returned by 1931 to a largely classical analysis of Britain's economic difficulties. However, it does not bear out the contention that the Liberal Party's embrace of Keynes' ideas in 1929 was opportunistic and insincere, nor – despite Maclean's prominence in the Downing Street negotiations – does it suggest that the party's shift in policy can be attributed wholly to factional machinations. Asquithians may have been the most enthusiastic supporters of retrenchment and cost reductions, but by the time the August crisis hit, the whole party was moving in that direction.

Why, then, did the Liberals revert to orthodox policies? Three reasons may be identified. Firstly, Liberal confidence in the practicability and efficacy of loan-financed public works was shaken after 1929 by worsening economic circumstances and the government's continued hostility to a large-scale scheme. The cyclical downturn which followed the Wall Street Crash caused Liberals to question whether public works would stimulate private-sector activity in the way Keynes had suggested, and advice from informed economists confirmed their growing doubts. The possibility that a large development loan might destabilize the financial markets and undermine the government's credit-worthiness also became a more serious obstacle to fiscal reflation. Lloyd George and his colleagues remained adamant that a large-scale public works programme could be

[150] Worswick, 'Sources of recovery', 89-91.
[151] For perceptions of a trade-off, see Middleton, *Towards a Managed Economy*, 165-71.

launched within months, but the task of finding appropriate projects for the Labour government to invest in brought them face to face with the practical difficulties involved, and even Ernest Simon felt that Lloyd George's 'desperate search for development work' was leading him to back unsound schemes.[152] As the facts changed, the Liberals changed their minds about how government could best promote recovery. A growing recognition of the limitations of public works, and interest in a National Treaty to bring down costs, paved the way for the party's embrace of retrenchment. As Samuel explained to the Commons after the National Government was formed, the austerity programme was difficult for Liberals to stomach, since – quite apart from its distributional impact – it would 'add to existing unemployment' by 'lessening effective demand and diminishing the call for goods'.[153] In the midst of financial crisis, though, there was 'no alternative'.[154]

Secondly, the Liberals' support for economic radicalism was undermined by the intellectual and political fragmentation of the group of experts who had given Lloyd George's pledge much of its authority. As Michael Hart points out:

> Whereas in 1929 the Liberal programme had received the active support of progressive businessmen, academics and economists, this consensus quickly broke up. By late 1930 or early 1931 when Lloyd George, Rowntree and Lothian argued their case in committees with Labour ministers and civil servants none of either Keynes, Henderson, [Robert] Brand or [Sir Josiah] Stamp any longer agreed with the 1929 proposals with which their names were associated.[155]

Keynes' rapidly shifting views were especially difficult to follow, in view of his conversion to protection, his distinction between first-best and practical policies, and his willingness to put his name to an eclectic variety of proposals. Certainly, since Keynes himself was still working his way towards the *General Theory*, it is unreasonable to expect contemporary politicians to have treated him as a guru. In contrast with Keynes, orthodox economists offered a relatively consistent prescription for unemployment which fitted with classical theory, economic 'common sense', and the views of the City, the Treasury and the Bank of England. To some extent, therefore, the story

[152] Ernest Simon papers, M11/11/5, Parliamentary Diary, 1929-33, section C, fo. 9, entry for 15 July 1931.
[153] H.C. Deb., fifth series, 256, 14 Sept. 1931, 537-54, at 539-40.
[154] Ibid., at 540.
[155] Hart, 'Decline', 369.

of 1931 is one of the Liberal Party coming back into line with the views of the dominant policy community in Whitehall and Threadneedle Street.

Thirdly, the events of 1931 brought to the surface the intrinsic tension between the Liberals' deep-seated commitment to economic internationalism and their desire to bring about domestic reflation. Although Keynes had made clear during the 1920s that his policy implied a reorientation of the British economy from exports and overseas lending to production for the home market, Liberals had preferred to emphasize the compatibility of national development with international trade. The crisis of 1931 demonstrated that Liberals were unwilling to sacrifice the institutions of economic internationalism – the gold standard, free capital flows, and free trade – in order to facilitate an expansive fiscal policy. In the Liberal vision, a stable and integrated world economy seemed a prerequisite for a sustained economic revival, and was not to be sacrificed lightly. The short-term benefits of protection, and to a lesser extent devaluation, seemed likely to be vastly outweighed by the stimulus that would be given to economic nationalism around the world.

Most Liberal leaders were satisfied that the party had done the right thing in 1931, and that the painful but temporary cuts provided a firm foundation for future economic recovery. By the time the party resigned from the National Government in September 1932, Sir Archibald Sinclair later asserted, '[c]onfidence had been restored, the Budget had been balanced, huge conversions of War Loan had been effected, the blessing of cheap money had been conferred upon industry, and the national credit had been restored'.[156] However, none of this helped the party politically. The structure of the 1931 election campaign, with anti-Labour cooperation in many seats, sealed the party's identification with the retrenchment programme, and except on the trade issue the Liberal leaders made little effort to distinguish themselves from the Conservative line.[157] Progressive voters were alienated by the cuts, conservative Liberals developed new loyalties to the National Government, and half the party's MPs followed Sir John Simon into a pro-tariff Liberal National Party. If the Liberal Party was to survive in this difficult environment, Samuel and Sinclair would need to make a compelling case for Liberal independence, and work out how the party's

[156] *NLF Proceedings, 1934* (1934), 20.
[157] On the Liberal campaign in the 1931 election, see especially Thorpe, *1931*, 219-54, and Wasserstein, *Herbert Samuel*, 329-34.

commitments to free trade, balanced budgets, and public works fitted together. The Liberals' short career in the National Government, and the reconstruction of Liberal economic policy that followed their departure, form the subject of the next chapter.

3. Defending economic internationalism, 1931-1935

The crisis which loomed over the Liberal Party during the 1929 Parliament broke after the National Government was formed, and would dominate Liberal politics for the rest of the 1930s. From October 1931 onwards, Liberalism was split three ways, with Sir John Simon and the Liberal Nationals seceding rightwards and Lloyd George and his family breaking away on the left. Sir Herbert Samuel was left with the unenviable task of maintaining party cohesion as the official Liberals moved from the National Government to the backbenches, and then into opposition. In a political and intellectual climate which appeared increasingly inhospitable to Liberalism, hopes of a large-scale revival faded from view, and the party focussed its energies on strengthening and consolidating existing Liberal support. However, the bleakness of the Liberal Party's electoral record in the 1930s should not obscure vital elements in its economic and political thought. Despite Michael Freeden's characterization, this was no 'decade of dormancy'.[1] Instead, as this chapter and the next will show, Liberals responded creatively to the challenges which unemployment, protection, and overseas dictatorships presented.

Within a year of the National Government's formation, the free-trade regime which Britain had maintained since 1846 had been decisively abandoned. As Frank Trentmann has powerfully suggested, the switch to a protectionist regime partly reflected the displacement of the free-trade idea from progressive political culture since the First World War: as voters polarized on class lines, free trade shrank from a moral cause which embodied democratic and internationalist principles into a narrowly technical policy.[2] The readiness with which Sir John Simon and his followers accepted protection bears out Trentmann's argument. Among those who remained in the Samuelite ranks, however, the tariff controversy of 1931-2 sparked a renewed commitment to free trade, which was ethical as well as economic. The 'general apathy' towards the trade issue which Trentmann detects among the 1930s electorate was not for want of trying by the Liberals.[3]

[1] Freeden, *Liberalism Divided*, chapter 9.
[2] Trentmann, *Free Trade Nation*, part two.
[3] Ibid., 345.

The combined effect of the Simonite defections and the introduction of tariffs was to reaffirm the centrality of free trade to the Liberal Party's political economy. Classical ideas about the 'fundamental' causes of depression and unemployment retained the force they had gained during the 1931 crisis, and made Liberals more critical of state intervention at home than they had been during the Yellow Book period. At the same time, as Richard Grayson has shown, Liberals drew incisive connections between protectionist economic policies and the growth of aggressive nationalism in the political sphere, and urged that the British government should recognize the 'interdependency' of nations, initiate economic disarmament, and work for the enforcement of international law.[4] Public works, and other constructive ideas, could fit into this synthesis, but they were bound to be conceived more modestly than had been the case in the late 1920s. Until the *General Theory* appeared, and offered a developed analytical basis for economic management, Liberals were left to graft Keynesian policy ideas uneasily on to a predominantly classical intellectual framework.

The anatomy of the Simonite secession

When the National Government was formed, it was envisaged by all parties as a short-term combination to deal with the financial emergency, after which the parties would fight an election in the normal fashion.[5] By mid-September 1931, however, the political prospect had changed significantly. On the one hand, the vehemence with which the Labour Party opposed the economy programme alarmed ministers, and made the prospect of going to the polls as a National Government seem more attractive, especially for MacDonald and Snowden.[6] On the other hand, it became increasingly apparent that Britain's balance of trade deficit was undermining her efforts to remain on the gold standard. Conservatives resumed their agitation for tariffs, and Simon and a

[4] Richard S. Grayson, *Liberals, International Relations, and Appeasement: The Liberal Party, 1919-1939* (2001).
[5] Samuel papers, SAM/A/77/11, 'Memorandum written at the Conference at Buckingham Palace, August 24th 1931'.
[6] Williamson, *National Crisis*, 387-401.

number of other Liberal MPs joined in.[7] Most significantly, Walter Runciman relaxed his commitment to free trade, and argued that the trade balance should be corrected by a temporary embargo on luxury imports.[8] The Liberal ministers seem to have been disposed to compromise in order to hold the National Government together, but free traders outside Parliament mobilized rapidly to discourage this, with the Liberal Free Trade Committee – led by Francis Hirst – warning Samuel that a luxury import ban would not be accepted by the party.[9] The departure from the gold standard on 21 September strengthened free traders' confidence that import restrictions were unnecessary, but by this time Conservative pressure for protection was difficult to stem, and Simon and his allies were actively canvassing Liberal support: indeed, twenty-eight Liberal MPs signed a memorandum organized by Leslie Hore-Belisha, which promised MacDonald backing for any measures he deemed necessary to restore the nation's trade and finances.[10] In early October, aware of the electoral cataclysm that Liberals would face if they opposed the National Government, Samuel agreed to fight an election on the formula of a 'free hand' for the government to introduce protective measures, provided an impartial inquiry found them necessary to redress the trade balance.[11] Simon could not object to this formula, but his preparations for a separate group of Liberal National candidates had proceeded too far for a split to be averted.[12] Lloyd George, on the other hand, felt Samuel had been hoodwinked, and raised his standard in opposition.

The formation of the Liberal National Party can only be adequately understood if it is recognized that it took place in the context both of an economic crisis and of a looming general election.[13] The claim that members of the National Government parties should set aside their previous ideological commitments and consider possible remedies for Britain's trade deficit on their objective merits, which formed the basis for the Hore-Belisha memorandum, was a compelling one; indeed, it underlay the appeal for a 'free hand' on which the National Government

[7] Simon's colleagues included Sir Henry Morris-Jones and Ernest Brown: *The Times*, 16 Sept. 1931, 6, and 18 Sept. 1931, 6.
[8] Williamson, *National Crisis*, 394.
[9] Ibid., 394-7; Lothian papers, GD40/17/143/40, Raymond Jones to Lothian, 15 Sept. 1931, with enclosures (fos. 41-5); see also Samuel papers, SAM/A/81/13, E.H. Gilpin and ten others to Samuel, 30 Sept. 1931.
[10] Williamson, *National Crisis*, 435-6.
[11] Ibid., 441-5.
[12] MS. Simon 68, fo. 163, Simon to Ramsay MacDonald, 5 Oct. 1931.
[13] The fullest account of the Liberal National Party's formation and later history appears in David Dutton, *Liberals in Schism: A History of the National Liberal Party* (2008).

fought the election. The Simon group appears to have had a particular appeal for MPs who had previously been disillusioned with Lloyd George's leadership, or who were aggrieved by their failure to receive government office, such as Ernest Brown, Geoffrey Shakespeare, and future Liberal leader Clement Davies. MPs and candidates were also attracted by the Conservatives' readiness to give Liberal Nationals a free run against Labour, and by the large election fund which Simon and his organizers built up.[14] Conversely, those Liberals who could secure local Conservative support without joining the Simonites had little reason to do so, and several successful candidates – such as Joseph Leckie in Walsall and Joseph Maclay in Paisley – took an essentially Simonite line on the tariff question whilst professing allegiance to Samuel.[15] Only in the weeks and months after the election would the divisions between the Simon, Samuel and Lloyd George groups harden.

Notwithstanding the electoral considerations which shaped Liberals' behaviour in October 1931, and the cross-currents which existed between the different groups, it is possible to identify an economic policy basis for the Simonite split. The *sine qua non* of membership of the Liberal National Party was a diminution of free-trade conviction, expressed in a willingness to support the National Government 'in any measures found to be necessary for national recovery without regard to fiscal theories and prepossessions'.[16] This receptiveness to tariffs could stem from at least three different sources. Firstly, among right-wing Liberals, the choice between remaining with Samuel and following Simon was largely a question of priority, a judgment on the relative importance of maintaining the National Government in office and defending free trade. Those old Asquithians who regarded free trade as vital, such as Richard Holt and Francis Hirst, tended to remain in the official party; those who shared Viscount Grey's view that retrenchment was the dominant issue

[14] All nine Liberal MPs who had enjoyed straight fights with Labour in 1929 became Liberal Nationals, and several other candidates declared themselves Simonites during the campaign as the price of local Conservative support: MS. Simon 69, fo. 8, W. Devenport Hackney to Richard Soper, 21 Oct. 1931; fos. 36-8, Sir Robert Hutchison to Simon, 'Sunday evening' [Oct. 1931]; and fos. 9-10, Hackney to William Mabane, 21 Oct. 1931. On finance, see especially *The Observer*, 11 Oct. 1931, 16.

[15] For a valuable study of the brokerage of local pacts between Liberals and Conservatives in 1931, see Nick Smart, 'Constituency Politics and the 1931 General Election', *Southern History*, 16 (1994), 122-51. For Leckie, see John Ward, 'The development of the Labour Party in the Black Country (1918-1939)' (unpublished University of Wolverhampton D.Phil. thesis, 2004), 295; for Maclay, *The Scotsman*, 23 Oct. 1931, 11.

[16] MS. Simon 68, fos. 158-61, notes by Simon on meeting establishing Liberal National group [5 Oct. 1931], at fo. 158.

were more likely to become Liberal Nationals.[17] In the provinces, middle-class Liberals whose Liberalism derived from cultural identity rather than ideological conviction tended to be most impressed by the claim that the government deserved their unequivocal backing.[18]

Secondly, Liberal MPs representing agricultural constituencies disproportionately followed Simon. This was especially noticeable in wheat-growing East Anglia, where six out of seven sitting Liberal MPs became Liberal Nationals. Initially, there had been some doubts about whether Simon's advocacy of a tariff included provision for agriculture, and James Blindell – who championed the interests of the potato industry – had written to ask Simon for assurances that agriculture would be included in a protective policy.[19] Simon presumably gave the required assurances, because Blindell subsequently joined the Liberal National group. Another agricultural Liberal National, Richard Russell, became a strong advocate of a wheat quota, which he believed would give farmers a stable and predictable income, and bring 'all good wheat land' into cultivation.[20] With the benefit of Conservative support, Liberal National MPs in agricultural seats were re-elected with enormous majorities.

Thirdly, and perhaps most surprisingly, some of those who joined the Liberal National group were economic radicals whose willingness to support tariffs stemmed from an instinctive dislike of laissez-faire economics and support for government intervention. Clement Davies, for instance, later explained that he had joined the Simon group because he thought free trade was 'a very narrow and out-of-date question' and accepted the case for reciprocal tariff bargaining.[21] Even more striking was the attitude of William Mabane, elected as Liberal National MP for Huddersfield, who had opposed the return to the gold standard in 1925. Mabane took the 1931 financial crisis as evidence that government needed to intervene more extensively in the British economy:

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[17] Grey remained a Samuelite, but was known to sympathize with Simon and Runciman's course of action. For his views, see *NC*, 19 Oct. 1931, 3.
[18] Barry M. Doyle, 'Urban Liberalism and the "lost generation": Politics and middle class culture in Norwich, 1900-1935', *HJ*, 38 (1995), 617-34.
[19] MS. Simon 68, fos. 132-5, Blindell to Simon, 26 Sept. 1931. For Blindell's efforts to improve the position of potato farmers, see *MG*, 9 Dec. 1929, 12.
[20] MS. Simon 70, fos. 28-32, 'Agriculture', memorandum by R.J. Russell, 8 Dec. 1931, at fo. 30.
[21] National Library of Wales, Aberystwyth, Clement Davies papers, C/1/16, Davies to Stanley Clement-Davies, 3 Nov. 1943.

> To the serious student of economics or politics nothing is more obvious than that, as the century progresses national planning, and later international planning, of our economic and industrial life will become the only accepted road to progress and stability.[22]

Although Mabane remained sceptical of tariffs, his belief in planning led him to the view that, in the context of a growing trade deficit, 'one of the proper functions of Government was to control, either by prohibition or by some form of tariff, the direction of our imports'.[23] Throughout the National Government years, Mabane would make it clear that he considered the Simonite approach more radical, more interventionist, and more faithful to the spirit of the Yellow Book than the Samuelites' commitment to free trade.[24] From this perspective, the National Government's tariff policy was the fulfilment of the constructive Liberalism of the 1920s.

The rump Liberal Party which Samuel led was similarly diverse. On the one hand, the departure of pragmatic right-wingers such as Simon and Blindell meant that free-trade zealots such as Francis Hirst bulked larger in the Liberal ranks than previously, and the 1931 election brought several orthodox Asquithians back to the Commons, including Walter Rea, Harcourt Johnstone, and D.M. Mason. With Rea and Johnstone in charge of the whips' office, and Vivian Phillipps appointed chairman of the Liberal Publications Department, the Liberal Council began to wind down its independent activities, though it would continue to produce traditionalist propaganda until the Second World War.[25] The loss of Lloyd George's fund also increased the party's financial dependence on wealthy Asquithians. On the other hand, the party's left wing was also proportionately strengthened by the defections, though some radicals looked to Lloyd George to provide an alternative rallying-point and help rebuild links with Labour.[26] Finally, Samuel had to deal with those who remained in the official party through inertia despite sympathizing with Simon's fiscal views. This group included Viscount Grey and the Marquess of Reading, as well as

[22] *HDE*, 26 Aug. 1931, 3.
[23] *HDE*, 30 Sept. 1931, 4.
[24] West Yorkshire Archive Service, Kirklees, William Mabane papers, DD/WM/1/2, Mabane to T.S. Hickman, 6 Feb. 1934, and DD/WM/2/13, Mabane to Elliott Dodds, 4 Apr. 1938.
[25] Liberal Council papers, Executive Committee minute book 1927-1937, minutes of meetings, 31 Jan. 1934 and 22 Oct. 1936.
[26] Samuel papers, SAM/A/84/15, Harcourt Johnstone to Samuel, 30 Nov. 1931.

MPs like Leckie and Maclay, and formed a significant obstacle to the adoption of an overt anti-government line.

The trade debate of 1931-2

The eleven months that passed between the October 1931 general election and the Samuelites' resignation from the National Government – with Viscount Snowden – in September 1932 were some of the most uncomfortable in the Liberal Party's history. The seventy-two Liberals returned in the election split almost equally between Samuel and Simon, with Lloyd George, his children Gwilym and Megan, and his son-in-law Goronwy Owen sitting as independent Liberals on the opposition benches. At leadership level, the party's division was confirmed when the Simonites received government office from MacDonald (with Simon replacing Reading as Foreign Secretary), declined to take the Liberal whip, and began to establish a national organization.[27] In the country, divisions hardened more slowly, and all three groups were represented at the NLF meetings at Clacton-on-Sea in April 1932. However, this made it harder for the Samuelites to act as a cohesive force, as Lloyd George and his allies sought to exploit grassroots disaffection with the Liberal ministers' compromises over protection.[28] There was no mass desertion of the Liberal Party by candidates or activists during this period, but loyalties were divided, confidence in the party's effectiveness waned, and some Liberal stalwarts such as former MP George Thorne decided that their energies could be better spent in the service of groups such as the League of Nations Union.[29]

The 'doctor's mandate' on which the National Government fought the 1931 election included an understanding that a permanent system of tariffs would not be introduced without an impartial inquiry. With a huge Conservative majority in the Commons and the free traders outnumbered in the new Cabinet, this inquiry turned out to be a Cabinet Committee on Fiscal Policy, chaired by Neville Chamberlain, on which Samuel and Snowden struggled to make their objections to

[27] Dutton, *Liberals in Schism*, 52-4.
[28] For Simonite representation at Clacton, see *MG*, 7 Apr. 1932, 8.
[29] Thurso papers, III, 54/1, George R. Thorne to Miss Bridgwater, 3 Feb. 1932.

protection heard. The Samuelites protested, justifiably, that this was hardly impartial.[30] In the meantime, the government set about erecting temporary restrictions on trade in an attempt to reduce Britain's trade deficit. Within weeks of the election, the Cabinet agreed to introduce legislation giving the Board of Trade temporary powers to levy duties on goods being imported in 'abnormal quantities'. Samuel did not even attempt to resist this, and only one Liberal MP – D.M. Mason – voted against the Abnormal Importations (Customs Duties) Bill at its second reading on 18 November.[31] Shortly thereafter, Minister of Agriculture Sir John Gilmour announced plans for a tariff on non-essential horticultural products and a wheat quota. Again the Liberal ministers were acquiescent, saving their energies for the looming struggle over the general tariff. When the Wheat Bill came before the Commons, Sir Archibald Sinclair defended it as a 'temporary lifebuoy' to the farmers while they adjusted to changed market conditions, a striking departure from the blanket opposition to quotas which the Liberal Party had traditionally expressed.[32] The Import Duties Bill agreed by the Cabinet in January 1932, which embodied a general tariff, was a step too far for Samuel and his colleagues, who – along with Philip Snowden – offered MacDonald their resignations. However, Lord Hailsham's suggestion of an 'agreement to differ' enabled the free traders to remain in the government whilst speaking and voting against the measure.[33]

Samuelite opinion outside Parliament was vocally opposed to the government's protectionist measures, and during the winter months there began a wide-ranging mobilization which encompassed the NLF leadership, young Liberals, some backbenchers, the Liberal press, the Lloyd George group, and Cobdenite purists like Francis Hirst. In December 1931 the NLF executive urged that protection should be resisted 'at the earliest opportunity', and the agreement to differ greatly heightened grassroots disquiet: by the end of March 1932 the Union of University Liberal Societies, the National League of Young Liberals, and the Scottish and Welsh Liberal Federations

[30] Wasserstein, *Herbert Samuel*, 338.
[31] Ibid., 337; H.C. Deb., fifth series, 259, 18 Nov. 1931, 953-9, 979-92.
[32] H.C. Deb, fifth series, 262, 1 Mar. 1932, 1068-78, at 1074.
[33] Samuel papers, SAM/A/87/7, 'Course of Political Events – Jan. 18th-23rd 1932', memorandum by Samuel, 25 Jan. 1932.

had all passed resolutions calling on the Liberal ministers to resign.[34] Heavyweight support for the free traders came from liberal economists at the LSE, including the distinguished group – chaired by Sir William Beveridge and including Lionel Robbins, John Hicks, and Arnold Plant – which had produced *Tariffs: The Case Examined* in 1931.[35] Edwin Cannan's Sidney Ball lecture on 'Balance of Trade Delusions', delivered at Oxford in November 1931, was also widely read and quoted by Liberals.[36] In substance, these economists offered a restatement of the classical case for free trade, arguing that the adverse balance would redress itself automatically and that protectionist measures were bound to inhibit economic adjustment and wealth creation. Those Liberals who were suspicious of classical reasoning could draw heart from Dennis Robertson's address to the 1931 Liberal Summer School, which had argued that the existence of unemployed resources did not invalidate the free-trade case, and from the fact that Keynes had turned against protection after the departure from gold.[37]

The free-trade mobilization of 1931-2 derived a measure of coherence from free-trade theory and the task of rallying opposition to protection, but it did not comprise a unified movement with a single strategy. Rather, a number of different groups may be identified. For Hirst and the LSE economists, the survival of the Liberal Party seems to have been largely incidental to the main objective of preserving Britain's free-trade system. By contrast, Lloyd George and radical Liberal economists such as Hubert Phillips were less firmly committed to free-trade orthodoxy, but were infuriated by the Samuelite ministers' apparently supine support for the National Government's measures. Backbench Liberal MPs such as Harry Nathan and Sir Percy Harris, who represented Bethnal Green, meanwhile found their free-trade convictions reinforced by an awareness of the impact tariffs would have on their working-class constituents. There were some important linkages between these different groups: for instance, Nathan, widely regarded as an ally of Lloyd George, was a member of the Liberal Free Trade Committee, and worked with Phillips to draft amendments

[34] *NC*, 17 Dec. 1931, 2, 18 Feb. 1932, 1-2, and 28 Mar. 1932, 8; Tom Stannage, *Baldwin Thwarts the Opposition: The British General Election of 1935* (1980), 87.
[35] Sir William Beveridge et al., *Tariffs: The Case Examined* (1931).
[36] *MG*, 14 Nov. 1931, 16; Cannan papers, 1031/ 166, A.P. Laurie to Cannan, 6 Dec. 1931; 1031/181-2, Leif Jones to Cannan, 19 Dec. 1931; and 1032/76, Ramsay Muir to Cannan, 7 Mar. 1932.
[37] For Robertson's address, see *MG*, 1 Aug. 1931, 15.

to the Import Duties Bill.[38] Even so, the overall impression is that of a cacophony of voices, from different parts of the Liberal body politic, urging Samuel and his colleagues to oppose protectionist policies.

In Parliament, it was Harris and Nathan who set the tone of Liberal opposition to protectionist legislation, persistently harrying the government to omit certain articles, especially foodstuffs, from the scope of the measures. Harris led four other Samuelite MPs in opposition to the Horticultural Products Bill in December 1931, strongly criticizing the inclusion of potatoes and tomatoes in the list of taxable luxury foodstuffs on the grounds that these figured prominently in the working-class diet.[39] Later, when the Import Duties Bill came to the Commons, Nathan convened a group of Liberal MPs to mount line-by-line opposition and move amendments on free-trade lines.[40] Opposition to the Wheat Bill, in defiance of a party whip, brought Liberal MPs for industrial seats together with the ultra-orthodox Mason and the Lloyd George group. As Herbert Holdsworth, MP for Bradford South, put it, it was 'an evil thing to tax the food of the poor', and the quota would simply 'bolste[r] up an uneconomic industry at the expense of those least able to bear the burden'.[41] This was, of course, a line of argument which had been used extensively by free traders in the Edwardian tariff reform debate, symbolized by the 'big loaf' and by recollections of the 'hungry forties'.[42] In 1931-2, however, the unemployment benefit cuts and the departure from the gold standard gave Liberal MPs with working-class constituents an additional reason for working to keep the cost of living down. If Liberals could not compete with Labour in promising to increase or maintain working-class incomes, it was the very least they could do to resist the Conservatives' attempts to raise food prices.

Robert Bernays, Liberal MP for Bristol North, felt that the approach of the general tariff had rallied wavering free traders in the country to the cause.[43] Certainly, the free-trade mobilization was accompanied by a revival in Liberal activity in some contexts: membership of Oxford

[38] Thurso papers, II, 54/1, 'In Defence of Free Trade', Liberal Free Trade Committee annual report, June 1932; *MG*, 14 Apr. 1932, 18.
[39] H.C. Deb., fifth series, 260, 30 Nov. 1931, 870-6, and 9 Dec. 1931, 1883-6.
[40] *NC*, 8 Feb. 1932, 2, and 13 Feb. 1932, 2.
[41] H.C. Deb., fifth series, 262, 2 Mar. 1932, 1205-9, at 1209.
[42] Trentmann, *Free Trade Nation*, esp. 34-40, 87-100.
[43] *NC*, 2 Feb. 1932, 1.

University Liberal Club doubled to 300 over the winter of 1931-2.[44] However, differences of opinion over free trade also posed a serious threat to the fragile unity and strength which the Liberal Party still possessed. Samuel, Sinclair, and junior minister Isaac Foot used the agreement to differ to make vigorous speeches against the Import Duties Bill in the Commons, but the overwhelming Conservative majority ensured that the bill passed easily and made the Liberals look impotent. The prospect of a split was heightened when Lloyd George returned to the political fray in March with a speech condemning the Liberal ministers' complicity in the Wheat Bill, and a series of area conferences organized by the NLF confirmed Ramsay Muir's belief that the party's future would be jeopardized if its leaders stayed in the government much longer.[45]

Liberal tensions came to a head in April 1932 at the NLF meetings at Clacton. The NLF executive, sympathetic to the free-trade grassroots, tabled a resolution which strongly reaffirmed the party's commitment to free trade but stopped short of calling on the Liberal ministers to resign, fearing that such a call would resemble the TUC's 'dictation' of the Labour Cabinet the previous August. The majority of delegates seem to have shared this fear, and rebuffed an attempt to instruct the parliamentary party to cross the floor.[46] Whilst stopping short of dictation, however, the delegates made clear their belief that the party should dissociate itself from the government at the earliest possible opportunity. Gwilym Lloyd George was loudly cheered when he rose to move the Free Trade resolution, and Violet Bonham Carter was accorded a similar reception when she declared that she felt 'betrayed' by MacDonald's failure to deliver the 'open, impartial, expert inquiry' into tariffs which he had promised.[47] Bonham Carter went on to warn the Liberal ministers that the agreement to differ could not be long sustained:

> Our leaders may wave the Free Trade flag – we hope they will continue to wave it – but it can only fly at half mast so long as it is nailed to the Front Bench of a Protectionist Government.[48]

[44] *NC*, 18 Mar. 1932, 8, and 9 Apr. 1932, 2.
[45] *NC*, 17 Mar. 1932, 1; Samuel papers, SAM/A/155(VIII)/48, Muir to Samuel, 22 Apr. 1932.
[46] *NLF Proceedings, 1932* (1932), 47-67.
[47] Ibid., 28.
[48] Ibid., 30.

With an eye on the forthcoming Imperial Economic Conference at Ottawa, delegates unanimously supported an amendment moved by Hirst, which declared that any multi-year trade agreement with the Dominions would represent an unconstitutional interference with Parliament's right to control taxation.[49] Meanwhile, the NLF executive pronounced itself independent of the government, pledged to fight the government's protectionist policy in the country, and – in a move inspired by Lloyd George's secretary Thomas Tweed – assumed responsibility for party propaganda and by-election campaigns from the whips' office, which was suspected of collusion with the Conservatives.[50] At times, the mood of delegates towards the party leadership became heated, with shouts of 'Quota, quota' when Herbert Holdsworth claimed that Samuel had upheld his free-trade principles, and cries of 'No whips' when party organization was being discussed.[51] The meaning of Clacton, the *News Chronicle* concluded, was plain: 'Nothing can disguise the fact that that the chief part of the Liberal Party is in opposition to the Government of which they are now members.'[52]

Clacton marked a new assertiveness on the part of the Liberal grassroots, inspired by a belief that Liberal parliamentarians were unreliable guardians of party policy. It also meant that the Liberal ministers were bound to resign if the Ottawa conference established a permanent system of imperial preference. When the Ottawa agreements emerged in August, all of Samuel's colleagues agreed that they compelled resignation. In the meantime, the Liberals were encouraged politically by a by-election victory in the marginal seat of North Cornwall, held for the party by Sir Francis Acland following Sir Donald Maclean's untimely death.[53] However, Samuel was extremely concerned to keep the party's 'Whigs' in the fold, and delayed resignation for a month whilst he consulted with Grey, Crewe, and other Liberal grandees.[54] When the Liberal ministers finally resigned in September 1932, they remained on the government benches in deference to these peers and those MPs – such as Joseph Leckie – who had refused to cross the floor.

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[49] Ibid., 36-8.
[50] *MG*, 30 Apr. 1932, 17; Parliamentary Archives, David Lloyd George papers, LG/G/85/3, 'Miss Stevenson', note by Tweed, 21 Apr. 1932.
[51] *MG*, 30 Apr. 1932, 17.
[52] *NC*, 30 Apr. 1932, 6.
[53] Wasserstein, *Herbert Samuel*, 355.
[54] Extensive correspondence relating to these consultations may be found in Samuel papers, SAM/A/89.

Samuel's cautious party management in the summer of 1932 meant that the Liberals missed the opportunity to make a clean break with the National Government and develop a distinctive line in opposition. Harold Storey of the *Liberal Magazine* hoped that the resignations would inaugurate 'an open and relentless battle which will not cease until the stupid carcass of Protection once more lies stricken on the field'; but the failure to cross the floor meant that the battle was only half-joined, and the ex-ministers lacked the energy and the resources needed to prosecute this fight.[55] The Samuelites' dispute with Lloyd George continued to fester, Harry Nathan grew disaffected and defected to Labour, and some Liberals who supported Samuel's line in 1932, such as Robert Bernays, lost their free-trade zeal as the difficulty of mounting an effective campaign against Ottawa became apparent.[56] When the Liberals eventually crossed the floor in November 1933, the party management issues had to be faced all over again, and a clutch of Liberal MPs – including Leckie and Bernays – decided to remain government supporters. In the meantime, as Sir Murdoch MacKenzie Wood MP noted, the party faced 'the worst of all worlds', dissatisfied with the direction of government policy but unable credibly to assail it.[57]

The Blicking policy and the World Economic Conference

The difficulties involved in pursuing public works in the 1929 Parliament, and the tariff debate of 1931-2, focussed Liberals' attention on the need to remove economic distortions in order to achieve a permanent solution to unemployment. Despite the National Government's claims, Liberals were adamant that the new protectionist regime exacerbated the unemployment problem by favouring agriculture, and industries which produced for the home market, over the export trades which were concentrated in the depressed areas.[58] Milner Gray, the chairman of the NLF executive (and briefly Parliamentary Secretary to the Ministry of Labour in 1931), estimated in 1935 that the government's trade policy had made unemployment 500,000 persons higher than it

[55] *LM*, 40 (1932), 451.
[56] *The Diaries and Letters of Robert Bernays, 1932-1939: An Insider's Account of the House of Commons*, ed. Nick Smart (Lampeter, 1996), pp. 11-12, 89-100.
[57] Samuel papers, SAM/A/95/4, Sir Murdoch McKenzie Wood to Samuel, 31 Oct. 1933.
[58] *NLF Proceedings, 1935* (1935), 7.

would otherwise have been.[59] The overriding imperative for a Liberal policy was to unblock the channels of trade at home and abroad so that goods could flow freely and the proper relationship between demand and supply could be restored.

The implications of the National Government's measures for Liberal policy were worked out in the autumn of 1932 in two weekend conferences at Blickling, Lord Lothian's house in Norfolk. Along with the Liberal ex-ministers, and prominent activists such as Gray and Ramsay Muir, Lothian invited a number of policy experts: Sir Walter Layton, Dennis Robertson and Seebohm Rowntree to advise on economic policy, Sir William Beveridge to advise on unemployment insurance, and Sir Francis Acland to provide agricultural expertise.[60] No formal policy statement followed the Blickling meetings, but the analysis developed there underpinned the speeches which Samuel gave on economic affairs during 1933, the brief manifesto issued when the party went into opposition, and Samuel's 'Liberal Address to the Nation' and the NLF pamphlet *The Liberal Way* which appeared in 1934.[61] It is therefore important to consider what the Blickling policy entailed.

The most developed survey of Britain's economic position at Blickling came from Dennis Robertson, who had been a close ally of Keynes during the 1920s but offered his own distinctive analysis of economic fluctuations.[62] Robertson argued that the post-1929 slump in world trade had resulted from the collapse of an American over-investment boom, coinciding with a rapid improvement in agricultural productivity, which led to 'a catastrophic fall in prices' and widespread reductions in money incomes.[63] The problems of war debts, exchange restrictions, tariffs in creditor countries and maldistribution of gold had exacerbated the fall in prices, but these were 'really rather symptoms than initiating causes'. Robertson doubted whether fluctuations in

[59] Ibid., 49.
[60] The Blickling meetings took place on the weekends of 29 October and 18 November. Sir Arthur Salter was invited to the October meeting, though he does not seem to have attended: Lothian papers, GD40/17/269/909-10, Sinclair to Lothian, 8 Oct. 1932.
[61] Samuel was keen to produce a full-scale manifesto at Blickling, but Lothian judged this inappropriate whilst the Liberals remained on the opposition benches. A volume of essays – 'The Blickling Papers' – was briefly considered but proved abortive. See Lothian papers, GD40/17/146/95-8, Lothian to Samuel, 13 Dec. 1932, and G40/17/146/99-100, Samuel to Lothian, 13 Dec. 1932.
[62] For a recent assessment of Robertson's thought, see Gordon Fletcher, *Dennis Robertson* (Basingstoke, 2008). On Robertson's differences with Keynes in this period, see Skidelsky, *Keynes*, II, 452-4.
[63] Thurso papers, II, 75/1, 'Notes on Monetary Policy' by D.H. Robertson, Dec. 1932. Robertson's emphasis on the boom as a cause of the slump echoed Austrian trade cycle theory, as Lionel Robbins noted: see Susan Howson, *Lionel Robbins* (Cambridge, 2011), 270.

investment and prices could be eliminated altogether, but urged that monetary policy should be used 'to damp them down as far as possible, and to promote… the stability of trade and employment' – a policy which could be pursued most easily if Britain remained off the gold standard. At the same time, Robertson warned that monetary policy was likely to have little impact on economic activity outside the house-building sector until general economic prospects – and, crucially, expectations of profit – began to recover. Robertson therefore argued that the government should stimulate consumption and investment more directly, as confidence permitted. In this respect, public works were preferable to tax cuts or higher unemployment benefit because they could be carried through without unbalancing the current budget.[64]

The Liberal politicians present at Blickling largely accepted the substance of Robertson's analysis, including his scepticism towards the gold standard and his emphasis on the need for coordinated international reflation. [65] Following Lothian's lead, however, they tended to describe Britain's economic problems in more classical terms, partly because this enabled them to keep tariffs at the forefront of the policy debate, and perhaps also because some of their number had never abandoned restorationist assumptions. 'Why are we in this present confusion?', Lothian asked rhetorically.

> Primarily because, owing to the war and its consequences, the nations have, by political action, profoundly deranged the adjustment of supply and demand through the free play of enterprise in the market which was the basis of pre-war prosperity.[66]

Lothian argued that world prosperity in the 1920s had been stimulated artificially by 'exceptional' American lending, and could not be sustained when that lending ceased.[67] 'The only real remedy' for depression, therefore, was the classical one: to 'set free the wheels of trade and enterprise, and

[64] Thurso papers, II, 75/1, 'Notes on Monetary Policy'.
[65] For instance, Samuel noted after Blickling that it was 'impossible to foresee' when Britain might return to gold, since this would have to be preceded by settlement of tariffs and war debts: Thurso papers, II, 75/1, 'Monetary Question', memorandum by Samuel, Dec. 1932.
[66] Lothian papers, GD40/17/146/116-21, 'Liberalism and the Recovery of Prosperity', memorandum by Lothian, Jan. 1933, at fo. 117.
[67] Ibid., at fo. 118.

allow the operation of price in the markets of the world to adjust demand and supply as in the past'.[68]

The most distinctive element of the Blickling analysis was the close link which the Liberals drew between the problem of economic dislocation and the growth of political nationalism. From this perspective, international economic policy was a facet of international relations. As Ramsay Muir put it:

> All over the world a conflict is being waged between those who recognise and accept the interdependence of all peoples, classes and interests, and make this the governing factor in their outlook and policy; and those whose outlook is dominated by the selfish concerns of nations, classes, vested interests. The predominance of the latter has been the main cause of the world's distresses. The victory of the former might quickly bring the world into an era of assured peace and widely diffused prosperity.[69]

This contrast between nationalist and internationalist policies would be a mainstay of Liberal rhetoric throughout the 1930s. For Layton, the problem lay in the failure of nations to recognize their interdependency; for Lothian, 'international anarchy' could only be solved by strengthening the rule of international law and, ultimately, creating a world federation.[70] As the decade wore on, Liberals became adamant that economic nationalism was a major cause of Europe's growing political tensions. In Cobdenite vein, the ultimate justification for internationalist policies was that nations which traded with each other would not make war.

The Liberal leaders recognized that world free trade could not be re-established overnight, but felt that the World Economic Conference scheduled to take place in London in the summer of 1933 offered a rare opportunity to initiate a movement towards cooperation. Indeed, one of the Samuelites' objections to the Ottawa agreements was that they would tie the National Government's hands at the conference and hamper efforts to seek tariff reductions from other nations.[71] Samuel argued that Britain should use the conference to pursue 'economic disarmament'

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[68] Ibid., at fo. 119.
[69] Thurso papers, II, 75/1, 'Policy Memorandum' by Ramsay Muir, 7 Nov. 1932.
[70] Grayson, *Liberals, International Relations, and Appeasement*, 33-6, 148-50; Marquess of Lothian, *Liberalism in the Modern World* (1933).
[71] Samuel papers, SAM/A/89/84, resignation letter by Liberal ministers to Ramsay MacDonald, 28 Sept. 1932.

across a wide front, and seek the abandonment of quantitative restrictions (such as quotas) and export subsidies, along with tariff reductions.[72] The most practical proposal, canvassed by Layton and taken up by Samuel, was that Britain might organize a group of low-tariff and free-trade nations, with tariffs against each other of no more than 10 per cent, as a first step towards wider free trade.[73] The Ouchy Convention agreed by Belgium, Luxembourg and the Netherlands in June 1932 provided a model for such a group, but had foundered when other governments, including the United Kingdom's, refused to waive the most-favoured-nation rights they enjoyed under earlier agreements. Effective progress towards freer trade therefore required not only a reorientation of the National Government's policy from bilateral to multilateral trade bargaining, but also a general agreement to take a more flexible attitude towards most-favoured-nation clauses.[74]

In retrospect, it seems unlikely that the line of policy the Liberals suggested would have prevented the World Economic Conference from ending in failure. As Barry Eichengreen and Marc Uzan have pointed out, the conference was stymied from the start by the Roosevelt administration's reluctance to discuss war debts and specific tariff rates, and by the basic conflict between French demands for currency stabilization and the British and US governments' commitments to monetary reflation.[75] However, the Liberals felt – perhaps justifiably – that the conference could have made some progress on tariff reduction if British ministers had taken a lead.[76] Instead, Neville Chamberlain and Walter Runciman reaffirmed their bilateralist position, and used the conference – as Tim Rooth has noted – 'as a forum for self-justificatory pronouncements on the British route to trade liberalisation'.[77] For Samuel, at least, the National

[72] *MG*, 7 Feb. 1933, 4.
[73] *MG*, 7 Feb. 1933, 4. Layton had first canvassed this idea at the 1932 Liberal Summer School: *LM*, 40 (1932), 393-4.
[74] The Liberals used a Commons debate in March 1933 to press the case for low-tariff groups and most-favoured-nation revision: H.C. Deb., fifth series, 275, 15 Mar. 1933, 1967-80, 1980-5, 2028-38.
[75] Barry Eichengreen and Marc Uzan, 'The 1933 World Economic Conference as an instance of failed international cooperation', University of California at Berkeley, Department of Economics, Working Paper No. 90-149 (Oct. 1990). See also Patricia Clavin, '"The fetishes of so-called international bankers": Central bank co-operation for the World Economic Conference, 1932-3', *Contemporary European History*, 1 (1992), 281-311.
[76] *MG*, 21 June 1933, 5; H.C. Deb., fifth series, 280, 10 July 1933, 791-7.
[77] Tim Rooth, *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s* (Cambridge, 1992), 159-60.

Government's refusal to consider multilateral action belied its professed desire to bring world tariffs down.

The idea of a low-tariff group was unpopular with grassroots Liberals, and sparked a rebellion at the 1933 NLF meetings amid fears that it would blur the party's free-trade message; young candidate Frances Josephy complained that it was 'pure Simonism and nothing else'.[78] The revolt was defeated by 254 votes to 210 after Sir Francis Acland emphasized that the group would not prevent Britain returning to free trade, but suspicions remained that the ex-ministers were 'not quite sound' on the trade issue.[79] Conversely, Samuel and his colleagues believed that activists were too ready to dismiss the importance of securing tariff reductions from other nations.[80] The idea that Britain would have to return to free trade by stages, so that protected industries could adjust to the new competitive environment, was less controversial, but the party leadership still had to contend with calls for a future Liberal government to 'sweep away all protectionist duties and quotas' as soon as possible.[81] A handful of extreme restorationists, led by D.M. Mason and Sir George Paish, meanwhile pressed – against the prevailing view – for Britain to pursue an early return to the gold standard.[82]

Protectionism and planning

The emphasis which Liberals placed on economic nationalism as a cause of depression and unemployment represented an important point of contact with the liberal economists at the LSE. Lionel Robbins, for instance, read Lothian's discussion of 'international anarchy' with 'the most complete agreement', and wondered whether 'the connection between the nationalist madness and economic interventionism might not have been even more strongly underlined'.[83] The need to re-establish a stable international order and restore the workings of the price mechanism formed the

[78] *MG*, 19 May 1933, 6.
[79] Ibid; Lothian papers, GD40/17/274/318, Percy Heffer to Lothian, 7 Dec. 1933.
[80] Lothian papers, GD40/17/274/319-20, Lothian to Percy Heffer, 8 Dec. 1933.
[81] Elliott Dodds, in *NLF Proceedings, 1934*, 49. *The Liberal Way*, drafted by Muir, acknowledged the need for a gradual return to free trade: NLF, *The Liberal Way* (1934), 54-5.
[82] H.C. Deb., fifth series, 280, 10 July 1933, 804-10; *NLF Proceedings, 1935* (1935), 37-9.
[83] Lothian papers, GD40/17/276/571-2, Robbins to Lothian, 25 Jan. 1934, at fo. 571.

main policy prescription of Robbins' 1934 book *The Great Depression*, though he diverged from the Liberals in advocating a restored gold standard and firmly rejecting public works.[84]

Another parallel between the Liberals and the liberal LSE economists lay in their forceful critiques of the National Government's efforts to buttress tariff protection with production quotas and marketing schemes, especially in relation to agriculture. The restrictive nature of the National Government's policies made the Liberals more sceptical about state intervention in the domestic sphere and proposals for 'planning' than they had been in the 1920s. The contrast with the Yellow Book was perhaps more apparent than real, since Liberals had always emphasized that industrial reorganization should aim to reduce costs rather than raise prices; indeed, it was on this ground that they had opposed and amended the Labour government's Coal Mines Bill in 1929-30.[85] Liberals were also careful to distinguish the kinds of planning they still favoured, including rationalization and the conversion of monopolies to public corporations, from those they opposed. Nevertheless, the National Government's measures forced Liberals to attend more closely to the possibility that state interference at home would exacerbate economic dislocation, and in the years after Ottawa the dangers of restrictive planning became a major Liberal theme.

The idea of statutory agricultural marketing schemes first gained currency in the 1920s, as a means of strengthening farmers' market power vis-à-vis distributors and retailers and enabling farmers to even out price fluctuations. On this basis, and in the context of Lib-Lab cooperation, Lloyd George's Liberals backed the Agricultural Marketing Act of 1931, which reached the statute book before the Labour government fell. Under the National Government, however, statutory marketing took on an overtly protectionist and restrictive cast. The Agricultural Marketing Act 1933 empowered the Minister of Agriculture to reorganize any branch of the agricultural industry in the interests of efficiency or economic stability, and the marketing boards established for milk, hops, potatoes, pork and bacon were explicitly intended – in conjunction with tariffs – to raise food prices permanently above world levels. Liberals were especially perturbed by the powers which the marketing boards received to fix minimum prices and penalize farmers who exceeded their

[84] Lionel Robbins, *The Great Depression* (1934).
[85] M.W. Kirby, 'Government intervention in industrial organization: Coal mining in the nineteen thirties', *Business History*, 15 (1973), 160-73; H.C. Deb., fifth series, 233, 17 Dec. 1929, 1293-1311.

production quotas.[86] The proliferation of agricultural subsidies was equally offensive, especially in view of ministers' parsimony in other fields. As Ramsay Muir pointed out in 1935, the contrast between the £27,000,000 spent each year supporting agricultural prices, and the £2,000,000 spent on the Special Areas, was a striking indication of the National Government's priorities.[87]

The Liberal critique of the National Government's measures centred on the charge that they were socialistic, interfering with the operation of the price mechanism and 'setting up Government, rather than the buying public, as the arbiter of which trades are to be encouraged and which repressed'.[88] The equation of restrictive planning with socialism was widely made – for instance, Samuel thought the Agricultural Marketing Bill was 'by far the most Socialistic Measure that has been brought before Parliament in recent years' – and Liberals took delight in pointing out that Walter Elliot, the ex-Fabian Minister of Agriculture, was putting socialist ideas into practice with support from Conservative backbenchers.[89] More generally, the government's policies seemed to demonstrate that socialism and protectionism were two sides of the same coin. From this perspective, only the Liberals could be trusted to defend free enterprise.

Liberals recognized that the National Government's measures did not cause all the problems associated with full-blooded socialist planning. The problem of pricing in a planned economy, identified by Ludwig von Mises in the 1920s, presented itself in only a mild form; the practical difficulties of state-run industries were largely avoided; and private ownership was evidently preserved.[90] However, the differences between capitalist and socialist planning were perceived to be ones of degree rather than kind. 'You cannot take sections of industry out of the price system and put them on some other principle', Lothian argued, 'without dislocating it still further.'[91]

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[86] Graham White papers, WHI/1/2/1, 'Agricultural Marketing Acts. The Liberal Party's Record', memorandum by Sir Robert Hamilton, n.d. [1934].
[87] Graham White papers, WHI/5/8/78, 'An Open Letter to the Electors' by Ramsay Muir, Nov. 1935.
[88] Muir in *NLF Proceedings, 1935*, 7.
[89] H.C. Deb., fifth series, 276, 20 Mar. 1933, 72-91, at 72; H.C. Deb., fifth series, 278, 17 May 1933, 390-5, at 393.
[90] Ludwig von Mises, 'Die Wirtschaftsrechnung im sozialistischen Gemeinwesen', *Archiv für Sozialwissenschaften*, 47 (1920), translated as 'Economic calculation in the Socialist Commonwealth' in F.A. von Hayek (ed.), *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism* (1935), 87-130; *NLF Proceedings, 1934*, 73; NLF, *The Liberal Way*, 135.
[91] *NLF Proceedings, 1934*, 73.

Indeed, Lothian thought capitalist planning could be more dangerous than socialist planning, precisely because it was piecemeal:

> I am not very much afraid of a straight fight at the polls between individualism and democracy at the one hand and socialist dictatorship on the other. But economic nationalism, by the unemployment and losses it creates, forces governments to try to remedy by ever-increasing interference their own mistakes… Our overloaded governments, while protesting that they believe in freedom are being steadily driven towards fascist economic dictatorships by the quotas, tariffs, and embargoes they put on and by the restriction and control of output at home which these measures inevitably make necessary.[92]

The restrictive National Recovery Administration codes of President Roosevelt's New Deal stood condemned on the same grounds.[93] As Robbins noted, the cumulative effect of these interventionist policies was to make the economy 'less stable, less free, less productive' than it would otherwise be.[94]

The Liberals' theoretical criticisms of planning were overlain by constitutional and political objections. Comprehensive socialist planning, as practised in the Soviet Union, again provided the negative model. As Lothian saw it, socialism 'inevitably' meant 'the end of democracy and Parliamentary government as we have known it', along with 'the end of individual freedom, of freedom of the press, of independence of the judiciary, possibly even of freedom of conscience'.[95] The Labour Party's shift to the left after 1931, and especially the growing prominence of Sir Stafford Cripps and the Socialist League, heightened Liberal fears of a socialist regime, whilst from the other side of the political spectrum, Sir Oswald Mosley's British Union of Fascists posed a more obvious threat to liberty.[96] Liberals could not credibly link the National Government to totalitarian extremism, but they did believe that its policies undermined democracy, especially by delegating power to autonomous agencies outside effective parliamentary control. The Unemployment Assistance Board established in 1934, as well as the agricultural marketing

[92] Ibid., 77-8.
[93] Keynes was also critical of the NRA codes, and urged Roosevelt to abandon restrictive policies: Skidelsky, *Keynes*, II, 489-94.
[94] Robbins, *Great Depression*, 198.
[95] *NLF Proceedings, 1934*, 73, 74.
[96] Muir in *NLF Proceedings, 1934*, 8-9; NLF, *The Liberal Way*, 91-2.

schemes, aroused concern on this score.[97] As the decade drew on, the barrister and Dundee MP Dingle Foot emerged as the most forceful critic of the National Government's record on civil liberties. Echoing John Dunning's 1780 motion on the power of the Crown, Foot complained that the power of the executive 'has increased, is increasing, and ought to be diminished'.[98]

The stridency with which the Liberals condemned the National Government's policies was liable to obscure the qualified nature of their own anti-statism. As the next chapter shows, many Liberals engaged closely with non-party or cross-party planning groups such as Political and Economic Planning and the Next Five Years Group, and highlighted the ways in which their proposals for industrial organization had been prefigured in the Yellow Book. Samuel, at least, believed that a 'merely negative' attitude to state intervention was no longer tenable.[99] The challenge for Liberals was to replace the National Government's measures with forms of planning which were expansive rather than restrictive, national rather than sectional, and so compatible with free trade and constitutional principles.

National development

The emphasis which Liberals placed on tariffs and restrictions as a cause of unemployment significantly circumscribed the claims which they could make for public works. After 1931, Samuel and his colleagues routinely argued that the remedy for unemployment must be 'primarily international', and there was bound to be 'a grave measure of unemployment so long as the international trade situation was not redressed'.[100] Liberals were also impressed by the practical difficulties involved in setting public works in motion, and sensitive to the charge that 'relief works' damaged confidence and wasted public money, which continued to be pressed by

[97] H.C. Deb., fifth series, 283, 30 Nov. 1933, 1114-24.
[98] H.C. Deb., fifth series, 319, 27 Jan. 1937, 1026-36, at 1026, printed as Dingle Foot, *Despotism in Disguise* (1937).
[99] H.C. Deb., fifth series, 300, 3 Apr. 1935, 409-15, at 409.
[100] Samuel in H.C. Deb., fifth series, 274, 16 Feb. 1933, 1242-56, at 1243; see also H.C. Deb., fifth series, 270, 8 Nov. 1932, 224-35.

Asquithian right-wingers.[101] Moreover, despite taking advice from Dennis Robertson, the Liberal leadership failed to keep up with major theoretical developments in these years: for instance, Ramsay Muir still conceived of national development as a way of putting the 'unused money' which 'clogged' the banks to work.[102] Only in the late 1930s would Keynes' new concept of demand deficiency, leading to an equilibrium forming below full-employment level, be widely understood.

In spite of these limitations, the Liberals were adamant that the national development schemes of 1929-31 should be revived and extended as circumstances permitted. Pressure for this came at first from the left of the party. At Clacton, Harry Nathan and Megan Lloyd George successfully amended the official policy declaration, 'Liberalism in a New Era', to add a reference to national development, arguing that it was established party policy and Liberal ministers should not be ashamed of it.[103] At the same time, the essay collection *Whither Britain? A Radical Answer* – written by Hubert Phillips and a group of radical candidates including Alan Sainsbury, Jules Menken and Ronw Moelwyn Hughes – argued that the state should expand its capital spending up to 'the limits of public confidence' in order to bring saving and investment into balance.[104]

Samuel and his colleagues did not share the enthusiasm for planning expressed in *Whither Britain?*, or the Lloyd Georgeites' desire to rebuild links with Labour, and in any case they were still enmeshed in the National Government until September 1932. After the resignations, however, national development became a significant plank in the Liberal programme. A Labour motion of censure on unemployment in February 1933 gave Samuel the chance to define his party's position: pending the restoration of free trade, public works could not solve the unemployment problem, but they could alleviate it considerably if pursued on bold lines. With national credit restored and Bank Rate brought down, Samuel argued, the government had ample scope to expand its capital

[101] Thurso papers, II, 75/1, 'From Mr. Vivian Phillipps', n.d. [Sept./Oct. 1933], and II, 75/5, 'Note on Liberal Policy' by Francis Hirst and others, Jan. 1934.
[102] Graham White papers, WHI/5/8/78, 'An Open Letter to the Electors'; see also Philip Oliver in *NLF Proceedings, 1935*, 50.
[103] *NLF Proceedings, 1932*, 17-21. The amendment was carried unanimously.
[104] Hubert Phillips et al., *Whither Britain? A Radical Answer* (1932), 44-5, 67-9.

investment programme.[105] The Liberal leader was encouraged by recent calls for a revival of public investment by Sir Arthur Salter and Sir Walter Layton; 'no great economist in England', he claimed, approved of the government's caution in this matter.[106] Samuel proposed that, as a first step, the government should release funds to local authorities which had prepared public works schemes, such as the Liberal-run Bethnal Green Borough Council.[107] More ambitiously, he suggested that special commissioners should be appointed to prepare schemes for housing, railway electrification, land settlement, and other projects, work with the Chancellor of the Exchequer to obtain finance, and ensure that the schemes were carried through. Sir John Tudor Walters' work on rural housing in the latter months of the previous Labour government provided a model of how such a commissioner could operate.

Samuel's proposal for special commissioners to oversee national development schemes fitted well with the Yellow Book's proposal, revived after 1931, for a Board of National Investment to coordinate public investment plans.[108] These two ideas formed the basis of Liberal public works policy for the rest of the Parliament.[109] The ambition and confidence of the 1929 programme were conspicuously lacking, and Liberals remained ambivalent about the idea of a large development loan, but the party placed itself firmly on the reflationary side of the unemployment debate as it developed during the 1930s.[110] As far as fiscal policy was concerned, the Liberals stood much closer to Keynes – who restated his support for public works in 'The means to prosperity', a series of articles for *The Times* in March 1933 – and the economists in Oxford and Cambridge who

[105] H.C. Deb., fifth series, 274, 16 Feb. 1933, 1242-56.
[106] Ibid., 1251. *The Economist* also called for a large expansion of public investment at this time: *Economist*, 25 Feb. 1933, 391-2.
[107] Bethnal Green Borough Council had sparked controversy by writing to the Prime Minister to request financial aid for unemployment relief works, a request which MacDonald turned down: *The Times*, 14 Feb. 1933, 7.
[108] NLF, *The Liberal Way*, 123-4, 136-43.
[109] The party also suggested creating regional authorities so that local authorities could take joint action in housing, town planning and transport: *MG*, 16 Mar. 1934, 4.
[110] Delegates at the 1933 NLF meetings rejected calls for a development loan, and Francis Hirst was predictably hostile, but Welsh Liberals like R.T. Evans favoured one and Sinclair was also sympathetic: *NLF Proceedings, 1933* (1933), 11-17; *MG*, 13 July 1933, 18, and 8 May 1933, 13; Thurso papers, II, 75/1, Sinclair to Walter Rea, 9 Oct. 1933.

shared Keynes' views than to the LSE liberals who opposed public works.[111] In policy terms, the main difference with Keynes was that the Liberals could not view experiments in 'national self-sufficiency' with equanimity.[112] Rather, the Liberals advocated an expansionary fiscal policy within an overtly internationalist policy framework.

Lloyd George's New Deal

The official Liberal Party approached the 1935 general election with a reasonably coherent economic policy programme based on free trade, free enterprise and public works. However, its efforts to secure publicity for this programme, and to convince voters that it deserved to be taken seriously, were continually hampered by David Lloyd George's activities. From the moment of the Liberal split in October 1931, Lloyd George presented himself as a king over the water, committed to breaking the party's ties with the National Government and rebuilding links with Labour on the basis of the Yellow Book. As we have seen, Lloyd George assiduously fostered discontent with Samuel's leadership over the agreement to differ and the party's reticence in crossing the floor. The *Manchester Guardian* and *News Chronicle* gave the former leader sympathetic coverage, and in Wales even nominally Samuelite MPs and activists looked to him to revive the Liberal cause.[113] In January 1935, Lloyd George returned to the centre of the political stage with a speech at Bangor which, apeing Roosevelt, outlined a 'New Deal'; in June, when the National Government rejected his plans, he formed the Council of Action for Peace and Reconstruction to campaign for them. The New Deal proposals deserve brief attention here, not least because of the contrast they formed with official Liberal policy.

[111] John Maynard Keynes, 'The means to prosperity', in *JMK*, IX, 335-66. On the reception of Keynes' articles by Liberals, see Sir Percy Harris at the London County Council, in *The Times*, 15 Mar. 1933, 11, and F. Kingsley Griffith in H.C. Deb., fifth series, 277, 8 May 1933, 1295-1302, at 1300.
[112] John Maynard Keynes, 'National self-sufficiency', in *JMK*, XXI, 233-46. The fullest account of Keynes' attitude to the international economy in these years is Donald Markwell, *John Maynard Keynes and International Relations* (Oxford, 2006), 140-209.
[113] The six Welsh Samuelite MPs joined the Lloyd George family members in a Welsh Liberal group, with Lloyd George as chairman, in February 1933, whilst Welsh Liberal activists called for Lloyd George to return as party leader: *MG*, 15 Feb. 1933, 9, 20 Jan. 1933, 9, and 8 May 1933, 13.

The conventional interpretation of Lloyd George's New Deal sees it as a personal initiative, in which the former Prime Minister sought to use Nonconformist support to regain political influence.[114] Although this interpretation is justified, the New Deal should also be understood as a manifestation of Welsh Liberal disaffection with the official party. In September 1934, Lloyd George convened an informal gathering of prominent Welsh activists, including Thomas Waterhouse, J.E. Emlyn-Jones, and future Chancellor of the Exchequer Selwyn Lloyd, at a hotel in Criccieth.[115] At this meeting, Lloyd George outlined a plan to counter the National Government's hegemony, through '[a]n organised effort… to secure a Parliament of the Left, pledged to an advanced progressive programme of Peace, Liberty and Reconstruction'. This programme, he felt, should involve large-scale public investment in agriculture, rural industries and housing, to reverse the drift of population from the land to the towns and provide 'work or sustenance for all'. A campaign organization would back Liberal candidates who accepted the programme and had a reasonable chance of victory, and would use 'organised Liberal pressure' to persuade other candidates to support it.[116]

Lloyd George assembled a large group of predominantly Welsh economists, agriculturalists, and Liberal activists at his farm in Churt, Surrey, to work out a programme over two weekends in October 1934. Caradog Jones of Liverpool University, Morgan Rees and Alun Roberts of Bangor, and Richard Stapledon of Aberystwyth were among the most active participants, but it was Lloyd George who determined the main lines of the New Deal policy. Most strikingly, Lloyd George repudiated free trade, arguing that a tariff was justified as part of a programme to put half a million more workers on the land and that no party would dare advocate a wholesale abolition of tariffs at the next election. Against protests from Stapledon, Lloyd George argued that British agricultural policy should seek to enable domestic farmers to provide the whole of the nation's needs in those foodstuffs which Britain was capable of producing.[117] It was also Lloyd George who advocated a National Investment Board to ensure that sufficient capital was available to industry, and

[114] Stephen Koss, 'Lloyd George and Nonconformity: the last rally', *EHR*, 89 (1974), 77-106.
[115] Geoffrey Crowther of *The Economist* also attended, probably on behalf of Sir Walter Layton: see David Lloyd George papers, LG/G/141/26/5, Layton to Lloyd George, 13 Sept. 1934.
[116] David Lloyd George papers, LG/G/153/5, Notes of conversations at Criccieth, 13-14 Sept. 1934.
[117] David Lloyd George papers, LG/G/153/1, Notes of conversation at Churt, 26 Oct. 1934 at 6.30pm.

controlling boards for major industries – such as shipping, coal, and cotton – to ensure that the capital thus disbursed was wisely used.[118] In the field of public investment, Lloyd George revived the 1929 programme, proposing a £250 million 'prosperity loan' to finance two years' investment in infrastructure, agriculture and housing. The Welshman claimed that this would create 500,000 jobs directly, and another million jobs in ancillary trades and through the multiplier effect. Taken together with measures to raise the school-leaving age and expand training facilities, such a programme would reduce the unemployment rolls to a hard core of 250,000 'unemployables'.[119]

Lloyd George's reliance on Welsh academics for advice on the New Deal meant that the proposals were largely developed in isolation from the Samuelite leadership, but Lloyd George did ask Layton and Lothian for comments on his draft programme, and persuaded Lothian to draft a foreign policy statement which could be combined with it.[120] Both men approved of the Keynesian element in the proposals, but criticized the neglect of the international dimension and the acceptance of tariffs. Layton was particularly unsettled by Lloyd George's assertion that no significant expansion of exports could be expected in the coming decade; instead, he felt, Lloyd George should clearly label his proposals as interim measures for reducing unemployment, without prejudice to longer-term aims.[121] Lothian echoed this point, and also questioned the wisdom of Lloyd George's target of returning 500,000 workers to the land. A national development programme which related to both town and country, he argued, would stand a better chance of winning popular backing.[122]

The Samuelite attitude to Lloyd George's New Deal was necessarily ambivalent. On the one hand, Lloyd George's adoption of tariffs represented a serious departure from Liberal orthodoxy, and – together with his efforts to press the scheme on the National Government – showed how opportunistic his earlier criticisms of the Samuelites had been. The protectionist implications of the New Deal were widely criticized, and traditionalist free traders such as Francis Hirst revelled in the

[118] David Lloyd George papers, LG/G/153/1, Notes of conversation at Churt, 27 Oct. 1934 at 10am.
[119] Garside, *British Unemployment*, 355-6.
[120] Koss, 'Lloyd George and Nonconformity', 86.
[121] Thurso papers, II, 57/1, Sinclair to Samuel, 11 Jan. 1935.
[122] Lothian papers, GD40/17/112/97-9, Lothian to Lloyd George, 10 Mar. 1935, at fos. 97-8.

discomfort of Lloyd George's Liberal followers.[123] On the other hand, Liberals recognized that their former leader could hardly be ignored, and that the national development plans closely resembled the party's 1929 policy. As Sinclair pointed out to Samuel, 'the possibility of reuniting the Party roughly on the basis of the Ll. G. policy', provided it could be shorn of its protectionism, was politically very appealing; indeed, Lloyd George told Sir Walter Layton that he had been offered the chance to take over the party 'lock, stock and barrel'.[124] Lloyd George's preference for independent action ruled out this option, but it also meant that Samuelites could participate in the Council of Action without committing themselves to the details of his proposals. A host of active Liberals, including Lothian, Layton, Sir Francis Acland, and Milner Gray, took prominent roles in the Council, and left-leaning Liberals and Nonconformists appear to have provided the mainstay of its support.[125] Moreover, Samuelite relations with Lloyd George became easier over time as Lloyd George moved back towards a free-trade position and the Abyssinian crisis pushed foreign policy to the top of the political agenda.[126] When the election came, Samuel allocated Lloyd George one of the three Liberal radio broadcasts, and most Liberal candidates – including almost all the successful ones – signed the Council of Action's questionnaire and received its endorsement.[127]

The 1935 general election

The activities of the Council of Action may have raised Liberal influence and morale, but they did little to improve the party's performance at the 1935 general election. With limited financial resources and few candidates available, the Samuelites were forced to fight on a narrow front: only 159 candidates took the field, and some of these had been recruited for hopeless seats at the last minute. The tone of the Liberal appeal in the constituencies is conveyed by Tom Stannage's

[123] David Lloyd George papers, LG/G/142/1, Emlyn-Jones to Lloyd George, 5 Mar. 1935; Bodleian Library, Hirst papers, 64, Francis Hirst to Gertrude Hirst, 7 Feb. 1935.
[124] Samuel papers SAM/A/155(IX)/17, Sinclair to Samuel, 4 May 1935; Layton papers, 104/34, 'Note of conversation with Mr. Lloyd George, Friday, May 17th, 1935'.
[125] Lothian papers, GD40/17/300/342-7, 'Notes of the Committee Meeting' of the Council of Action, 10 July 1935.
[126] Thurso papers, II, 57/1, Sinclair to Samuel, 14 Oct. 1935.
[127] Stannage, *Baldwin Thwarts the Opposition*, 144-6; David Lloyd George papers, LG/G/142/2, 'List of Approved Candidates Who Have Been Returned', n.d. [Nov. 1935]. Many Labour and some National Government candidates also signed the Council of Action questionnaire.

analysis of election addresses. Whilst peace was the dominant issue, 93 per cent of Liberals mentioned the need for free or freer trade, 70 per cent advocated some form of public works, and one-third mentioned their support for the Council of Action's programme.[128] Compared with Labour and National Government candidates, Liberals said relatively little about taxation, the social services, or the cost of living, although some Liberal candidates engaged in heated disputes with Conservatives over the impact of protection on food prices.[129] The NLF's manifesto focussed on similar themes, following the main lines of policy developed at Blickling and embodied in *The Liberal Way*.[130]

On polling day, seventeen official Liberals were returned – about half the party's 1931 tally – together with four Lloyd Georgeites. One major problem was the appearance of Conservative rivals in industrial constituencies such as Edinburgh East, Middlesbrough East, South Shields, and Dewsbury, where Liberals had won straight fights with Labour in the unusual circumstances of 1931; another was the party's ambivalent line on the means test, which alienated working-class voters and seems to have contributed to Samuel's defeat at Darwen.[131] Only strong local reputations, and perhaps some tactical voting, saved Geoffrey Mander, Graham White, Kingsley Griffith and Sir Percy Harris in their urban seats. Otherwise, except for occasional cases (such as Dundee and Bradford South) where Samuelites retained local Tory backing, the party was pushed back to rural Britain. Ex-ministers Isaac Foot and Sir Robert Hamilton were unseated at Bodmin and Orkney and Shetland respectively, but Wales held relatively strong, and three seats on the English periphery – Barnstaple, North Cumberland, and Berwick-upon-Tweed – were gained in straight fights with the Conservatives.

[128] Stannage, *Baldwin Thwarts the Opposition*, 291-2.
[129] Ibid.; BLPES, Josephy papers, Add. 1/8, F.L. Josephy election address and National Government election leaflets, Nov. 1935.
[130] *Liberal Manifestos*, 56-8.
[131] Wasserstein, *Herbert Samuel*, 370-1.

Conclusion

Across much of the British political spectrum, the years of depression were characterized by a burgeoning interest in state intervention and planning. This chapter has shown, however, that the Liberal Party leadership moved *away* from the constructive Liberalism of the Yellow Book in the wake of the 1931 crisis. In this 'new era of intensified economic nationalism', free trade returned to the heart of the party's policy, and classical doctrines were again seen to militate against government intervention in the domestic as well as the international sphere.[132] With relatively little direct input from professional economists, Sir Herbert Samuel and his colleagues worked to synthesize grassroots commitments to free trade and public works into a coherent and credible policy. Although the Samuelites struggled to decide whether tariffs and misguided interventions had caused the depression or merely exacerbated it, they were adamant that unemployment could not be conquered until free trade was re-established and an international economic order restored. In the meantime, public works could create jobs directly and reinforce the wider economic stimulus provided by cheap money. This policy synthesis may have lacked a developed theoretical basis, but it neatly spanned the ground between Keynes' reflationary position and the classical-cum-Austrian analysis of Robbins and other LSE economists.

Whatever its intrinsic merits, however, the electoral impact of the policy which the Liberals developed after 1932 can only be described as negligible. Indeed, Liberal decline continued unabated at the 1935 general election. This political failure requires a threefold explanation. Firstly, and most importantly, the polarization of the electorate on socialist and anti-socialist lines left little political space for a Liberal alternative to develop. As Ross McKibbin has powerfully argued, the National Government enjoyed enormous success in identifying itself with the welfare of the 'public' against a Labour movement which represented the sectional interests of the unionized working class.[133] The Simonites' ongoing presence in the National Government helped

[132] Thurso papers, II, 75/5, 'Notes on Parts IV and V of "The Liberal Way"' by Sinclair, Jan. 1934.
[133] Ross McKibbin, 'Class and conventional wisdom: The Conservative Party and the "public" in inter-war Britain', in id., *The Ideologies of Class: Social Relations in Britain, 1880-1950* (Oxford, 1990), 228-58; McKibbin, *Parties and People*, 69-105.

substantiate its claims to moderation, and backed up Stanley Baldwin's efforts to appeal to erstwhile Liberal voters.[134] At the same time, the Samuelites' complicity in the National Government's economy programme undermined their progressive credentials and alienated radical support. In this sense, the Liberals were condemned to continued decline by the structure of political allegiances which the events of 1931 had established.

The proliferation of 'middle opinion' groups in the 1930s, however, should warn us against taking the partisan polarization of that decade too much for granted. Clearly, there did exist a progressive but non-socialist element in the electorate whose support the Liberals might have won. From a second perspective, then, the Liberals' problem lay in a lack of definition, unity and purpose. The tripartite division within Liberalism blurred the party's image, and was compounded by the Samuelites' perceived ambivalence towards the National Government: even during the 1935 election, Stannage notes, Samuel frequently sounded like an ally of Baldwin's administration.[135] In these circumstances, Liberal candidates were bound to play up their personal qualities and their links with the Council of Action at the expense of party loyalties: for instance, Graham White's election address in Birkenhead East did not even mention his Liberalism.[136] A sharper break with the National Government in 1932 would have been fraught with difficulties, but it would have defined the Samuelite position more clearly, and it might have enabled the Liberals to form a major pole of opposition at a time when Labour was still reeling from the 1931 debacle.

A third cause of the Liberals' failure lay in the economic environment in which the National Government's policies were implemented. On the basis of classical theory, Samuel and his colleagues believed that tariffs would raise prices and damage employment, all other things being equal; indeed, this had been the basis of the popular free-trade case since the nineteenth century. In the 1930s, however, any negative impact tariffs might have had was outweighed by the general fall in world prices and by the stimulus which devaluation and cheap money provided to employment. The Ministry of Labour's cost-of-living index fell until 1933, and did not regain its 1931 level until

[134] Philip Williamson, *Stanley Baldwin: Conservative Leadership and National Values* (Cambridge, 1999), 50-2.
[135] Stannage, *Baldwin Thwarts the Opposition*, 158-9.
[136] Graham White papers, WHI/5/3/20, Graham White election address, Nov. 1935.

1936; registered unemployment peaked in 1932 and had fallen by one-quarter by the time the election came.[137] In these circumstances, it was difficult to claim that protection had condemned Britons to a 'little loaf', and Liberals were reduced to using counter-factual comparisons to challenge the notion that tariffs had proved successful.[138] The Liberals' efforts to revive free trade as a popular cause were thus inhibited by economic developments as well as by political ones.

[137] B.R. Mitchell and Phyllis Deane, *Abstract of British Historical Statistics* (Cambridge, 1962), 478, 66.
[138] For contemporary recognition of this problem, see Thurso papers, II, 75/5, 'Notes on Parts IV and V of "The Liberal Way"'.

4. From 'middle opinion' to *Ownership for All*, 1935-1939

The electoral dominance of the National Government, asserted in 1931 and reaffirmed at the 1935 general election, structured the politics of the middle and late 1930s. With Conservative policies cloaked in the language of the 'public' welfare and the 'national' interest, both the Labour and Liberal parties found it difficult to present themselves as credible alternative governments, whilst the ascendancy of Stanley Baldwin and Neville Chamberlain within the Conservative ranks meant that progressive Tories such as Harold Macmillan also found themselves excluded from power. In consequence, the 1930s saw a spate of efforts to promote cooperation between elements in the centre and left of the political spectrum. At mid-decade, 'middle opinion' initiatives such as the Council of Action, Political and Economic Planning, and the Next Five Years Group were most prominent, and focussed on canvassing non-socialist support for reflationary policies and moderate planning measures.[1] Later, as the National Government's appeasement policy came to the fore, centre-progressives sought to construct a 'popular front', which would include the Labour Party and perhaps the Communists, to advocate collective security against the Fascist dictators.[2] As Daniel Ritschel has pointed out, these initiatives all had different ideological casts, and most of them sought to establish agreement on short-term policies without necessarily harmonizing participants' underlying views.[3] The idea of a single, coherent 'middle opinion' is therefore decidedly problematic.

Many Liberals engaged actively in planning groups such as the Next Five Years Group, and in the popular front. For a party in decline, these initiatives offered a valuable means to build up the political centre, challenge the National Government's foreign policy, and press the case for constructive policies on Yellow Book lines. However, the Liberal leadership treated cooperative initiatives with caution, and emphasized instead the need to build up the Liberal Party as a vital and independent force. This was especially the case after Sir Archibald Sinclair succeeded Samuel as

[1] Arthur Marwick, 'Middle opinion in the Thirties: Planning, progress and political "agreement"', *EHR*, 79 (1964), 285-98.
[2] David Blaazer, *The Popular Front and the Progressive Tradition: Socialists, Liberals, and the Quest for Unity, 1884-1939* (Cambridge, 1992).
[3] Ritschel, *Politics of Planning*, 1-19.

leader in 1935. In line with this strategic orientation, the main trajectory of Liberal thought during the later 1930s ran away from the constructive Liberalism of the Yellow Book and towards a more distinctive and individualistic appeal, which entailed a new synthesis of classical, New Liberal and Keynesian ideas. From the classical tradition, this synthesis drew a strong commitment to competitive markets; from New Liberalism, it drew an emphasis on positive liberty and the importance of self-development, which was linked – in an important new departure – to the extension of personal property-ownership; and from Keynes, via the financial press, it derived the idea that demand management could be used to temper booms and slumps. In Sinclair's hands, this liberal Keynesian synthesis was tentative and incomplete, but it clearly prefigured the direction that Liberal economic thought would take after the Second World War.

The reorientation of Liberal policy which took place in the late 1930s reflected diverse influences, and its ideological coherence should not be exaggerated. However, one important parallel demands recognition. The Liberals' concern to legitimate the market order by distributing property and economic power more widely closely echoed the views of contemporary liberal economists and early neoliberals. The American journalist Walter Lippmann, who inspired a famous colloquium in 1938, strongly influenced Liberal thinking; the young Arthur Seldon, who later became prominent at the Institute of Economic Affairs, participated in policy-making; and characteristically neoliberal concepts, such as the rule of law, featured prominently in Liberal rhetoric in these years. As Ben Jackson and Keith Tribe have shown, some neoliberal economists in this period were much less hostile to moderate forms of state intervention, including demand management, social insurance, and anti-trust policies, than the neoliberal movement as a whole later became.[4] Of course, the Liberal Party was an imperfect vehicle for this moderate neoliberalism, but the party's association with early neoliberal ideas makes it difficult to view the 1930s as a period of intellectual torpor.

Sinclair's leadership stabilized the Liberal Party's political position. Morale revived, and the party's central organization was reformed, so that – as Malcolm Baines suggests – the party could

[4] Jackson, 'Origins'; Tribe, 'Liberalism and neoliberalism'.

function ‘like an orthodox party’ again.[5] Sinclair’s biographer, Gerard de Groot, credits him with renewing the party’s image, by linking free trade, social justice, and opposition to appeasement under the banner of ‘freedom and democracy’.[6] The electoral impact of Sinclair’s new approach is difficult to quantify, and it is possible that the party would have lost further ground at a 1939-40 general election.[7] Garry Tregidga, however, has argued that the ‘new progressive image’ which Sinclair projected chimed with growing popular opposition to the government’s foreign and agricultural policies, and made the late 1930s ‘an active and even optimistic period for the Liberal Party in rural Britain’.[8] Tregidga points out that the absence of a national popular front did not prevent Lib-Lab cooperation in regions such as south-west England, where both parties stood to benefit. With a deep reservoir of traditional Liberal support and a renewed appeal to Labour voters in these areas, the Liberals enjoyed a realistic prospect of improving their electoral performance for the first time in a decade.[9]

The present chapter unpacks the debates over the Liberal Party’s policy and strategy which took place during these years. The first half of the chapter examines Liberals’ engagement with the planning movement during the mid-1930s, and the emergence of Elliott Dodds’ arguments for a more distinctive Liberal policy, based on ‘ownership for all’. Its second half traces the development of Liberal policy after 1935, including the adoption of the *Ownership for All* report, the reception of Keynes’ *General Theory*, and the party’s populist campaign against the rising cost of living. A concluding section considers the implications of these developments for the Liberal Party’s economic position on the eve of the Second World War.

[5] Baines, ‘Survival’, 28.
[6] de Groot, *Liberal Crusader*, 121.
[7] Baines, ‘Survival’, 45-6; Dutton, *Liberals in Schism*, 120-1.
[8] Tregidga, ‘Liberal Party in Cornwall’, 236; Garry Tregidga, ‘Turning of the tide? A case study of the Liberal Party in provincial Britain in the late 1930s’, *History*, 92 (2007), 347-66, at 365.
[9] Tredidga, ‘Turning of the tide?’

The politics of liberty

The Liberal Party's intellectual trajectory in the 1930s can only be understood in the light of the inhospitable political environment which the party faced. Labour, Conservative, and Liberal National politicians repeatedly asserted that Liberalism's task was finished; nineteenth-century Liberalism, caricatured as a laissez-faire creed, served as a rhetorical foil for planning proposals of all kinds; and Harcourt Johnstone noted that Gladstone's name was 'now more of a music-hall joke than an inspiration for youth'.[10] The growth of totalitarianism, economic nationalism, and international tensions intensified Liberals' sense of disorientation.

The need to justify the party's continued existence brought Liberals back to the idea of defending and expanding liberty, which became the defining characteristic of Liberal thought and rhetoric in the 1930s. To an extent, this involved a return to the older libertarian agenda espoused by traditionalists such as Francis Hirst, who used the Liberal Free Trade Committee, the Cobden Club, and a series of 'Liberty luncheons' at the National Liberal Club in 1933-4 to canvass support for Gladstonian policies.[11] Unlike most Liberals, Hirst defined liberty in almost exclusively negative terms; but his hope that 'a strong intellectual movement' would soon emerge 'against Communism and Fascism and in favour of all forms of personal liberty' seems to have been shared by many within the party.[12]

In the hands of the Liberal leaders and most activists, however, the case for liberty took a more positive form. 'The most fundamental aim of Liberalism', Ramsay Muir declared in *The Liberal Way*, was

> To create the conditions in which every man and woman shall be genuinely free, enjoying a real "equality of opportunity" to make the most and the best of their own powers of body and mind, for their own advantage and that of the community, and effectively sharing in the control of their own destinies.[13]

[10] Hirst papers, 14, Harcourt Johnstone to Francis Hirst, 13 Feb. 1936. The most pointed critique of Gladstonian Liberalism came from Stephen Spender: Stephen Spender, *Forward from Liberalism* (1937).
[11] Hirst papers, 64, Francis Hirst to Gertrude Hirst, 16 Nov. 1933 and 2 Oct. 1934.
[12] Hirst papers, 64, Francis Hirst to Gertrude Hirst, 28 Sept. 1933.
[13] NLF, *The Liberal Way* (1934), 185.

The Liberal Party fought on, Muir emphasized, because this aim was 'still far from being realised'.[14] Sinclair put the position in similar terms. Although personal liberty was vital, he argued, Liberals had to demonstrate its relevance to 'the great mass of the electors', for whom 'unemployment and poverty' were the most obvious sources of oppression.[15] The liberty which Liberals championed therefore included 'freedom… from poverty and dependence', and the possession by every citizen of the economic means necessary to enjoy 'a free and full life'.[16]

The Liberals and the planning movement

In the political climate of the 1930s, 'middle opinion' initiatives had an obvious appeal to Liberals. The idea of a middle way between Conservatism and socialism had long been implicit in the Liberal Party's identity, and had become a major theme of Liberal rhetoric after 1918. For Samuel and his colleagues, the Liberal Party was the natural instrument of centrist politics, through which the 'great body of progressive opinion' could regain control of 'the policy of the British State' and defend liberty against the extremes of right and left.[17] At the same time, Liberals were realistic enough to recognize that ambitious young Conservative and Labour politicians had little interest in joining a party in decline. Consequently, non-party organizations represented the most promising means of building up the moderate forces.

Non-party political organizations proliferated during the inter-war years, as Helen McCarthy has vividly shown. At both elite and popular levels, bodies such as the League of Nations Union mobilized citizens in support of specific causes, providing spaces for 'inclusive, pluralist participation' and helping to anchor British politics 'in the centre-ground'.[18] Liberals found the LNU particularly appealing, as a means of promoting disarmament and the international rule of law, and played a prominent role in the 'Peace Ballot' it ran in 1934-5; indeed, the Liberal scholar

[14] Ibid.
[15] Thurso papers, II, 75/1, Sinclair to Walter Rea, 9 Oct. 1933.
[16] *NLF Proceedings, 1934*, 22.
[17] *MG*, 16 Mar. 1934, 4.
[18] Helen McCarthy, 'Parties, voluntary associations, and democratic politics in interwar Britain', *HJ*, 50 (2007), 891-912, at 893.

Gilbert Murray became the Union's defining personality, alongside the Conservative Lord Hugh Cecil.[19] Active and former Liberals also featured prominently in women's organizations, and in Eleanor Rathbone's Family Endowment Society.[20] Other civic and religious organizations maintained a similar appeal to Liberals' public-spiritedness: for instance, the Asquithian MP Leif Jones presided over the prohibitionist United Kingdom Alliance from 1906 to 1932, whilst Sir Herbert Samuel and James de Rothschild were prominent Zionists.[21] The cause of Federal Union would provide an outlet for more youthful idealism at the end of the 1930s.

The Council of Action was not the only 'middle opinion' group which recruited within this Liberal and Nonconformist milieu. In 1934, a manifesto on 'Liberty and Democratic Leadership' drawn up by the principal of Ruskin College, Oxford, Alfred Barratt Brown, with Harold Macmillan and the National Labour peer Lord Allen of Hurtwood, attracted signatures from more than twenty Liberals, including several – such as Sir George Paish and Elliott Dodds – who were generally unsympathetic to economic planning.[22] Similarly, several Liberals patronized the 'Democratic Front' group, founded at Cambridge University in 1934 to promote progressive cooperation.[23]

Appeals to liberty and democracy could always rely on a sympathetic Liberal audience, but few advocates of centrist cooperation were content to leave their activities on this relatively abstract level. For Macmillan and other progressive Tories, the defence of the democratic system was tied up with the attempt to promote economic planning, which was inevitably more controversial. The most explicitly planning-oriented groups, such as PEP and the Industrial Reorganisation League, drew support only from a handful of constructive-oriented Liberals, like

[19] Grayson, *Liberals, International Relations, and Appeasement*, *passim*; Martin Ceadel, 'The first British referendum: The Peace Ballot, 1934-5', *EHR*, 95 (1980), 810-39.
[20] Thane, 'Women', *passim*.
[21] David M. Fahey, 'Jones, Leifchild Stratten, Baron Rhayader (1862-1939)', *Oxford Dictionary of National Biography*, May 2006 online update (http://www.oxforddnb.com/view/article/39155), accessed 12 Mar. 2012; Wasserstein, *Herbert Samuel*, 198-213, 222-7, 404-5; Jaime Reynolds, '"Jimmy": The career of James de Rothschild, MP', *JLDH*, 32 (2001), 24-7.
[22] Graham White papers, WHI/6/4/7, 'Liberty and Democratic Leadership'; Bodleian Library, MS. Macmillan dep. c. 864, 8-11, list of proposed signatories by A. Barratt Brown, n.d. [Jan. 1934]; Ritschel, *Politics of Planning*, 246.
[23] MS. Macmillan dep. c. 864, 136-7, 'The Democratic Front', n.d. [1934-5].

Sir Arthur Salter, Graham White and Seebohm Rowntree.[24] The Next Five Years Group, which emerged from 'Liberty and Democratic Leadership', attracted much wider Liberal backing, but Salter, White, Geoffrey Mander, Sir Walter Layton and Geoffrey Crowther of *The Economist*, and Lothian (who wanted to give the group an anti-socialist edge) were most heavily involved.[25] *The Next Five Years*, 'an essay in political agreement' which appeared in July 1935, was widely seen as a lineal descendant of the Liberal Yellow Book, arguing that a mixed economy was possible and desirable and that state intervention was needed to organize economic forces. At macro level, the government would use national development spending to stabilize the trade cycle; at micro level, industries would be organized under industrial boards, created by the trade associations but with neutral as well as business members. Monopolistic industries of national importance such as banking, electricity, and transport would become 'public concerns', privately owned but subject to publicity requirements and with profits and prices fixed by independent tribunals.[26] A range of social reforms, including the abolition of the family Means Test, higher unemployment benefits and pensions for the needy, and the raising of the school-leaving age to sixteen, also helped endear *The Next Five Years* to progressive Liberals.

Centrist initiatives continued to attract Liberal support throughout the 1930s, which was reinforced after the 1935 general election by growing enthusiasm for a popular front. Nevertheless, it is important to emphasize the conditional nature of the party's interactions with planning groups, since although there was significant common ground between Liberal policy and 'middle opinion' manifestos, there was also an element of disjunction which some Liberals considered fundamental. Both *The Next Five Years* and PEP incorporated protectionism and industrial self-government into their visions of a mixed economy. By contrast, official Liberal policy had moved away from the Yellow Book since 1931, with a new emphasis on the importance of free trade and free markets,

[24] On PEP, see John Pinder (ed.), *Fifty Years of Political & Economic Planning: Looking Forward, 1931-1981* (1981); Graham White papers, WHI/3/2/2, 'Unemployment Assistance' (PEP memorandum), 1 Apr. 1935, and 16/3/10, PEP circular on the social services, 30 Dec. 1941. Daniel Ritschel describes Rowntree as 'the only Liberal of note' involved in the IRL: Ritschel, *Politics of Planning*, 195.
[25] *The Next Five Years: An Essay in Political Agreement* (1935), v-x; MS. Macmillan dep. c. 375, 177-8, 'The "Next Five Years Group"', n.d. [Feb. 1936], and 226-32, 'Members of "The Next Five Years" Group', n.d. [May 1936].
[26] *The Next Five Years*, 70-96.

and efforts to promote 'planning' within the Liberal Party after 1931 had been conspicuously unsuccessful.[27] For many Liberals, Keynes' notion that the conditions of classical Liberalism had passed away now seemed to concede too much to the party's enemies, whilst the National Government's policies – and the rise of Fascism in Europe – made it harder to believe that the state could be trusted to use its economic powers in the public interest.

The caution of the Liberal Party's leaders is best shown by their attitude to *The Next Five Years*. 153 prominent personalities, including more than a dozen active Liberals, signed the book's foreword and promised 'general support' for the measures it contained, but Samuel and his senior colleagues were not among them. Samuel considered *The Next Five Years* an 'able and stimulating book', which contained the kind of 'constructive policy' that the times demanded, but – along with the other Liberal ex-ministers – he felt that signing the foreword '*simpliciter*' would commit the party too closely to its contents.[28] The book's treatment of the trade question was especially unsatisfactory, since it appeared to presuppose the maintenance of protection, and proposed to replace the existing patchwork of tariffs with uniform tariff rates covering whole categories of imports. The authors' support for the revision of most-favoured-nation clauses, which would facilitate multilateral tariff reductions, only partially mitigated this problem.[29] The Liberal ex-ministers offered to write a public letter outlining their dissent, but the book's organizers decided that this would be inappropriate, and Samuel was left to define his position at the 1935 Liberal Summer School.[30]

A secondary point of difference between the Liberals and the moderate planners concerned industrial reorganization, especially in the form of the industrial self-government schemes canvassed by the Industrial Reorganisation League. Samuel's investigations into the coal industry

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[27] *Whither Britain?* was largely ignored by the party leadership, and the Liberal Constructive Group which young activist Harold Cowen launched in 1933 gained little traction. See Lothian papers, GD40/17/262/210-3; Cowen to Lothian, 2 Apr. 1933; GD40/17/272/151-2, Cowen to Lothian, 19 Apr. 1933; and GD40/17/272/160-1, Cowen to Lothian, 20 July 1933.

[28] Sir Herbert Samuel, *The Political Situation. Being the Inaugural Address to the Liberal Summer School, Cambridge, August 1st, 1935* (1935), 7, 8; Thurso papers, II, 57/1, 'The Next Five Years', memorandum by Samuel, 15 July 1935.

[29] Samuel, *Political Situation*, 7; *The Next Five Years*, 129-47; Graham White papers, WHI/3/5/30, 'The Next Five Years. Foreign Trade. Most-Favoured-Nation Clause', n.d. [1935]. In similar vein, Sinclair found it difficult to see how the Liberals could work with PEP so long as it proceeded 'on purely protectionist lines': Thurso papers, III, 10/2, Sinclair to Samuel, 4 Apr. 1934.

[30] Thurso papers, II, 57/1, 'The Next Five Years'.

had persuaded him that statutory reorganization was acceptable provided there were safeguards for the public interest, and he seems to have been unperturbed by the proposals in *The Next Five Years*.[31] The Wolverhampton MP Geoffrey Mander, himself a paint manufacturer, also thought that 'all these ideas found their origin consciously or unconsciously in the Yellow Book'.[32] Other Liberals, however, associated industrial self-government with the National Government's restrictive planning schemes, and felt that it would give statutory sanction to monopolies and cartels. On this basis, Ramsay Muir and Elliott Dodds refused to endorse *The Next Five Years*, and added the complaint – which Samuel echoed – that the book ignored the need for industrial democracy and profit-sharing.[33]

Liberals' substantive criticisms of the planning movement were overlaid by a more political concern. Middle opinion initiatives offered a valuable means of promoting centrist cooperation, but they were also liable to blur the party's identity and divert its members' energies away from Liberal work. 'Groups, councils, programmes, questionnaires' – Samuel told the Liberal Summer School – might be excellent, but for the time being there was no means of giving electoral expression to this cooperation.[34] The Conservatives involved in *The Next Five Years* would do nothing to help Liberals win seats when the general election came, and the Labour Party showed no interest in a progressive combination. Samuel emphasized that Liberals were willing to join a centre-left alliance; but until an electoral agreement was reached, the party's main contribution to progressive unity would have to lie in ensuring its own survival.

'Freedom for all based on ownership for all'

The difficulties Liberals encountered in building centrist alliances opened up political space for an alternative strategy, based on staking out a more distinctively Liberal position. Elliott Dodds, the editor of the *Huddersfield Daily Examiner* and president of the National League of Young

[31] H.C. Deb., fifth series, 300, 3 Apr. 1935, 409-15.
[32] H.C. Deb., fifth series, 300, 3 Apr. 1935, 452-7, at 452.
[33] Ritschel, *Politics of Planning*, 266; Samuel, *Political Situation*, 7.
[34] Samuel, *Political Situation*, 11.

Liberals, was the most energetic advocate of this approach.[35] Dodds was an instinctive radical, and had backed the Yellow Book, but by the early 1930s he was concerned that 'the man in the street' did not know 'what kind of society' Liberals stood for.[36] Dodds tried to remedy this deficiency by drafting a 'Declaration of Liberal Faith' for the 1932 NLYL conference. Here, the Liberal aim was defined in terms that would recur in Dodds' speeches and writings for the rest of the decade:

> [A] commonwealth of free citizens living harmoniously within itself, developing in the fullest measure its human as well as its material resources, cherishing variety rather than uniformity, assuring justice and equality of opportunity for all, and, in the wider field of world organisation, freely co-operating with other nations to preserve peace and promote the common good.[37]

The Young Liberals adopted the declaration after debate.[38] The greater challenge for Dodds lay in canvassing support for his approach in the rest of the party.

The vision of a Liberal society which Dodds sketched was a distributist and republican one, in which the ownership of personal property by citizens served as the basis for self-development and democratic participation.[39] Various intellectual sources for this vision may be identified. Most obviously, Dodds had been a fervent admirer of G.K. Chesterton and Hilaire Belloc in his youth, and his emphasis on the social importance of 'the small man' echoed Belloc's 1912 tract *The Servile State*.[40] Although Dodds was a Congregationalist lay preacher, he also engaged with Catholic social thought: by the early 1940s, at least, he was reading widely in the works of continental personalists such as Jacques Maritain and Nikolai Berdyaev.[41] More broadly, the idea of spreading property-ownership had significant Liberal antecedents, reflected in the party's support for smallholdings, death duties, profit-sharing and industrial democracy. Finally, Dodds

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[35] Dodds' life and thought are ably summarized in Donald Wade and Desmond Banks, *The Political Insight of Elliott Dodds* (Leeds, 1977).
[36] Thurso papers, II, 75/1, Dodds to Walter Rea, 10 Sept. 1933.
[37] National League of Young Liberals, *A Declaration of Liberal Faith* (York, 1932), 8.
[38] *MG*, 29 Mar. 1932, 12.
[39] The Liberals' interest in 'ownership for all' has been acutely analysed by Stuart White: Stuart White, '"Revolutionary Liberalism?" The philosophy and politics of ownership in the post-war Liberal Party', *British Politics*, 4 (2009), 164-87.
[40] University of Sheffield Special Collections, Elliott Dodds papers, box 2, 'G.K.C. A calendar for 1910. Being some selections from Orthodoxy', by Elliott Dodds.
[41] Elliott Dodds papers, box 3/10, commonplace book; Elliott Dodds, *Let's Try Liberalism* (1944), 72-3. For an overview of Maritain's wider influence in Britain, see Matthew Grimley, 'Civil society and the clerisy: Christian élites and national culture, c. 1930-1950', in José Harris (ed.), *Civil Society in British History: Ideas, Identities, Institutions* (Oxford, 2003), 231-47, esp. 239-42.

was impressed by the contrast between the stringent anti-trust provisions which applied in the United States, and the British government's tolerance of cartels and monopolies. In this respect, Dodds showed a strong affinity with American progressivism.

Dodds' ideas received timely endorsement from the American liberal journalist Walter Lippmann, whose books *The Method of Freedom* (1934) and *The Good Society* (1937) addressed contemporary political developments on both sides of the Atlantic.[42] Lippmann's intellectual contribution was twofold. Firstly, Lippmann offered a pointed critique of collectivism and central economic planning, and argued that a directed economy based on a comprehensive plan was bound to result in scarcity and loss of individual freedom.[43] In contrast, Lippmann believed, an evolutionary approach based on social reforms and counter-cyclical fiscal policies offered a more satisfactory remedy for the failings of the free market:

> I shall call it the method of free collectivism. It is collectivist because it acknowledges the obligation of the state for the standard of life and the operation of the economic order *as a whole*. It is free because it preserves within very wide limits the liberty of private transactions. Its object is not to direct individual enterprise and choice according to an official plan but to put them and keep them in a working equilibrium. Its method is to redress the balance of private actions by compensating public actions.[44]

Lippmann's critique of planning, developed cautiously in *The Method of Freedom*, became more forceful over time as he grew alarmed at the constitutional implications of Roosevelt's New Deal.[45] In *The Good Society* he warned that measures such as the National Industrial Recovery Act, which delegated state authority to interest groups and encouraged the restriction of production, were qualitatively equivalent to directive planning and were liable to undermine democratic government.[46] The task for liberals, Lippmann argued, was to rehabilitate the market order by removing social and economic injustices through redistributive taxation, social insurance, demand-

[42] *The Good Society* received a particularly warm review from Lionel Robbins' father-in-law, A.G. Gardiner, in the *Liberal Magazine*: *LM*, 46 (1938), 109-12.
[43] Walter Lippmann, *The Method of Freedom* (New York, 1934), 40-5.
[44] Ibid., 46.
[45] Barry D. Riccio, *Walter Lippmann: Odyssey of a Liberal* (1994), 95-138.
[46] Walter Lippmann, *The Good Society* (second edition, New York, 1943), 106-30.

management policies, and the reform of corporate law.[47] All of these interventions were acceptable because they conformed to the rule of law, and provided a framework within which individuals could determine their own destinies. Lippmann illustrated this distinction by an analogy with traffic management, which Friedrich Hayek later copied.[48] There was all the difference in the world between setting down the rules of the road, and telling drivers where they should go.[49]

Lippmann's insistence that liberal and collectivist forms of progress were qualitatively distinct provided a useful justification for the Liberal Party's hostility to Labour, but a second element of Lippmann's analysis was equally significant. Drawing on classical republican ideas, Lippmann claimed that extreme inequalities of wealth were fatal to democratic government, as economically insecure proletarians and rich plutocrats pressed their respective interests on the state.[50] True Liberalism, then, sought to abolish these extremes by spreading property ownership:

> It is a project to make the mass of the people independent of the state: that they may be free citizens, who need not be fed by the government, who have no impelling reason to exploit the government, who cannot be bribed, who cannot be coerced, who have no fear of the state and expect no favours.[51]

Dodds drew explicitly on Lippmann's argument in his exposition of the Liberal ideal. All Liberal policy, he argued – quoting from *The Method of Freedom* – should be orientated towards 'a society of free men with vested rights in their own living'.[52]

Under Dodds' leadership, the National League of Young Liberals took a strong line against economic planning. Certainly, Liberals were not opposed to all state action, as the League's 1935 pamphlet on *Planning* explained: intervention was clearly justified 'where it is necessary to protect personal rights, to prevent exploitation, or to undertake duties which private enterprise cannot adequately discharge', such as the 'planning' of national finance, the currency, credit, and public

[47] Ibid., 203-40.
[48] On Hayek's debt to Lippmann, see Ben Jackson, 'Freedom, the common good, and the rule of law: Lippmann and Hayek on economic planning', *Journal of the History of Ideas*, 73 (2012), 47-68.
[49] Lippmann, *Good Society*, 283.
[50] Lippmann, *Method of Freedom*, 92-6.
[51] Ibid., 100.
[52] *MG*, 8 Aug. 1935, 12.

investment.[53] Large-scale directive planning, however, would lead to regimentation, or else would fail as the state struggled to adjust production in response to changing consumer preferences. 'Freedom for all based on ownership for all' was therefore a more suitable objective.[54]

An invitation to speak at the 1935 Liberal Summer School gave Dodds the chance to put his views across to a wider audience. Here, Dodds' speech amplified the concerns which Samuel had expressed in his discussion of *The Next Five Years*. Dodds told his audience that he was 'tired of the cant of non-party', and feared that it was eroding Liberal distinctiveness:

> While they must co-operate over the widest possible field and with the largest possible number of people, the essential business was to strengthen the Liberal party, for if that was shipwrecked the whole cargo of Liberal ideas might be lost.[55]

If the Liberal Party stood for 'a jelly-like compromise between Socialism and Conservatism, wobbling first one way and then the other', Dodds argued, then Liberalism was never likely to be revived. The solution lay in the idea of ownership for all, which needed to be raised 'from the position of a parenthesis in many a Liberal speech to that of a declared and central part of Liberal policy'.[56] Dodds emphasized that a host of Liberal policies, including free trade, taxation of land values, profit-sharing, and graduated death duties, could be presented as steps towards this goal, since they would break up large incomes, help citizens obtain 'something of [their] own', or give employees a greater stake in the firms they worked for.[57]

Dodds' clarion-call for a clearer Liberal identity came too late to shape the party's campaign at the 1935 general election. Sinclair, however, saw the value of 'ownership for all' as a narrative frame.[58] After the election, when Sinclair took over as leader, Liberal policy would be reoriented on the lines which Dodds envisaged.

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[53] National League of Young Liberals, *Planning* (1935), quoted in *MG*, 1 May 1935, 14.
[54] *MG*, 12 June 1935, 18.
[55] *MG*, 8 Aug. 1935, 12.
[56] Ibid.
[57] Ibid.; *MG*, 12 Oct. 1935, 16.
[58] Thurso papers, II, 57/1, Sinclair to Samuel, 14 Oct. 1935.

Sir Archibald Sinclair and *Ownership for All*

The 1935 general election gave the Liberal Parliamentary Party a slightly more radical complexion than it had displayed at the dissolution. In contrast to the previous Parliament, only a handful of Samuelites had been elected with Conservative support, allowing the party to oppose the National Government more forcefully. The Lloyd George family group also resumed the Liberal whip, whilst the party's new MPs included two young left-wingers, Richard Acland (son of Sir Francis) and Wilfrid Roberts, who would become energetic advocates of a popular front. Sinclair only reluctantly agreed to succeed the defeated Samuel; but he rapidly burnished his parliamentary reputation with a fierce attack on Baldwin over the Hoare-Laval pact, and would punch well above his weight in the Commons during the appeasement years.[59] Sir Percy Harris took over as chief whip, and established a series of committees to develop policy in the Commons, whilst Harcourt Johnstone, who had lost his seat at South Shields, remained chairman of the Liberal Central Association, and managed Sinclair's dealings with the party in the country.[60]

As Samuel's *de facto* deputy during the 1931 Parliament, Sinclair had been closely involved in the Blickling discussions, and remained committed to the policy of free trade and public works which had emerged from them. At the same time, he shared Dodds' view that it was more important to capture voters' imagination than to present a detailed programme, now that the Liberals had little chance of regaining power.[61] Harcourt Johnstone pressed the same view on him at the beginning of 1936:

> I would suggest that you might seriously turn your mind towards a simplification of Liberal policy this year, and the preaching of it next year and up to the Election. I think you have a great opportunity. The country is tired of the older men and is looking eagerly for a policy and a man of this generation. I should like to see fresh minds turned on to this problem and, above all, I should like the policy to be a politician's policy and not an economist's or a publicist's policy. We must consult

[59] Thurso papers, II, 57/2, Sinclair to Johnstone, 18, 19 and 20 Nov. 1935; de Groot, *Liberal Crusader*, 116-7; on the Liberals' parliamentary performance in this period, see *MG*, 27 May 1937, 10, and *Spectator*, 14 Jan. 1938, 39, and 6 Jan. 1939, 3.
[60] Thurso papers, II, 60/1, 'Committees', circular by Sir Percy Harris, 12 Dec. 1935, and II, 58/1, Sinclair to Hirst, 28 Jan. 1936.
[61] Thurso papers, II, 75/5, Sinclair to Samuel, 16 Jan. 1934.

> experts, but for Heaven's sake let us give up allowing them to dictate to us what we have got to bear the burden of preaching.[62]

Sinclair approved of the approach Johnstone suggested, though he proposed a slightly different timetable. For the first half of the new Parliament, he felt, it made sense to focus on 'criticism of the Government and the exposition of the fundamental principles of Liberalism', especially peace, freedom – in its widest sense – and the rule of law. Later, the party could issue a restatement of Liberal policy, 'putting as much cutting edge on it as we can'.[63] Sinclair regarded Dodds' idea of 'ownership for all' as the most suitable cutting edge, if it could be fleshed out on sound lines.[64] In particular, a distributist agenda seemed likely to chime with the concerns of younger voters, who objected to 'the concentration of power in the hands of a few bankers, landlords and industrialists'. If the Liberals were to challenge the appeal of socialism, they needed to show that they offered an 'alternative means' of building a fair society.[65]

Sinclair took two early steps to clarify the party's sense of purpose. First, at Ramsay Muir's urging, he set in train a reorganization process, overseen by the former Indian civil servant Lord Meston, which culminated in the replacement of the NLF with a new Liberal Party Organisation.[66] This was a worthwhile reform, which improved the cohesion of Liberal organization in the country: the party organization was made more democratic, the system of district federations was regularized, and the NLYL and Women's Liberal Federation received official status, with representation at the annual Assembly and on the LPO executive and Council.[67] The new party constitution included a preamble, probably drafted by Dodds though reworded by Muir, which began with a ringing commitment to positive liberty:

> The Liberal Party exists to build a Liberal Commonwealth, in which every citizen shall possess liberty, property and security, and none shall be enslaved by poverty,

[62] Thurso papers, II, 60/1, Johnstone to Sinclair, 27 Jan. 1936.
[63] Thurso papers, II, 60/1, Sinclair to Johnstone, 29 Jan. 1936.
[64] Ibid.
[65] Thurso papers, II, 60/1, Sinclair to Johnstone, 29 Jan. 1936.
[66] Samuel papers, SAM/A/155(X)/41, Muir to Samuel, 17 Nov. 1935; Thurso papers, II, 58/1, 'Report of the Liberal Reorganisation Commission', Apr. 1936.
[67] *MG*, 14 Apr. 1936, 5, and 18 June 1936, 10.

> ignorance or unemployment. Its chief care is for the rights and opportunities of the individual, and in all spheres it sets freedom first.[68]

The preamble went on to elaborate the implications of this vision for Liberal policy at home and abroad. Liberals were committed to the League of Nations; 'a just electoral system'; free trade; 'guarantees against the abuse of monopoly whether private or public'; housing, education and fair wages for all; 'access to land and an assurance that publicly created land values shall not be engrossed by private interests'; and, 'as a safeguard of independence, the personal ownership of property'. These were 'the conditions of liberty, which it is the function of the State to protect and enlarge'.

The second step which Sinclair took was to reiterate the party's independence, in the face of pressure for the formation of a popular front. 'The duty of the Liberal party', Sinclair told the Liberal Summer School in July 1936, 'is to build up a non-Socialist alternative to the present Government.'[69] Sinclair would repeat this line, with support from the LPO executive, for most of the next three years.[70] As an ardent opponent of appeasement, Sinclair was not opposed to a popular front *per se*, but in view of Labour's hostility he felt an alliance was more likely to be formed 'in the heat and pressure of events… than as the result of personal negotiations by a few individuals round a table'.[71] In the meantime, Sinclair explained to Harold Macmillan, Liberals had to focus on strengthening their own position. '[T]he stronger the Liberal Party is, the greater the contribution it will be able to make to the combination of Left Wing forces.'[72]

Sinclair incorporated 'ownership for all' into his rhetoric as soon as he became party leader. 'Liberal policy in all its aspects', he told the *Liberal Magazine*, was 'directed towards the diffusion of the ownership of wealth and the achievement of equality of opportunity'.[73] However, Sinclair left it to Dodds and the extra-parliamentary party to work the policy out in detail.[74] At the first

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[68] Liberal Party, *Constitution of the Liberal Party* (1936), 3. On the authorship of the preamble, see *LM*, 44 (1936), 196-7, 282-3, and Thurso papers, II, 58/1, Meston to Sinclair, 19 May 1936.
[69] *MG*, 31 July 1936, 12.
[70] de Groot, *Liberal Crusader*, 130.
[71] *MG*, 7 Apr. 1937, 4.
[72] MS. Macmillan dep. c. 864, 267-9, Sinclair to Macmillan, 19 Aug. 1936.
[73] *LM*, 44 (1936), 89-90.
[74] Thurso papers, III, 19/3, Sinclair to Dodds, 21 June 1937.

Assembly held under the new constitution, at Buxton in May 1937, Dodds moved a resolution which declared the party 'indignantly aware of the grossly unequal distribution of property' in Britain, and established a special committee to investigate how this could be changed. Most members of the Ownership for All Committee were Liberal activists with practical rather than scholarly expertise, but Dodds, as chairman, energetically sought outside help, notably from the liberal economists of the LSE.[75] Through Lionel Robbins, he secured the services of Arthur Seldon, then a young researcher and a member of the LSE's flourishing Liberal Society, to act as the committee's secretary and write its report.[76] Robbins and several other economists, including Arnold Plant, also advised the committee, though they were not all committed Liberals, and declined to be identified publicly with the committee's work.[77] After a year's deliberations, the committee submitted a sixty-six-page report on *Ownership for All* to the 1938 Assembly. This was given unanimous approval, subject to a Scottish amendment which emphasized the importance of land value taxation, and passed into party policy.[78]

The significance of *Ownership for All* lay less in its detailed proposals than in the idea which it embodied.[79] Indeed, Dodds himself later doubted that its recommendations were radical enough to disperse property ownership on the desired scale.[80] Nevertheless, the report identified a series of measures by which wealth could be spread and trends towards the concentration of economic power reversed. First, death duties should be reformed, with the rate graduated according to the size of the bequest and the existing wealth of the legatee; this would 'encourage the splitting up of large fortunes' without direct state intervention.[81] Second, monopolies and trade associations should be broken up through anti-trust legislation on the American model, company and patent law

[75] Liberal Party, *Ownership for All: The Liberal Party Committee's Report on the Distribution of Property* (1938), 1.
[76] Seldon was known as Arthur Slaberdain at the time, but would change his surname to Seldon in 1939: BLPES, Lionel Robbins papers, EAC 1/1, Elliott Dodds to Lionel Robbins, 28 Oct. 1937; Colin Robinson, *Arthur Seldon: A Life for Liberty* (2009), 25, 34-7, 56-7. For a valuable account of the committee's work, see Arthur Seldon, 'Liberalism and Liberty: The Diffusion of Property', *The Owl*, May 1952, reprinted in *The Collected Works of Arthur Seldon*, II, 10-16. LSE Liberal Society seems to have been small during the mid-1930s, but its membership doubled in the academic year 1936-7: Thurso papers, II, 61/1, Deryck Abel to Sinclair, 7 June 1937.
[77] Liberal Party, *Ownership for All*, 1; Howson, *Lionel Robbins*, 317-8.
[78] *MG*, 20 May 1938, 5.
[79] Thurso papers, III, 27/1, Dodds to Sinclair, 21 Mar. 1938.
[80] Wade and Banks, *Political Insight*, 36-7.
[81] Liberal Party, *Ownership for All*, 5.

reforms, and the restoration of free trade. Only in the case of 'natural' monopolies, such as gas and electricity, was public control or public ownership really appropriate.[82] Third, 'equality of opportunity' needed to be extended, notably in education and health – a subject which was referred to a separate committee.[83] Fourth, the taxation and rating systems required reform, with the tax burden shifted from 'concealed' indirect taxes to direct taxes on income and wealth, and rates levied on land values.[84] Fifth, the government should be sensitive to the difficulties faced by the 'small man' in agriculture and retail, and ensure that he could obtain adequate credit.[85] Finally, firms should be encouraged (though not compelled) to give wage-earners a financial stake in the enterprise through profit-sharing and co-partnership schemes.[86] This was a progressive Liberal agenda, which nevertheless contrasted sharply with the interventionism of the constructive tradition and the planning movement.

Ownership for All said very little about macroeconomic policy, beyond a brief reference to national development, and it did not overtly challenge the Yellow Book.[87] However, as Donald Wade and Desmond Banks have pointed out, the report's analysis of industrial organization was very different to that of *Britain's Industrial Future*.[88] The growth of large corporations and the existence of imperfect competition were not considered inevitable, but vigorously condemned; the advantages of 'bigness' were questioned, and the perfectly competitive market was set forth as the model at which government policy should aim.[89] (Incidentally, this fits well with Stephen Broadberry and Nick Crafts' explanation for low productivity in inter-war Britain, which downplays the importance of corporate structure and argues that inefficient firms remained in

[82] Ibid., 5-8.
[83] Ibid., 9. The activities of the Equality of Opportunity Committee are obscure, but it appears to have been established by the 1938 Assembly, with Dodds as its chairman and Graham White among its members: *LM*, 46 (1938), 270; Lothian papers, GD40/17/361/211, Dodds to Lothian, 20 June 1938; Graham White papers, WHI/8/4/21, 'Equality of Opportunity Committee. Memorandum of the Health Sub-Committee', 3 Jan. 1939.
[84] Liberal Party, *Ownership for All*, 9.
[85] Ibid., 9-11.
[86] Ibid., 12.
[87] Ibid.
[88] Wade and Banks, *Political Insight*, 23.
[89] Liberal Party, *Ownership for All*, 9-10.

business through a lack of competitive pressures.[90]) Public ownership or control was rejected unless it was absolutely necessary, since it was liable to 'create more evils than it cures'.[91] The critique of planning which had emerged within the Liberal Party during the 1930s, rooted in classical principles and cross-fertilized by the socialist calculation debate, thus received its most mature expression.

The champions of *Ownership for All* were clearly in the ascendant within the Liberal Party on the eve of the Second World War. In the light of later events, though, it is important not to overstate the report's influence. *Ownership for All* enjoyed Sinclair's patronage, and was popular with 'sturdy individualists' such as Ronald Walker, who had disliked the Yellow Book's interventionism; it also enthused many moderate Liberals.[92] However, left-leaning Liberals tended to be suspicious of Dodds' hostility to planning, and continued to propose moderate planning on Next Five Years lines as a basis for progressive cooperation.[93] The most vocal popular fronter, Richard Acland, called for nationalization of the coal mines and the Bank of England, and it seems unlikely that Sinclair would have opposed this as the price of stopping appeasement.[94] Clearly, then, *Ownership for All* was not considered a definitive and settled statement of Liberal policy in the way that – at least for radicals – the Yellow Book had been.

The Liberals and the *General Theory*

In wider economic thought, the most significant development of the later 1930s was the 1936 publication of *The General Theory of Employment, Interest and Money*: the most mature statement of Keynes' thinking, and a notable theoretical advance on the *Treatise on Money* (1930), which had underpinned his policy advice during the depression. The impact of the *General Theory* on the economics profession is well known. Many younger economists, especially in Cambridge, became

[90] S.N. Broadberry and N.F.R. Crafts, 'Britain's productivity gap in the 1930s: Some neglected factors', *Journal of Economic History*, 52 (1992), 531-58.
[91] Ibid., 6.
[92] Wade and Banks, *Political Insight*, 23; *MG*, 20 May 1938, 5.
[93] *LM*, 46 (1938), 267-8.
[94] Richard Acland, *Only One Battle* (1937), 153-85; Thurso papers, II, 60/1, Sinclair to Johnstone, 17 Nov. 1936.

devoted adherents of Keynes; Dennis Robertson, Hubert Henderson and A.C. Pigou, all longstanding colleagues, reacted against his caricature of the 'classics' and some of his theoretical claims; and John Hicks and Roy Harrod worked to integrate Keynes' insights with existing neoclassical theory and develop usable 'Keynesian' models.[95]

Keynes' vigorous assault on 'classical' doctrines made it inevitable that the *General Theory* would polarize opinion. As Robert Skidelsky has argued, however, it is difficult to classify economists as 'Keynesian' or 'non-Keynesian' on the basis of their responses to the book:

> The complexity of the doctrine itself, and its ambiguous relationship to "orthodox" economics, meant that it was never a simple question of taking it or leaving it, rather of degrees of mutual accommodation and assimilation.[96]

If this was true of the 'fellow economists' for whom Keynes wrote the *General Theory*, it was doubly so for politicians and other laymen. In relation to government policy, the new book largely fleshed out the arguments which Keynes had already been making for counter-cyclical public investment and cheap money. The multiplier effect, and the idea of balancing the budget over the trade cycle rather than year-by-year, had been developed in 'The Means to Prosperity' and had been widely understood. On the other hand, the theoretical questions which the *General Theory* raised about the determination of the interest rate, the relationship between the short and long periods, and whether Keynes' analysis of under-employment equilibrium was a special or general case had little immediate relevance to policy. As a result, the heated theoretical debates which emerged from the *General Theory* largely passed the political world by. The book's political significance lay rather in the way in which it changed policy-makers' understanding of how the economy worked, and wider perceptions of what macroeconomic policy could achieve, during the years that followed.

The short-term political impact of the *General Theory* was also muted for another reason. In essence, Keynes' new treatise was an attempt to explain the persistence of depression by challenging classical assumptions about the self-equilibrating nature of the economic system, both

[95] On the reception of the *General Theory*, see Skidelsky, *Keynes*, II, 572-621.
[96] Ibid., 572.

at macro-level and within the labour market. By the time the book appeared, though, the British economy had been recovering for more than three years, and it was far from clear that the remaining unemployment resulted from a general demand deficiency. As *The Economist* noted in 1937:

> Within the last two years a striking change has come over discussions of the problem of unemployment. It is no longer the fashion to view unemployment in the mass, or to prescribe oecumenical remedies for unemployment of all kinds, at all times, in all places. Parliament has abandoned its regular series of debates on unemployment and has substituted a series, almost as regular, on the Special Areas.[97]

With southern England visibly prospering, a general stimulus seemed more likely to stoke the boom than to alleviate the regionalized distress to which the Jarrow Marchers called attention. Indeed, Keynes acknowledged this in a series of articles on 'How to avoid a slump', which appeared in *The Times* at the beginning of 1937.[98] In 'the later stages of recovery', Keynes argued, 'special assistance to the distressed areas' was the best way to reduce unemployment.[99] Keynes' main concern at this time was that the incipient boom should be tamed by restraining public investment, increasing taxation, and temporarily reducing tariffs, instead of by raising Bank Rate. Dear money, he argued, should be avoided like 'hell-fire'.[100] Keynes added that the government should prepare to check the next recession by planning a public works programme for immediate implementation when conditions worsened.

The evidence available to the student of Liberal macroeconomic policy-making in the late 1930s is relatively limited. No significant policy memoranda from this period seem to have survived, and it is impossible to say how many Liberal MPs read the *General Theory*. (One, Richard Acland, certainly did so, but admitted that he did not fully understand it.[101]) What is clear is that Sinclair developed party policy in this field himself, and used Commons speeches to elaborate it. The content of Sinclair's speeches suggests that he drew heavily on *The Economist*

[97] *Economist*, 20 Mar. 1937, 633-4, at 633.
[98] John Maynard Keynes, 'How to avoid a slump', in *JMK*, XXI, 384-95.
[99] Ibid., at 385.
[100] Ibid., at 389.
[101] Acland, *Only One Battle*, 185.

and other published sources for economic information, and backed this up by personal discussions with journalists. As the prospect of war grew nearer, the party also benefited from Roy Harrod's move back towards the Liberal fold. Harrod had been an active Liberal in the Twenties, but was disillusioned by the party's conduct in 1931, and advised Labour through the New Fabian Research Bureau in the years that followed.[102] However, he was an enthusiastic popular fronter, and revived his Liberal links – without rejoining the party – in 1937-8.[103] At the beginning of 1938, Harrod addressed a Liberal meeting in London on measures for avoiding a slump, and later in the year he advised Sinclair on how to respond to the budget.[104]

The Economist adopted a nuanced attitude to the Keynesian theoretical revolution during the 1930s. The case for economic management appeared in its pages in relatively orthodox terms, reflecting the paper's long association with mainstream classical and neoclassical economics and its reliance on sales in the City, whilst the editor, Sir Walter Layton – like Robertson, Henderson and Pigou – seems to have inclined to the view that Keynes had identified a particular case of demand deficiency rather than a general theory.[105] *The Economist* supported loan-financed public works in the conditions of the early 1930s, when productive projects and 'idle savings' were at hand, but it found it 'easy to imagine the circumstances' in which they might do more harm than good.[106] As the recovery gained pace in 1936-7, the paper warned of boom conditions, and emphasized the need to dampen demand, liberalize trade, and restrain credit expansion.[107] Neville Chamberlain's proposal to borrow £400,000,000 over five years for rearmament seemed particularly dangerous, since it would expand the money supply and accentuate the upswing of the trade cycle. On the proximate questions of policy, including the need for rearmament to be funded by taxation, *The Economist* was largely at one with Keynes, but the tone of its analysis was rather different. Right up to the outbreak of the Second World War, Keynes' concern about excess

[102] Henry Phelps Brown, 'Sir Roy Harrod: A biographical memoir', *EJ*, 90 (1980), 1-33, at 18.
[103] For Harrod's insistence that he had 'no party attachment' in 1939, see *The Collected Interwar Papers and Correspondence of Roy Harrod*, ed. Daniele Besomi (3 vols., Cheltenham, 2003), II, 911-15, at 913.
[104] *LM*, 46 (1938), 57-9; BL, Add. MS. 71192 (Harrod papers), fo. 39, Alan Campbell Johnson to Harrod, 29 Apr. 1938.
[105] David Hubback, *No Ordinary Press Baron: A Life of Walter Layton* (1985), 93-4; Ruth Dudley Edwards, *The Pursuit of Reason: The Economist, 1843-1993* (1993), 679, 709.
[106] *Economist*, 18 Mar. 1933, 568-9; 23 Jan. 1937, 157-8, at 158; and 1 Jan. 1938, 1-2, at 2.
[107] *Economist*, 18 Apr. 1936, 116-7; 2 Jan. 1937, 1-2; and 23 Jan. 1937, 157-8.

demand was tempered by his fear of a new depression. In contrast, *The Economist* echoed Lionel Robbins and the Austrian tradition in suggesting that an uncontrolled boom itself contained the seeds of a later slump.[108]

During 1936 and 1937, Sinclair's criticisms of government economic policy closely followed *The Economist*'s. In the upward phase of the trade cycle, he argued, the state ought to pay down the national debt and restrain its expenditure, thereby strengthening its position for when the slump came. Instead, civil spending was rising rapidly, and Chamberlain had failed to establish a sinking fund.[109] When the Defence Loans Bill came to Parliament in February 1937, Sinclair deprecated the decision to finance rearmament by borrowing, not only because armaments were 'unproductive' but also because the timing was completely wrong:

> Before ever public expenditure on this scale was thought of, economists and bankers, in their speeches and articles, were urging the Government to put on the brake of taxation, and to try to even out the trade cycle at this critical stage – for this is a well proved maxim – the bigger the boom, the sharper the slump.
>
> Now there is a real danger that after 12 months or two years our conditions will be like those of the United States of America in 1928, and into these conditions of hectic economic activity the Government propose to inject the additional and violent stimulant of a net addition of £400,000,000 worth of loan expenditure.[110]

The trade-cycle case against loan-financed rearmament disappeared in the second half of 1937, when a mild recession took hold. Nevertheless, Sinclair remained adamant that the government should have raised taxation during the earlier period. The Liberal leader also urged closer parliamentary control of government spending, in order to eliminate 'waste, bureaucratic extravagance, and profiteering in armaments' and minimize the burden of taxation and borrowing required.[111]

The Liberal Party's support for a counter-cyclical fiscal policy in the late 1930s was unambiguous. '[A]s far as we on these benches are concerned', Graham White told the Commons in 1937,

[108] *Economist*, 14 Nov. 1936, 297-8, and 2 Jan. 1936, 1-2; Robbins, *Great Depression* (1934), 30-54.
[109] H.C. Deb., fifth series, 311, 22 Apr. 1936, 171-83, and 322, 21 Apr. 1937, 1796-1810.
[110] H.C. Deb., fifth series, 320, 17 Feb. 1937, 1233-47, at 1234, 1244.
[111] H.C. Deb., fifth series, 335, 27 Apr. 1938, 146-58, at 157.

> the proposition that we are to drift from prosperity to slump and that we are unable in the present state of world development, with regard to production and the means of distribution, to extricate ourselves from a trade cycle, is one which we refuse to accept.[112]

Variations in the volume of public investment, White added, 'could have a very powerful influence in staving off or levelling out fluctuations in trade'.[113] Successive Liberal Assemblies in 1937, 1938 and 1939 endorsed this view without controversy, suggesting that demand-management ideas had embedded themselves almost imperceptibly in the party's thinking.[114] At the same time, Liberals emphasized that the problems of the depressed areas were mainly structural rather than cyclical. Much of the blame could be placed on the government's tariff policy, which favoured home industries over the export trades; as Sinclair pointed out, it had 'brought prosperity to Birmingham at the expense of Liverpool, Glasgow, the depressed areas and our great export and maritime industries'.[115] Freeing trade and reviving exports seemed the best way to help these districts. An ancillary policy was to control the location of industry, either by restricting new factory building in south-east England or by providing incentives for firms to move to the Special Areas. Sir Malcolm Stewart, the Commissioner for the Special Areas, proposed an active location of industry policy in 1936, and a Royal Commission chaired by Sir Montague Barlow developed more detailed proposals in 1938-9. The respective merits of 'positive' inducements and 'negative' restrictions on industrial location received only cursory consideration from Liberals before the war, but Megan Lloyd George and the Union of University Liberal Societies did declare themselves in favour of compulsory measures.[116]

[112] H.C. Deb., fifth series, 328, 2 Nov. 1937, 765-75, at 765-6.
[113] Ibid., at 768.
[114] *MG*, 29 May 1937, 15; 31 May 1937, 11; 21 May 1938, 8; and 12 May 1939, 7.
[115] H.C. Deb., fifth series, 311, 22 Apr. 1936, 171-83, at 175.
[116] H.C. Deb., fifth series, 330, 8 Dec. 1937, 441-8; *MG*, 8 Apr. 1937, 14.

The cost-of-living petition

During the 1931 Parliament, economic circumstances had hampered Liberals' efforts to revive free trade as a popular cause. By contrast, the conditions of the second half of the decade were much more propitious. Not only was unemployment concentrated in the export districts, but the cost of living increased rapidly in 1936-7, as a deterioration of Britain's terms of trade coincided with 'bottleneck' effects, resulting from high demand, which were exacerbated by rearmament. Food prices jumped especially sharply, rising by more than 11 per cent between 1935 and 1937, and manufacturers also faced higher prices for raw materials.[117] In these circumstances, Liberal complaints about tariffs and food taxes could finally gain traction.

A shift in social attitudes to food can also be detected in this period. As Frank Trentmann has powerfully argued, the displacement of free trade from progressive political culture after the First World War partly reflected a new interest in the purity and quality of food, rather than simply its cheapness. The cheap white loaf lost the symbolic importance it had once held, and in its place 'pure and clean milk' became 'the symbol of social citizenship'.[118] What Trentmann fails to notice is that British progressive opinion began to move back in the other direction during the late 1930s, stimulated especially by Sir John Boyd Orr's 1936 report into *Food, Health and Income*, which drew attention to the prevalence of working-class malnutrition. Orr strongly criticized the government's agricultural policy for restricting output and keeping food prices high, and also called for subsidies to be redirected to those products which had the greatest nutritional value, such as milk, eggs, fruit, and vegetables.[119] Liberals seized on Orr's findings as evidence that protection was harming the welfare of the poor, and urged the government to bring prices down.[120] A Liberal administration, Sinclair promised, would pursue 'a policy of nutrition', focused on raising the consumption of milk and other protective foods 'which directly built up the health and strength,

[117] Mitchell and Deane, *Abstract*, 478.
[118] Trentmann, *Free Trade Nation*, 216.
[119] Sir John Boyd Orr, *Food, Health and Income* (1936).
[120] H.C. Deb., fifth series, 313, 17 June 1936, 1023-5.

and the disease resisting powers of the people'.[121] As part of this policy, tariffs and quotas would be dismantled, farmers would be given greater security of tenure, and cooperative marketing schemes and a central purchasing agency would help bring distribution costs down.

The Liberals publicized their concern about food prices with a highly effective petition against the rising cost of living in the winter of 1937-8. The public response wildly exceeded Sinclair's expectations, and by the time he presented the petition to the Commons in February 1938 it bore over 800,000 signatures.[122] In a controversial publicity stunt, the party also circulated the petition to hospital patients and staff, drawing attention to an estimate that the cost of milk to voluntary hospitals had increased by £400,000 since the Milk Marketing Board was established in 1933.[123] Part of the significance of the cost-of-living campaign was that it galvanized Liberal Associations into action and reminded voters that the party was 'a force still to be reckoned with'.[124] More fundamentally, the petition gave populist expression to the distinctive political economy of free markets and low prices which the Liberals had tried to revive during the 1930s. In contrast, when women Labour activists organized a campaign against rising living costs, they called for living standards to be maintained through an increase in wages.[125]

The cost-of-living petition provided a model for other single-issue Liberal campaigns during 1938 and 1939. East London Liberals, for instance, ran a petition for better Air Raid Precautions with support from party headquarters, while Dodds circulated a questionnaire to 20,000 small traders to canvass interest in *Ownership for All*.[126] Sinclair and Johnstone noted that pensions aroused strong popular interest, and asked Graham White to draw up proposals for higher pensions – initially for the neediest old people – which became the subject of a petition in the spring of 1939.[127] This agitation, of course, was overshadowed by the National Petition Campaign which Sir Stafford Cripps launched in February 1939 to promote progressive unity. Nevertheless, the

[121] Sinclair at Trowbridge, 18 Nov. 1938, reported in *LM*, 46 (1938), 607-8, at 607.
[122] *LM*, 46 (1938), 49-50.
[123] *LM*, 46 (1938), 49.
[124] Thurso papers, II, 67/9, T. Atholl Robertson to Sinclair, 4 Feb. 1938.
[125] *MG*, 23 Feb. 1938, 3.
[126] Thurso papers, II, 67/3, William Allison to Johnstone, 14 Oct. 1938; *MG*, 29 Mar. 1939, 5.
[127] Thurso papers, II, 64/2, Sinclair to Johnstone, 7 Mar. 1939; *MG*, 12 July 1939, 12. Johnstone was 'alarmed' at the idea of an across-the-board pension increase, and sought Lionel Robbins' advice: Thurso papers, II, 64/2, Johnstone to Sinclair, 6 Mar. 1939.

Liberals' heavy use of petitions in the run-up to the Second World War revealed a new determination to exploit popular grievances.

The popular front

The recasting of Liberal policy which took place under Sinclair's leadership was designed to burnish the party's distinctiveness and independence. Even so, the urgency of the international situation propelled the party towards a popular front position during the final year of peace. Sinclair had always been relaxed about local pacts, and backed independent progressive candidates at the Oxford and Bridgwater by-elections, which followed the Munich agreement; he also maintained close links with Conservative anti-appeasers such as Winston Churchill and Anthony Eden, whom he hoped would join a new government.[128] When the Cripps petition appeared, Sinclair joined other Liberals in supporting it, and pointed out that the Labour leadership was the main obstacle to progressive unity.[129] Later, after the fall of Prague, he issued a programme of 'Ten Points for Progressives', around which he believed anti-appeasers could unite.[130]

The hostility of Labour's National Executive Committee meant that the issue of a national electoral pact never really arose, but Liberal preparations for the general election due in 1939-40 were nevertheless shaped by popular front assumptions. Although the Liberal Party had to maintain its independence and 'national character', it made strategic sense to concentrate its resources on forty or so winnable seats, most of which were in rural Britain.[131] In Devon, Cornwall, and Somerset, as Garry Tregidga has shown, Lib-Lab cooperation was well-developed, driven forward by Labour candidate A.L. Rowse and supported by many local Liberals.[132] Local agreements also operated in some other rural constituencies, notably at Chertsey in Surrey, whilst Roy Harrod and

[128] The Independent Progressive candidate for Oxford, A.D. Lindsay, failed to defeat his Conservative opponent Quintin Hogg, but at Bridgwater *News Chronicle* journalist Vernon Bartlett overturned an enormous Conservative majority.
[129] de Groot, *Liberal Crusader*, 132-50.
[130] Sir Archibald Sinclair, *Liberal Policy: A Speech Delivered to the Council of the Liberal Party Organisation on the 15th March, 1939* (1939).
[131] Thurso papers, II, 64/1, 'Note of discussion at luncheon at the National Liberal Club, 21/6/38'.
[132] Tregidga, 'Turning of the tide?', 359-65.

A.D. Lindsay pursued a progressive pact in eleven seats around Oxford.[133] Although Liberal and Labour candidates would have clashed in industrial areas in a putative pre-war election, the main thrust of the Liberal campaign would probably have been directed to the capture of Conservative seats and the formation of a new progressive government.

Significant tension clearly existed between Sinclair's efforts to accentuate the distinctiveness of Liberal policy and the pursuit of a popular front. In general, popular fronters treated *Ownership for All* with suspicion, whilst northern Liberals such as Dodds jealously guarded the party's independence.[134] Ultimately, however, it seems fair to conclude that Sinclair negotiated this tension relatively well, and that his policy had a sound strategic logic: with a clear commitment to personal liberty, wider property-ownership and competitive markets, the Liberals could retain a distinct identity whilst cooperating with others over short-term aims. Both the popular front agitation and *Ownership for All* brought young people into the party, and Liberal morale was much improved by the end of the decade. Some old Asquithians backed appeasement, and D.M. Mason and Herbert Holdsworth MP defected to the Simonites over Munich, but otherwise the party's fragile unity held. Sinclair's bold and skilful leadership thus kept alive the possibility of Liberal revival.[135]

Conclusion

The political and ideological landscape of the middle and late 1930s was kaleidoscopic in its complexity. 'Middle opinion' groups jostled with one another, Keynesian ideas stood in tension with planning proposals, and party political divisions overlaid them all. Many Liberals participated in external groups and lent their names to the manifestos which resulted, and at the end of the decade the party itself sought a popular front. Amid this confusion, however, the Liberal Party itself developed a clear and distinctive economic policy line, which built on its existing commitment to free trade, its classical heritage and its support for public works. In consequence,

[133] Martin Pugh, 'The Liberal Party and the popular front', *EHR*, 121 (2006), 1327-50, at 1337; *Collected Interwar Papers and Correspondence of Roy Harrod*, II, 899-900.
[134] Thurso papers, II, 64/5, 'Mr. Acland's Resolution', unsigned memorandum for Sinclair, 16 May 1938.
[135] de Groot, *Liberal Crusader*, 149-50.

the Liberal Party of the 1930s should not be identified simply with 'middle opinion' views, nor can it credibly be accused of intellectual dormancy.

During the first half of the 1930s, the Liberal Party renewed its historic commitment to free trade and free markets. In the second half of the decade, the party's turn away from the Yellow Book was theorized and consolidated. In place of the constructive Liberalism of the 1920s, there emerged a new synthesis which combined classical, New Liberal, and Keynesian ideas. The new Liberal Party put 'freedom first', and sought to facilitate individuals' self-development by spreading private property ownership and building up the social services. In the microeconomic sphere it stood for competitive markets, policed by the state, though natural monopolies would be placed under public control or nationalized. In the macroeconomic sphere it endorsed demand management through counter-cyclical public investment, though Liberal policy was only partly 'Keynesian', since it emphasized the need to control booms as well as slumps and blamed structural unemployment on the government's protectionism.

The liberal Keynesian synthesis which Sinclair presided over was, as Harcourt Johnstone had demanded, 'a politician's policy' rather than an economist's one. Sinclair's understanding of the *General Theory* seems to have been shaky, and mediated mainly through the press, while Liberals hardly noticed that the aim of *Ownership for All* implicitly ran against Keynes' desire to discourage thrift and euthanize the rentier.[136] Moreover, the party was unashamedly populist in its criticisms of rising prices and high public spending. This was not necessarily a problem, since Liberals were unlikely to be asked to form a government, and the party was still more comfortable with Keynes' basic approach – of eliminating instability in a free-market economy – than either Labour or the National Government. However, the party's shallow engagement with economic theory in the 1930s, combined with the diversity of proposals canvassed by popular fronters, gave the party's new synthesis a provisional character. The experience of the Second World War would show how easily Liberal Party policy could be blown in a new direction.

[136] Keynes, *General Theory*, 374-7.

5. Planning for war and peace, 1939-1945

The development of Liberal economic thought in the 1930s showed a coherent trajectory away from the constructive Liberalism of the Yellow Book, towards a more libertarian synthesis which combined demand management with pro-competition industrial policies and the pursuit of 'ownership for all'. This trajectory was dramatically interrupted by the Second World War. From May 1940 onwards, Sir Archibald Sinclair and other senior Liberals held office in Winston Churchill's coalition government, and devoted most of their energies to the war effort. In the meantime, the Liberal Party in Parliament and the country swung sharply to the left. Constructive and New Liberal ideas gained new purchase in the context of a generalized vogue for planning and more specific doubts about the adequacy of demand-management policies for achieving peacetime full employment. During the early years of the war, central planning proposals were widely canvassed among left-wing Liberals. Later, the party settled on a broadly Keynesian position, given an interventionist form by Sir William Beveridge in his report on *Full Employment in a Free Society* and backed up by piecemeal nationalization measures.

The present chapter offers the first comprehensive account of Liberal policy-making during the Second World War, and complements Andrew Thorpe's invaluable research into Liberal organization in this period.[1] From this analysis, three main points emerge. Firstly, it is clear that the party's internal life was significantly affected by the enforced absence of its leader. With Sinclair absorbed in government duties, Liberal policy-making became more formal and committee-based, and activists and outside experts assumed a more prominent role than hitherto.

Secondly – and partly as a consequence of the first point – the Liberal Party shared fully in the turn towards planning and egalitarian ideas which took place across British society in this period.[2] Significantly, it was not only new adherents who succumbed to planning fervour, but also more established Liberals such as Violet Bonham Carter – a stalwart of the Liberal Council in the

[1] Thorpe, *Parties at War*.
[2] Paul Addison, *The Road to 1945: British Politics and the Second World War* (1975); John Stevenson, 'Planners' moon? The Second World War and the planning movement', in Harold L. Smith (ed.), *War and Social Change: British Society in the Second World War* (Manchester, 1986), 58-77; José Harris, 'Political ideas and the debate on state welfare, 1940-45', in Smith (ed.), *War and Social Change*, 233-63.

1930s – and Sir Percy Harris. The left turn which Liberal policy took during the Second World War would prove temporary, but it cannot be dismissed as a 'coup' by newcomers, or by Sir William Beveridge. Indeed, the policy on which Liberals fought the 1945 election was more obviously shaped by the views of the party at large than earlier manifestos had been, or later ones would be.

Thirdly, wartime controversies over planning brought into unusually sharp relief differences of opinion about what Liberalism was or should be. For left-wingers, planning was justified as a means of achieving the Liberal objective of employment and economic security for all, an approach which was legitimated by reference to the radical tradition and New Liberal ideas. For Beveridge, Liberalism was 'a faith, not a formula', and intervention was justified to enlarge citizens' positive liberty, provided that 'essential' personal and political liberties were preserved.[3] By contrast, traditionalist Liberals adopted a Hayekian critique of interventionism and sought – with little success – to define Liberalism in terms of Georgist policies. Moderate Liberals navigated a middle way between these positions, and tried to keep the vision of 'ownership for all' alive, but they could not impose their views on the rest of the party. The party's wartime debates consequently left a legacy of ideological confusion which would have to be resolved in later years.

The Liberals and the Churchill coalition

The outbreak of the Second World War prompted a suspension of electoral hostilities and the curtailment of regular constituency activities by all three political parties, but in other respects the Liberal Party's position remained largely unchanged until the Churchill coalition was formed. Sinclair turned down the chance to join Neville Chamberlain's government, partly because he had not been offered a seat in the War Cabinet and partly because Chamberlain had not brought Labour into office, and other Liberals backed this decision, although Gwilym Lloyd George – with his father's blessing – took a junior post at the Board of Trade.[4] Liberals subsequently became

[3] Sir William Beveridge, *Why I am a Liberal* (1945), 32, 34.
[4] John Vincent, 'Chamberlain, the Liberals and the Outbreak of War, 1939', *EHR*, 113 (1998), 367-83.

prominent critics of Chamberlain's conduct of the war, and helped rally opposition to his leadership in the famous Norway debate of 7-8 May 1940. One consequence was that Clement Davies, a leading anti-Chamberlainite, began to move back from the Liberal Nationals to the official party in this period.[5]

When Chamberlain fell and Churchill's coalition took shape, Sinclair became Secretary of State for Air, outside the War Cabinet but with a promise of consultation of matters of general policy.[6] In the junior ranks, Sinclair obtained office for Dingle Foot at the Ministry of Economic Warfare, and for his close ally Harcourt Johnstone – who returned to the Commons in a by-election at Middlesbrough West – as Secretary for Overseas Trade. Gwilym Lloyd George remained in post, and steadily worked his way up to the Cabinet, but became increasingly detached from the Liberal Party. As the war went on, several other Liberals drifted into the government machine, either as junior ministers or – in the case of Wilfrid Roberts and Geoffrey Mander – as parliamentary private secretaries to Sinclair. Sir Percy Harris, who deeply resented Sinclair's failure to secure him office, became *de facto* party leader in the Commons and took over responsibility for policy development.[7]

The character of the wartime coalition, and the allocation of posts within it, gave the Liberal ministers little influence over domestic policy. Sinclair's working life was dominated by the task of managing the Royal Air Force, and Foot was effectively responsible for the economic warfare effort while his superiors Hugh Dalton and Lord Selborne ran the Special Operations Executive.[8] Johnstone's position at the Department of Overseas Trade was therefore the party's main economic post. As well as chairing the government's Shipping Committee, Johnstone was closely involved in internal discussions over post-war trade and agricultural policy, and pressed strongly for an internationalist approach. Lionel Robbins, as director of the Economic Section of the War Cabinet,

[5] David M. Roberts, 'Clement Davies and the Liberal Party, 1929-1956' (unpublished University of Wales M.A. thesis, 1974), 55, 79.
[6] Sinclair had served with Churchill in the First World War, but this seems to have made little difference to their working relationship in government. See *Winston and Archie: The Collected Correspondence of Winston Churchill and Archibald Sinclair, 1915-1960*, ed. Ian Hunter (2005).
[7] Parliamentary Archives, Harris papers, HRS/1, Harris diary, entry for 16 May 1940.
[8] Churchill Archives Centre, Dingle Foot papers, 2/1, 'The Silent War', typescript by Foot, n.d.

and Roy Harrod, who moved in and out of Whitehall during this period, became important allies.[9] Johnstone fought particularly hard against restrictive agricultural proposals, such as the draft international Wheat Agreement which appeared in 1941, and against the idea that agricultural subsidies should be continued in perpetuity to maintain soil fertility; instead, with Sinclair's support, he argued that subsidies should be focussed on nutritional needs.[10] The eventual adoption of a multilateral framework for post-war trade policy was a notable triumph for Johnstone and the Whitehall economists, including Keynes, who shared his views. Johnstone also acted as the Liberal representative on the government's War Aims Committee, and received regular briefings from Anthony Eden on upcoming War Cabinet decisions.[11]

The policy line which Johnstone and Sinclair pursued within government was consistent with the positions that the Liberal Party had taken before the war. However, Johnstone's activities were intrinsically unsuitable for publicity, and Sinclair returned to the Liberal fray only in occasional speeches to the party's Assembly and Council. On major questions of policy, moreover, the Liberal ministers loyally toed the government line, most notably in the February 1943 House of Commons debate over the Beveridge report on *Social Insurance and Allied Services*, on which ministers sought to defer action until after the war. To the consternation of Liberal backbenchers and activists, Sinclair and his ministerial colleagues seemed oblivious to the strength of popular feeling in favour of Beveridge's scheme.[12] Nine Liberal MPs, led by Harris and David Lloyd George, voted for a critical amendment tabled by Labour's James Griffiths, and some radical activists began abortive manoeuvres to take the party into opposition.[13] Sinclair's new-found enthusiasm for reunion with the Liberal Nationals also dismayed Violet Bonham Carter, who would become president of the LPO after Lord Meston's 1943 death: at a time of growing popular radicalism,

[9] Howson, *Lionel Robbins*, 392-3; Phelps Brown, 'Harrod', 21-3.
[10] The National Archives: Public Record Office, CAB/66/42/8, 'Post-War Agricultural Policy. Memorandum by the Secretary of State for Air and the Secretary, Department of Overseas Trade', 13 Oct. 1943, and CAB/65/36/9, War Cabinet conclusions, 15 Oct. 1943; BL, Add. MS. 71192 (Harrod papers), fo. 76, Johnstone to Harrod, 18 June 1942, and Add. MS. 72736A (Harrod papers), 97-101, memorandum by Harrod, n.d. [Oct. 1943].
[11] Jaime Reynolds and Ian Hunter, '"Crinks" Johnstone', *JLDH*, 26 (2000), 14-18, at 17.
[12] Harris papers, HRS/2, Harris diary, entries for 10, 17, and 19 Feb. 1943.
[13] H.C. Deb., fifth series, 386, 18 Feb. 1943, 2049-54; David Lloyd George papers, LG/G/25/2/26, A.J. Sylvester to Lloyd George, 19 Feb. 1943.

Sinclair seemed to be preparing his party for staying in coalition in peacetime, with Churchill at the helm.[14] Even relatively moderate Liberal activists, like Dodds, felt that this would be a fatal course.

Grassroots disaffection with Sinclair's leadership was compounded by the perceived lethargy of party headquarters, and by the constraints placed on by-election activity by the electoral truce. The Liberal Action Group, formed by twenty-seven activists and candidates after the 1941 Liberal Assembly, sought to deal with both these problems.[15] The group was most successful at spurring the LPO into action, as headquarters returned to London premises – from evacuation in Sutton – in December 1941 and Wilfrid Roberts worked to revive local and regional Liberal organizations.[16] A public relations department was established during 1942, and the party's Reconstruction Committee, chaired by Harris, formed a number of specialist sub-committees which began to produce policy reports.[17] A steady recovery of Liberal activity and morale can be traced from mid-1942 onwards. The electoral truce, on the other hand, proved much harder to challenge. Several Liberals contested by-elections as independents, and Donald Johnson and Honor Balfour almost won Chippenham and Darwen respectively in 1943, but the party as a whole was not prepared to fracture national unity.[18] The most that could be achieved was a declaration, demanded by the 1943 Assembly and finally issued by MPs in 1944, that the Liberals would fight the post-war general election as a free and independent party.[19]

The agitation for greater Liberal independence cut across the party's internal ideological spectrum. When the Liberal Action Group was formed, it took no definite line on economic policy, and moderates and anti-planners such as Dodds, Philip Fothergill, Deryck Abel, and the young Berwick-upon-Tweed MP George Grey were counted among its members.[20] Over time, the group

[14] *Champion Redoubtable: The Diaries and Letters of Violet Bonham Carter, 1914-1945*, ed. Mark Pottle (1998), 275-6, 293, 294. Negotiations with the Liberal Nationals began in August 1943 and continued until November 1944, but foundered over the Simonites' refusal to break with the Conservatives: see Dutton, *Liberals in Schism*, 136-9.
[15] MS. Balfour 71/1, 'Resolutions passed by the Liberal Action Group at various meetings', n.d., and 68/1, Lancelot Spicer to Colonel Dew, 11 Oct. 1943.
[16] Thorpe, *Parties at War*, 53-4, 152, 230
[17] Baines, 'Survival', 51-2; Graham White papers, WHI/2/4/8, B.S. Rowntree to White, 25 July 1942.
[18] Donald Johnson, *Bars and Barricades* (1952), 208-51.
[19] Mark Egan, 'Radical Action and the Liberal Party during the Second World War', *JLH*, 63 (2009), 4-17, at 10.
[20] MS. Balfour 71/1, 'Resolutions passed by the Liberal Action Group at various meetings', and 71/2, report of Liberal Action Group meetings, 5-6 Dec. 1942.

assumed a position in favour of economic planning; in the spring of 1943 it took the name Radical Action, and at the 1945 election it issued a manifesto drafted by Horabin which called for large-scale public ownership. Nevertheless, despite Sinclair's misconceptions, Radical Action was never ideologically cohesive. The group consistently accommodated diverse views, and – at least until the final months of the war – the revival of Liberalism as an independent force remained its *raison d'être*.[21]

Planners and anti-planners

Two planning movements emerged within the Liberal Party during the early part of the war. The first move came from Sir Richard Acland, who had inherited a baronetcy on his father's 1939 death and broke with conventional Liberal thought in his February 1940 book *Unser Kampf*.[22] According to his later testimony, Acland had read the *General Theory* very soon after its publication, and was impressed by its demonstration that the free-market economy 'just did not work as the theorists said it would'; but he felt that Keynes' policy prescriptions were quite inadequate to deal with the problem he had diagnosed.[23] During the late 1930s Acland focussed on promoting progressive cooperation, but after the outbreak of war he announced his conversion to socialism. Acland's ethical case for 'Common Ownership' of productive resources was strongly flavoured by his upbringing in West Country Liberalism, and even Ramsay Muir conceded that *Unser Kampf* was inspired 'by a genuine Liberal emotion'.[24] Nevertheless, neither Acland's new views nor his increasingly messianic tone could easily be accommodated within the Liberal fold. Although Acland did not formally resign from the Liberal Party until September 1942, he channelled most of his energies into a series of independent bodies: the 'Our Struggle' movement –

[21] MS. Balfour 71/2, Lancelot Spicer to Sinclair, 12 Jan. 1944.
[22] Sir Richard Acland, *Unser Kampf: Our Struggle* (Harmondsworth, 1940).
[23] Sir Richard Acland interview with Angus Calder, quoted in A.L.R. Calder, 'The Common Wealth Party, 1942-1945' (unpublished University of Sussex Ph.D. thesis, 1967), part one, 17.
[24] *Westminster Newsletter*, June 1940, quoted in Calder, 'Common Wealth', part one, 29.

later renamed 'Forward March' – which he founded in 1940, the 1941 Committee organized by Edward Hulton, and the Common Wealth Party.[25]

Acland's ethical approach, and his conception of the state as the expression of the general will, placed him loosely in the New Liberal tradition. By contrast, Clement Davies and Tom Horabin, who had become MP for North Cornwall after Sir Francis Acland's death, developed constructive ideas in a radical direction. Davies and Horabin formed part of a group of malcontents from all parties who were dissatisfied with the prosecution of the war, and pressed for the British economy to be fully mobilized under a small War Cabinet, as in the First World War. With advice from the Hungarian émigré and Oxford economist Thomas Balogh and tacit support from Lloyd George, the malcontents called repeatedly for the state to plan output in the shipping, machine tool, and munitions industries, through the pooling of production capacity under the control of regional boards.[26] Both Davies and Horabin were heavily influenced by their experience of business management in the 1930s, and were impressed by the efficiency improvements which could be achieved through better organization.[27] In this view, the case for planning was severely practical. Davies and Horabin were keen to extend rationing to ensure 'fair shares' in wartime, but they were not egalitarians in any strict sense, and had no principled objection to private enterprise or the profit motive.

Under Balogh's influence, Davies and Horabin became convinced that post-war reconstruction, as well as wartime mobilization, would require a centrally planned economy. At the 1942 Liberal Assembly, Horabin tabled proposals for a thoroughgoing planning regime, run by a Ministry of National Planning with 'power to allocate labour, plant and machinery and raw materials and to determine priorities' across the economy. The state would also ensure that modern production methods were adopted by industry, and control the joint stock banks and basic

[25] Calder, 'Common Wealth', part one, 20-31.
[26] David Lloyd George papers, LG/G/24/2/63, A.J. Sylvester to David Lloyd George, 8 Apr. 1941, LG/G/24/2/80, A.J. Sylvester to David Lloyd George, 5 May 1941, and LG/G/24/2/208, A.J. Sylvester to David Lloyd George, 9 Jan. 1942; see also correspondence between Balogh and Lloyd George in LG/G/2/1. Balogh's career is ably documented in June Morris, *The Life and Times of Thomas Balogh: A Macaw among Mandarins* (Brighton, 2007).
[27] Davies was a director of Unilever from 1930 to 1941, whilst Horabin was managing director of Lacrinoid Ltd., which made buttons from synthetic materials.

industries – coal, electricity, gas, and fuel and power – through public utility boards. Balogh regarded international trade and financial movements as a major source of economic instability, and favoured bilateral agreements and regional economic blocs as means of maintaining control over trade flows. In line with Balogh's advice, Horabin and Davies advocated state control of imports and exports, and argued that traditional free-trade arguments were no longer valid.[28]

Many Liberals were wary of these radical planning ideas, but Elliott Dodds bore much of the burden of resisting them. The outbreak of war did nothing to stem Dodds' zeal for 'ownership for all', and he was particularly concerned by the government's wartime policy of concentrating retail distribution in large firms, which threatened the survival of small traders. Along with the Leeds solicitor Donald Wade and contacts in the retail trade, Dodds established a Liberal Independent Traders' Enquiry Committee and, later, the Independent Traders' Alliance to champion the interests of the small man.[29] Dodds' ally Arthur Seldon meanwhile wrote a report for the LPO, which claimed that the government's concentration policy was bringing about a 'drift to the corporate state'.[30] In 1941, the Liberal Assembly passed a resolution on the Independent Trader, expressing 'grave concern' at the 'monopolistic tendencies' which had been operating before the war and were being 'accentuated by present conditions'.[31] The following year, Dodds persuaded the LPO executive to sponsor a resolution on Freedom of Enterprise which elaborated these themes, called for 'the removal, at the earliest possible date, of all controls which cannot be shown to be in the interest of the community as a whole', and warned that 'the functions of the state cannot be indefinitely extended without leading to administrative chaos and arbitrary rule'.[32]

Dodds' commitment to competition and private property came under fierce attack from the planners. At the 1941 Assembly, Acland lambasted the Independent Trader motion, claiming that it ignored the position of 'the left-out millions' and sought to 'mak[e] a paradise for people with

[28] Liberal Party papers, 8/3, 1942 Assembly Agenda, 23-4.
[29] *LPO Bulletin*, no. 29 (Mar. 1942), 4-6.
[30] *LPO Bulletin*, no. 24 (Oct. 1941), 8.
[31] Liberal Party papers, 8/3, 1941 Assembly Agenda, 7-8; *MG*, 19 July 1941, 8.
[32] Liberal Party papers, 8/3, 1942 Assembly Agenda, 22; Borthwick Institute for Archives, University of York, Seebohm Rowntree papers, PLA/4/12, Dodds circular to LPO executive, 2 July 1942.

£500 a year'.[33] Dodds repulsed this criticism by pointing to the aim of giving ownership to all, but Horabin and Davies proved more powerful opponents. At the 1942 Assembly, Horabin developed a wide-ranging critique of free-market assumptions, arguing that American anti-trust laws had been ineffective, that the growth of monopolies was 'inevitable', and that nationalization of the banks and basic industries was necessary to prevent large corporations from wielding political power.[34] Dodds insisted that he did not stand for *laissez-faire* – 'I cannot conceive of a more fantastic misrepresentation' – but he failed to prevent Horabin from portraying him in these terms. Viscount Samuel endorsed Horabin's view that monopolies were inevitable in some industries, and Megan Lloyd George argued that the export trade had to be planned. Faced with an open clash of opinion, the Assembly agreed to refer both Dodds' resolution and Horabin's critical amendment to a policy sub-committee on the Structure of Industry, chaired by Harris.[35] This would become the hub of the party's economic policy discussions for the next year.

The Relation of the State to Industry

The Liberal Party's Reconstruction Committee was established by Sir Percy Harris in March 1941, and from the start it took an interest in planning.[36] E.H. Carr, Professor of International Relations at the University of Wales, Aberystwyth, was asked to produce a memorandum on a post-war Liberal policy, and proposed bold central planning, a 'social minimum' income, state-controlled corporations to manage monopolistic and socially important industries, and the direction of investment and labour.[37] Carr's approach proved to be too radical for the committee to accept, with Seebohm Rowntree noting acidly that Carr's scheme was 'neither [more] nor [less] than Socialism', but Harris and Rowntree shared his conviction that the basic industries would have to

[33] Wade and Banks, *Political Insight*, 28-9; *MG*, 19 July 1941, 8.
[34] Wade and Banks, *Political Insight*, 30.
[35] Ibid., 30-1; *MG*, 6 Sept. 1942, 8.
[36] David Lloyd George papers, LG/G/24/2/43, A.J. Sylvester to David Lloyd George, 12 Mar. 1941.
[37] Rowntree papers, UNEM/11/1, E.H. Carr, 'Some Outlines of Reconstruction Policy', 7 May 1941, and UNEM/11/3, E.H. Carr to D.O. Evans, 24 Nov. 1941.

be reorganized.[38] In the autumn of 1941, the committee began an inquiry into industrial organization, and Rowntree's assistant F.D. Stuart was despatched to investigate conditions in the staple trades.[39] An unpublished report which emerged from this inquiry, drafted by Harris, suggested that a varied approach would best suit each industry's needs: competitive private ownership for textiles, competitive public ownership for the mines, and the rationalization of iron and steel under a single public utility.[40] Nothing more seems to have come of Harris' draft industrial policy, but it shows the predominantly microeconomic orientation of Liberal economic thinking at this stage in the war.

In summer 1942, the Reconstruction Committee was reorganized on a more specialized basis, with a series of sub-committees deputed to examine particular fields of policy.[41] Wilfrid Roberts chaired a sub-committee on Food and Agriculture, the barrister A.S. Comyns Carr organized one on Land and Housing, and Sir John Stewart-Wallace, a former chief land registrar, took responsibility for Money and Banking. Three sub-committees, on International Trade, Remuneration of the Workers and The Status of the Workers, were chaired by Seebohm Rowntree.[42] Harris' sub-committee on the Structure of Industry, however, was where the most heated ideological debates played out. After the 1943 Liberal Assembly, the whole system was placed on a more formal footing, with a Permanent Policy Committee appointed jointly by the Liberal Parliamentary Party and the LPO, and sub-committees created and dissolved at its discretion.[43] The guiding objective throughout was to develop a detailed policy programme which Liberals could put forward when the election came.

The Structure of Industry sub-committee comprised a cross-section of the Liberal establishment from London and the provinces: Harris, Rowntree, Stewart-Wallace, Bonham Carter, Lord Meston, Graham White, and the banker Sir Felix Brunner, with Geoffrey Mander representing the Liberal ministers. E.H. Gilpin, the chairman of the LPO executive, joined later

[38] Rowntree papers, UNEM/11/4, notes by Rowntree on Carr's memorandum, 31 Dec. 1941.
[39] Graham White papers, WHI/2/4/6, Rowntree to Harris, 6 Jan. 1942.
[40] Graham White papers, WHI/2/1/4, 'Liberal Social and Industrial Reconstruction Committee. Chairman's General Report', June 1942.
[41] Graham White papers, WHI/2/4/8, B.S. Rowntree to White, 25 July 1942.
[42] Liberal Party papers, 8/3, 1943 Assembly Agenda, 1.
[43] BLPES, Beveridge papers, VI/103/2/65, LPO Seventh Annual Report to the Assembly, spring 1944, 40.

on.[44] As Harris explained at the start, the sub-committee's task was to survey the evidence on planning, and consider what forms of intervention were necessary to ensure full employment in peacetime.[45] Certainly, Harris thought,

> [A]ny political party that has any pretensions to govern this country must satisfy the electorate that they have a constructive policy to prevent large-scale unemployment.[46]

The sub-committee's report, moreover, would have to 'satisfy the two sections of the party'.[47] Harris therefore asked Dodds and Horabin for memoranda of their views, and organized meetings to take evidence from both groups. Horabin and Davies turned to Balogh for assistance; Dodds turned to Seldon and Arthur Shenfield, a lecturer at Birmingham University and later a prominent neoliberal, and to Friedrich Hayek's research assistant, Ludwig Lachmann. Walter Hill and Geoffrey Crowther of *The Economist*, E.F. Schumacher of the Oxford Institute of Statistics, the social scientists Michael Polanyi and Ferdinand Zweig, and the economist Gerda Blau also provided advice for Harris and his colleagues.[48]

The possibility of a broadly Keynesian solution to the unemployment problem was recognized by Harris and his colleagues from the outset. In three articles in October 1942, Walter Hill recapitulated *The Economist*'s version of the Keynesian position: government policy should focus on raising investment to full-employment level – and keeping it there – through low interest rates and taxation allowances, backed up by direct controls through a National Investment Board, with public works ('a very poor second best') kept on tap as a last resort.[49] Dodds and his colleagues were willing to accept this as a basis of agreement, although they were reluctant to control private investment and placed more emphasis on public works: the state, Dodds said, 'should come in on

[44] Rowntree papers, PLA/5/11, minutes of Structure of Industry sub-committee (hereafter S.I. minutes), 15 Feb. 1943.
[45] Rowntree papers, PLA/5/1, S.I. minutes, 23 Nov. 1942.
[46] Rowntree papers, PLA/4/15, 'Some Informal Notes on Planning in its Relation to Personal Freedom', by Sir Percy Harris, 14 Jan. 1943.
[47] Rowntree papers, PLA/5/9, S.I. minutes, 8 Feb. 1943.
[48] The relevant correspondence appears in Rowntree papers, PLA/4 and PLA/5.
[49] *Economist*, 3, 10 and 17 Oct. 1942, 407-8, 438-40, 472-3.

whatever scale was necessary to prevent mass unemployment'.[50] Harris, however, was unconvinced that higher overall demand would solve the basic industries' problems, and was receptive to two criticisms which Horabin, Davies and Balogh levelled against a liberal Keynesian approach.[51] Firstly, Harris thought it unreasonable to make public authorities vary their investment in order to compensate for the impact of private firms' decisions. Instead, it made more sense to try to stabilize both public and private investment plans. Secondly, Harris was impressed by the danger that the state would run out of productive public works projects during a depression. The nationalization of certain industries, such as transport, might therefore be justified as a means of expanding the field for public investment.[52]

The Structure of Industry sub-committee was well aware of the difficulties involved in reconciling planning with Liberal principles. Polanyi, who was an early neoliberal, warned that planning would take government beyond its legitimate role of establishing and enforcing the rule of law; Zweig argued that some instability was inevitable in a free society; and Sir Andrew McFadyean pointed out the danger of creating sheltered nationalized industries.[53] However, the weight of opinion ran towards greater state intervention. Prompted by White and Gilpin, and encouraged by E.F. Schumacher, the sub-committee played down the value of trust-busting, and suggested that publicity requirements on Yellow Book lines would prevent monopolies from exploiting the consumer.[54] Bonham Carter even sympathized with Balogh's proposal for a statutory wages policy, and restrictions on the right to strike, in order to prevent wage inflation, though Harris – perhaps wisely – judged it best to avoid this controversial question.[55]

Harris and the other members of his sub-committee visibly favoured an interventionist form of Keynesianism, which lay part-way between *The Economist*'s recommendations and those of the central planners. However, they found it difficult to agree on detailed proposals, and faced

[50] Rowntree papers, PLA/4/23, 'A Policy for Liberalism', by Elliott Dodds, 24 Feb. 1943, and PLA/5/12, S.I. minutes, 12 Mar. 1943.
[51] Rowntree papers, PLA/5/2, S.I. minutes, 4 Dec. 1942.
[52] Rowntree papers, PLA/4/15, 'Some Informal Notes on Planning'; PLA/5/9, S.I. minutes, 8 Feb. 1943.
[53] Rowntree papers, PLA/4/18, 'Comments on the "Draft Memorandum on a Planned Economy"', by Michael Polanyi, n.d.; PLA/5/4, S.I. minutes, 18 Dec. 1942; PLA/4/21, 'Government and Industry', by Sir Andrew McFadyean, Jan. 1943.
[54] Rowntree papers, PLA/5/12, S.I. minutes, 12 Mar. 1943; Graham White papers, WHI/2/1/15, 'An Economic Policy for Liberalism' by Schumacher, 8 Mar. 1943.
[55] Rowntree papers, PLA/5/5 and PLA/5/11, S.I. minutes, 18 Jan. and 15 Feb. 1943.

opposition to their more radical ideas from the LPO executive. By the time the report on *The Relation of the State to Industry* finally appeared, Harris complained, its recommendations had been 'boiled down to nothing'.[56] In substance, the report largely followed *The Economist*'s approach. The state's first response to a downturn, it argued, should be

> to stimulate private enterprise and restore business confidence by lowering rates of interest and by increasing the amounts which industrial companies may charge for depreciation when making their returns of profits liable to income tax.

If this proved insufficient to 'take up all the slack of unused productive resources', 'the State should be called upon to restore the balance by investing in public works on a scale large enough to make up for the deficiency in private capital expenditure'.[57] In other words, public investment was still the balancing factor. The report revived the old Yellow Book proposals for an Economic General Staff and National Investment Board, advocated a capital budget, and suggested that the nationalization of some natural monopolies would provide a useful field for public investment, but it also emphasized that the 'overwhelming part' of industry 'would remain in private hands operating under free competition'.[58] There was no reference to regulation of private investment: large firms would merely be required to report their investment plans to the National Investment Board so that it could calculate what public investment would be needed to maintain aggregate demand at full-employment level.[59]

Dodds and other moderate Liberals regarded *The Relation of the State to Industry* as a satisfactory compromise between the planning and anti-planning groups. Horabin and Davies, by contrast, were unimpressed, and decided to take their case to the 1943 Assembly. Horabin tabled a lengthy amendment to the executive resolution on The State and Industry, and W.J. Gruffydd, the new MP for the University of Wales, and Everett Jones of Radical Action were persuaded to add their names to a memorandum on 'A Radical Economic Policy for Progressive Liberalism', which was circulated to all delegates. 'A Radical Economic Policy' took a vigorously interventionist line,

[56] Harris papers, HRS/2, Harris diary, entry for 5 May 1943.
[57] Liberal Party, *The Relation of the State to Industry* (1943), 11.
[58] Ibid., 9, 11-12, 16.
[59] Ibid., 12-13.

and argued that central planning would be required permanently if full employment and price stability were to be maintained.[60] In the Assembly debate, Horabin and Davies were backed up by Megan Lloyd George, who argued that the party was being paralysed by 'the shackles of a nineteenth-century philosophy'.[61] However, strong speeches from Harris, Dodds, Gilpin and Johnstone – and a letter of support from Sir Walter Layton – carried greater weight with the delegates, and Horabin's amendment was 'decisively rejected' on a show of hands.[62] A traditionalist amendment tabled by East Grinstead Liberals, opposing *The Relation of the State to Industry* on the grounds that it was too interventionist, received even less support, and the executive resolution was carried by a large majority.[63]

The Relation of the State to Industry was not the only policy report which was presented to the 1943 Assembly. The report of the International Trade sub-committee declared that free trade was a Liberal principle, and emphasized the need for international cooperation – through an International Clearing Union, an International Commodity Board, and an International Investment Board – to make it compatible with full employment.[64] The Money and Banking report rejected bank nationalization, but called for a clearer distinction between the formulation of monetary policy, for which government should take clear responsibility, and its implementation by the Bank of England.[65] Both of these reports fitted well with the policy outlined in *The Relation of the State to Industry*, and were comfortably approved.[66] Seebohm Rowntree's report on *The Remuneration of the Worker*, however, was much more controversial. Drawing on his own social research and industrial experience, Rowntree proposed to abolish want by extending the trade boards system to all industries where no effective wage-fixing organization existed, giving them a brief 'to fix the highest wages the industry can afford', and setting a statutory national minimum wage at the rate of the lowest wage fixed by any trade board.[67] Joint Industrial Councils would be established in

[60] MS. Balfour 65/1, 'A Radical Economic Policy for Progressive Liberalism', n.d. [June/July 1943].
[61] *NC*, 17 July 1943, 4.
[62] *MG*, 17 July 1943, 8.
[63] Ibid.
[64] Liberal Party, *International Trade* (1943).
[65] Liberal Party, *Money and Banking* (1943).
[66] *MG*, 16 July 1943, 6.
[67] Liberal Party papers, 8/3, 1943 Assembly Agenda, 18-19, at 18.

every industry and empowered to fix wages in member firms, while 'essential industries' which could not afford to pay adequate wages would be taken over by the state and run by public boards.[68] For Dodds, Ronald Walker, and Frances Josephy, Rowntree's plan raised two problems: it took large industries (and large firms) as the model of the whole economy, and paid too little attention to industrial democracy and profit-sharing. At the Assembly, Rowntree's resolution was amended to make Joint Industrial Councils the main wage-fixing bodies and strengthen the calls for profit-sharing and a subsistence-level minimum wage.[69] Internal debate over Rowntree's proposals would rumble on until 1945, when a compromise was finally reached.[70] Despite this wrangling, the readiness with which the party accepted the idea of a system of minimum wages shows the extent to which constructive ideas had regained influence.

Two other reports touched on issues of special sensitivity to Liberals. In *Land and Housing*, Comyns Carr's sub-committee recommended a national development plan with controls over industrial location, a house-building target of 400,000 houses a year for the post-war decade, and the creation of Fair Rent Courts to replace the Rent Restriction Acts. This report also accepted the Uthwatt Committee's recommendation that the government should nationalize development rights outside built-up areas, in order to deal with the problems of compensation and betterment, and suggested that this could be combined with the introduction of site value taxation in the towns.[71] The Food and Agriculture sub-committee proposed the continuation of guaranteed prices 'until agriculture is self-supporting', along with the creation of a Land Commission to buy land that required improvement and lease it to tenant farmers, the reform (rather than the abolition) of the marketing boards, and measures to improve the living standards of agricultural workers.[72] The main thrust of the *Food and Agriculture* report was in line with the vision of agricultural development which Sinclair had articulated before the war, with an emphasis on the need for domestic food production to be orientated towards British consumers' nutritional needs. The commitment to guaranteed prices in peacetime, though, was a significant new departure.

[68] Ibid., at 19
[69] Ibid., 20-1; *MG*, 16 July 1943, 6.
[70] *LM*, 53 (1945), 199; Beveridge papers, VI 18/2/58, LPO Council minutes, 18 Apr. 1945.
[71] Liberal Party, *Land and Housing* (1943).
[72] Liberal Party, *Food and Agriculture* (1943).

The reports adopted at the 1943 Assembly placed the Liberals in the mainstream of progressive thinking about post-war reconstruction, whilst stopping short of full-blown central planning. Most Liberals were satisfied with this position, and turned their energies to the task of popularizing the party's new platform.[73] However, the 1943 Assembly also crystallized traditionalists' disaffection with party policy. Francis Hirst believed the party was drifting towards bureaucratic state control, whilst Georgists such as Ashley Mitchell and A.R. MacDougall complained that the party was jettisoning its commitments to land value taxation and free trade.[74] On the land question itself, the Georgist position retained considerable purchase, and an attempt to amend the Land and Housing resolution at the Assembly was defeated by only thirteen votes.[75] After the Assembly, the Georgists began to rally support, notably from the Scottish Liberal Federation and the London Liberal Federation, for the repudiation of the Uthwatt proposals and the restoration of land value taxation as a major Liberal policy.[76] The Liberal Liberty League, formed in January 1944 with Mitchell as its chairman and T. Atholl Robertson as vice-chairman, provided an institutional vehicle for the champions of land value taxation and free trade.[77]

The formation of the Liberal Liberty League confirmed the breach between diehard classical and Georgist Liberals and more moderate anti-planners. For Dodds and other moderates, demand-management policies and Beveridgean social insurance offered valuable means of achieving Liberal ends whilst minimizing interference with private ownership and consumer choice; for the Liberty Leaguers, these policies were dangerous panaceas, which intensified the dislocation of economic forces and failed to deal with the land question.[78] Both groups laid claim to Walter Lippmann, though – as Dodds pointed out – social insurance was clearly endorsed in *The Good*

[73] For instance, Dodds developed the party's case in his book *Let's Try Liberalism* (1944), and Lancelot Spicer of Radical Action left the Assembly impressed by the need to strengthen party unity and get Liberal ideas over to the electorate: MS. Balfour 68/1, 'Some Impressions After Three Days Liberal Assembly, July 15th-17th 1943', by Spicer, and untitled typescript by Spicer, n.d. [July 1943].
[74] *L&L*, no. 591 (Aug. 1943), 63; *MG*, 16 July 1943, 6.
[75] *L&L*, no. 591 (Aug. 1943), 63.
[76] National Library of Scotland, Scottish Liberal Party papers, 15, resolutions for General Council conference, 6 Oct. 1943; *L&L*, no. 594 (Nov. 1943), 85.
[77] *L&L*, no. 597 (Feb. 1944), 109.
[78] Ibid.

Society.[79] A more natural point of reference for the Liberty Leaguers was Friedrich Hayek, whose book *The Road to Serfdom* received a sympathetic review in the Georgist journal *Land & Liberty*.[80] Moderates considered Hayekian rhetoric electorally fatal in this period, and viewed anti-statist fringe groups with suspicion: Dodds thought only 'a queer sort of Liberal' could be comfortable in Sir Ernest Benn's Society of Individualists.[81] By contrast, the Liberty Leaguers were happy to identify with the libertarian right, and only lamented that Hayek had not dealt with the land question.[82] Francis Hirst took a similar line, although he was not especially committed to land value taxation, and resigned from the Society of Individualists in 1944 in protest at Benn's association with protectionists.[83]

Sir William Beveridge and the 'Radical Programme'

The Liberal Liberty Leaguers hoped that the moderately interventionist policies adopted in 1943 would be reversed during the years that followed. Instead, they were consolidated and extended, partly through the growing influence of Radical Action, partly through the leftward drift of prominent party figures such as Harris and Bonham Carter, but above all as a result of the adhesion of Sir William Beveridge to the party. Beveridge brought with him an enormous popular reputation as the author of *Social Insurance and Allied Services*, a commitment to a highly interventionist version of Keynesianism which he elaborated in his private report on *Full Employment in a Free Society*, and a conviction that the Liberals must fight the next election on a 'Radical Programme'.

William Beveridge had a lifelong association with the Liberal Party. As a young man, he developed the Asquith government's plans for labour exchanges; in the early 1920s he attended the Liberal Summer School, and wrote a pamphlet on *Insurance for All and Everything* for the party; and as lead author of *Tariffs: The Case Examined* in 1931 he helped the Liberals fight for free

[79] West Yorkshire Archives Service, Leeds, Yorkshire Liberal Federation papers, WYL456/3, executive minutes, 10 July 1943.
[80] *L&L*, nos. 600-1 (May-June 1944), 131-2.
[81] Elliott Dodds, *The Rights of Men as Persons* (1945), quoted in Beveridge, *Why I am a Liberal*, 10.
[82] *L&L*, nos. 603-4 (Aug.-Sept. 1945), 150-1.
[83] Deryck Abel, *Ernest Benn: Counsel for Liberty* (1960), 125.

trade. As José Harris has shown, however, it would be quite wrong to regard Beveridge as a lifelong Liberal. Throughout his career, he was 'suspicious and critical of conventional party politics', and avoided attachments which would inhibit his independence as a political freelance.[84] Beveridge's views on economic organization also oscillated wildly, from Fabian-influenced reformism in the Edwardian period to a strongly orthodox line in the 1920s and early 1930s and a planning-orientated position during the Second World War. By the 1940s, Beveridge's policy views would have fitted in the Labour Party as easily as in the Liberal Party. His differences with Labour were mainly cultural rather than ideological, and he defined his Liberalism in leftist terms, which were highly redolent of the New Liberalism.[85]

After *Social Insurance and Allied Services* appeared in December 1942, Beveridge hoped he would be asked to follow it up, either by overseeing its implementation as Minister of Social Security or by investigating the related issue of full employment. When this did not happen, he began a private full employment inquiry and made it known that he was interested in entering Parliament.[86] Bonham Carter, who had attended his wedding to Jessy Mair, was determined that he should stand as a Liberal, and set about cultivating links with him in spite of Sinclair's reservations; as José Harris has put it, the Liberals 'most assiduously wooed and flattered Beveridge and eventually won him'.[87] In March 1943 Beveridge spoke on a Liberal platform at the Caxton Hall, Westminster, and discussed social security at a meeting of the party Council; later in the year he met with the Structure of Industry sub-committee, specially reconvened for the occasion, to obtain Liberal input into his full employment inquiry.[88] Beveridge was initially reluctant to commit himself to the Liberals, partly because he still prized his freedom of action and partly because he believed Sinclair favoured a post-war coalition, but Bonham Carter and her colleagues persisted with their efforts and assured him that the party would back the employment

[84] José Harris, *William Beveridge: A Biography* (second edition, Oxford, 1994), 118.
[85] Ibid., 441-7.
[86] Ibid., 432-4.
[87] *Champion Redoubtable*, 248, 316; Harris, *William Beveridge*, 445.
[88] *Champion Redoubtable*, 258-9; Hirst papers, 67, Francis Hirst to Gertrude Hirst, 19 Mar. 1943; Beveridge papers, IXa/15/10/91, minutes of meeting with Liberal committee, 17 Nov. 1943, and IXa/15/10/82, minutes of meeting with Liberal committee, 1 Dec. 1943.

policy he was producing.[89] No sooner had Beveridge agreed to join the Liberals than an unexpected opportunity for him to enter the Commons presented itself, when George Grey was killed in France in August 1944. Beveridge fought and won the ensuing by-election at Berwick-upon-Tweed, and soon began to stamp his mark on Liberal policy.

The White Paper on *Employment Policy* which the coalition government published in May 1944 was a cautious Keynesian document, the product of a carefully brokered compromise between the Economic Section of the Cabinet Office and more orthodox Treasury officials.[90] For the first time, the government assumed responsibility for 'a high and stable level of employment', and publicly embraced the idea of demand management through variations in public investment and taxation as a means of dampening cyclical instability – a policy which, by this stage, was widely accepted by Liberals.[91] This momentous shift, however, was balanced by an emphasis on the importance of structural factors – the revival of world trade, the location of industry, and the mobility of labour – and by an assertion that the government did not envisage deliberate deficit budgeting.[92] Beveridge's report on *Full Employment in a Free Society*, which he finished in spring 1944 though it did not appear until November, took a much more interventionist approach. Beveridge defined full employment very strictly, as an average unemployment rate of no more than 3%, and insisted that that this could only be achieved through 'a long-term programme of planned outlay' by the government, stabilization of private investment by a National Investment Board, and an acceptance of the need to run budget deficits, at least in slumps and possibly across the economic cycle.[93] The White Paper, Beveridge complained, was 'a public works policy, not a policy of full employment'.[94] Beveridge proposed to expand the public sector 'to enlarge the area within which investment can be stabilized directly', and suggested that the threat of nationalization

[89] Beveridge papers, IXa/37/10/301, 'From April 1943-February 1945', typed copy of letter from Beveridge to Wilfrid Roberts, 28 Feb. 1944; IXa/38/3/73, Dingle Foot to Beveridge, 25 May 1944; IXa/38/3/76, Bonham Carter to Beveridge, 2 June 1944; and IXa/38/3/88, Wilfrid Roberts to Beveridge, 1 Aug. 1944.
[90] Jim Tomlinson, *Employment Policy: The Crucial Years, 1939-1955* (Oxford, 1987), 45-63; Booth, *British Economic Policy*, 107-21.
[91] Cmd. 6527, *Employment Policy* (1944), 3, 20-4.
[92] Ibid., 4-6, 10-15, 19-20, 24.
[93] Sir William Beveridge, *Full Employment in a Free Society* (1944), 18, 128, 30, 177-8, 147-9.
[94] Ibid., 262.

could be used to control private investment plans.[95] He also followed Balogh in taking a sceptical view of the prospects for trade liberalization, and emphasized the value of bilateral agreements and regional blocs for allowing the state to ensure economic stability.[96]

On the basis of existing Liberal policy, there were good reasons why Liberals might have favoured the White Paper's approach: it was more internationalist, it treated public works as a balancing factor, and it did not call into question (as Beveridge did) whether private ownership of the means of production was 'an essential citizen liberty'.[97] The White Paper was also considered more realistic by Keynesians in Whitehall, such as James Meade.[98] On the other hand, the White Paper's treatment of finance seemed overly cautious, as Graham White pointed out in the Commons, and there was a strong political incentive for the Liberals to take Beveridge's line.[99] A Liberal committee chaired by Sir John Stewart-Wallace met to draw up a response to the White Paper during the summer of 1944, and drew heavily on advice from Beveridge, including proof copies of his report.[100] Some of Stewart-Wallace's colleagues, including the social activist Lady Juliet Rhys-Williams, had become nervous about state intervention after reading *The Road to Serfdom*, but others had no such reservations, as the report which the committee produced in August showed.[101] The 'basic error' in the White Paper, the report argued, was its insistence on balancing the budget each year 'on orthodox 19th century lines':

> A truly balanced budget is one that brings the whole economy of the country into balance. It may frequently, and over long periods, be the duty of the Government to spend more than its income, if by so doing it can assist the maintenance of an adequate flow of purchasing power.[102]

[95] Ibid., 271, 207.
[96] Ibid., 208-41.
[97] Ibid., 23.
[98] James Meade, 'Sir William Beveridge's *Full Employment in a Free Society* and the White Paper on Employment Policy (Command 6527)', in *The Collected Papers of James Meade*, ed. Susan Howson and Donald Moggridge (4 vols., 1988-90), I, 233-64.
[99] H.C. Deb., fifth series, 401, 21 June 1944, 239-46.
[100] Beveridge papers, IXa/18/2/165, Stewart-Wallace to Beveridge, 21 Aug. 1944.
[101] Ibid.; Rowntree papers, POV/3/4, 'Notes on White Paper on Employment Policy', by Rhys-Williams, n.d. [June 1945]. The report was drafted by Rhys-Williams, with assistance from Geoffrey Crowther: BLPES, Rhys Williams papers, J/2/8/1, Rhys-Williams to Rowntree, 28 July 1944.
[102] Liberal Party, *The Government's Employment Policy Examined: An Interim Report of the Liberal Party Committee on Full Employment* (1944), 6.

Beveridge would still have to convince the Liberal Party at large of the merits of *Full Employment in a Free Society*, but it is clear that senior Liberals outside the government were already sympathetic.

It was at one stage intended that Stewart-Wallace's committee would draw up 'a positive policy on Full Employment', but this never happened.[103] Instead, Beveridge was asked to draft '[a] comprehensive resolution on Full Employment' for the Liberal Assembly which was due to take place in February 1945.[104] Beveridge's resolution followed *Full Employment in a Free Society* in all significant respects, calling for manpower budgeting, 'a long-term programme of planned outlay' by the government, and regulation of private investment through a National Investment Board.[105] The government's external policy would seek 'the greatest possible extension of international trade' compatible with full employment and economic stability, whilst public ownership would be extended wherever 'the need to control monopolies, or the overriding importance of the industry in the national life, or the necessities of national defence' made this desirable.[106] Prominent references to workers' participation in industry and the need to control monopolies were included as concessions to Liberal sensibilities, but it was not unreasonable for T. Atholl Robertson to ask whether Beveridge had joined the Liberal Party or the party had joined him.[107]

Beveridge justified his interventionism in terms which he drew from the New Liberal tradition. 'The ultimate aims of Liberalism', he declared, were the same as they had always been:

> equal enjoyment of all essential liberties secured by the rule of law, material progress for the sake of increasing spiritual life, toleration for variety of opinion, the common interest of all citizens over-riding every sectional privilege at home, peace and goodwill and international trade abroad.[108]

[103] Beveridge papers, VI 103/1/61, Supplement to LPO Seventh Annual Report to Assembly, 31 Dec. 1944, 7.
[104] Beveridge papers, VI 103/1/1-3, Assembly Agenda Committee minutes, 10 Oct. 1944.
[105] Liberal Party papers, 8/3, 1945 Assembly Agenda, 25-7, at 25.
[106] Ibid., 27, 26.
[107] *L&L*, no. 610 (Mar. 1945), 27.
[108] Beveridge, *Why I am a Liberal*, 32.

The methods needed to achieve these aims, on the other hand, were constantly changing, and in contemporary Britain conquering 'the social evils of Want, Disease, Ignorance, Squalor and Idleness' required 'an extension of the responsibilities and functions of the State'.[109] Under his Radical Programme, Beveridge argued, all the 'essential' personal and political liberties would be preserved, and the elimination of unemployment and poverty would bring about 'more true liberty for all the people'.[110] For Beveridge, it was concrete liberties such as the 'right' to running water that were most important.[111] Conversely, Beveridge thought Hayek's concern for the freedom of entrepreneurs was misguided, because most citizens had never been able to own the means of production.[112] He also believed that the risk of arbitrary government would be substantially eliminated by 'effective Parliamentary control'. In a democratic society, Liberals had 'no reason to be afraid of the State'.[113]

The interpretation of Liberal principles which Beveridge articulated in 1944-5 chimed closely with the views of many left-wing Liberals, but it naturally raised hackles on the right of the party. The Liberal Liberty League was most vocally critical, and decided to force the issue at the 1945 Assembly, tabling a wrecking amendment to the Full Employment resolution and distributing a memorandum which purported to demonstrate its incompatibility with the Liberal principles of free trade, free enterprise and land value taxation.[114] The Liberty League stood well outside the party's mainstream, but some of its concerns were shared by more moderate Liberals, especially in northern England, where free-trade sentiment remained strong and Labour was the party's main opponent.[115] 'There is a deep feeling in many quarters', claimed Juliet Rhys-Williams, 'that the Party is continually being driven against its will… to abandon cherished principles.'[116] Dodds certainly disagreed with Beveridge's view that the maintenance of private ownership was a matter

[109] Ibid., 34, 33.
[110] Ibid., 33, 67.
[111] Ibid., 29.
[112] Ibid., 10, 33-7.
[113] Ibid., 37.
[114] Beveridge papers, VI 103/1/34, Liberal Liberty League circular to delegates, 27 Jan. 1945, and VI 103/1/35, 'Full Employment at the Liberal Assembly. Memo of Notes.'
[115] For instance, the Leeds Liberal Federation had issued a 'Declaration' in 1944 which declared that the party should stand for liberty and the rule of law: Graham White papers, WHI/1/3/71, 'Liberalism: The Leeds Declaration', 12 Feb. 1944.
[116] BLPES, Rhys-Williams papers, J/10/3, 'Notes on Liberal Policy in relation to the Beveridge Employment Report', by Rhys-Williams, n.d. [winter 1944-5].

of relative indifference.[117] On the other hand, the symbolic importance of Beveridge's resolution could not be lightly discounted. If the Liberals rejected *Full Employment in a Free Society*, they ran the risk not only of losing Beveridge, but also of forfeiting their claim to be a progressive and reforming party.

Beveridge's Full Employment resolution was the centrepiece of the 1945 Assembly, and in an attempt to defuse traditionalist opposition, the party executive asked Dodds to second it. Beveridge moved the resolution with a forthright exposition of his policy, and a rebuttal of those he had previously christened 'the bow-and-arrow brigade'; Dodds followed up with a 'flank attack' in which he acknowledged his reservations but argued that the resolution deserved to pass.[118] Dodds emphasized that land value taxation and free trade could not solve unemployment by themselves, and that 'nearly all economists' agreed that demand management was also necessary.

> The question is, will more people enjoy greater liberty as a result of this policy? And to that question I, as a libertarian, give an unhesitating affirmative.[119]

Ashley Mitchell moved the Liberty League's amendment, and Commander Geoffrey Bowles accused Beveridge of importing his ideas – via E.F. Schumacher – from Nazi Germany.[120] The chorus of support for Beveridge, however, was overwhelming, and when a vote was taken only twenty of the one-thousand-or-so delegates backed the Liberty League. The Full Employment resolution was then carried with just four dissentients.[121]

The radical mood of the 1945 Assembly showed itself in other ways, too. In her presidential speech, Violet Bonham Carter placed Beveridge's policy in the tradition of social reform which her father's government had begun. Liberalism, she emphasized, was not 'a rigid, static, invariable formula' but 'a dynamic concept'; and with a post-war world to build, Liberals had to 'attack' and 'advance'.[122] This was fleshed out by a resolution which declared the party's intention to contest

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[117] Elliott Dodds papers, 3/10, 'Full Employment', speech to Huddersfield Soroptimists, 24 Sept. 1945.
[118] *MG*, 18 Jan. 1945, 6, and 3 Feb. 1945, 6; Beveridge papers, VI 103/1/49-50, Dodds to Beveridge, 28 Jan. 1945.
[119] *LM*, 53, 195.
[120] *L&L*, no. 610 (Mar. 1945), 27-8.
[121] *NC*, 3 Feb. 1945, 4.
[122] *LM*, 53, 186-8, at 187, 186.

enough seats at the general election to offer a Liberal government.[123] Sinclair declared that the party would fight 'with a clear and distinctive policy', and paid tribute to the work which Harris and Beveridge had done.[124] The party's support for guaranteed prices was affirmed, and delegates also approved a Housing resolution, drafted by Horabin, which set a target of building 750,000 houses a year for the next five years, using licensing and controls to prioritize the house-building effort and making full use of mass-production techniques.[125] Finally, the party's internal elections showed the ascendancy of the Liberal centre-left, as Beveridge topped the poll in the election for four vice-presidents, winning support from 88 per cent of delegates in a seven-candidate race.[126] In the poll for thirty members of the LPO Council, meanwhile, Dodds came first, followed by Rhys-Williams and Margery Corbett Ashby, while none of the Liberty League's eight candidates were successful. Analysis of the voting figures suggests that around one-third of delegates were left-wing Radical Action supporters, but only about one-tenth sympathized with the Liberty League.[127]

Public ownership

The passage of the Full Employment resolution at the February 1945 Assembly did not bring debate over Liberal economic policy to an end. Although the main principles of employment policy had been agreed, Beveridge's resolution had left the Liberal stance on several key issues – wage policy, trade, and public ownership – relatively loosely defined. On all three issues, Beveridge's views were clearly more interventionist than liberal Keynesians such as Dodds and Walker were willing to accept; indeed, the *Manchester Guardian* believed that Walker and his allies had been reconciled to the Full Employment resolution 'by their confidence that the policy

[123] Ibid., 189.
[124] Ibid., 200-1, at 200.
[125] Ibid., 199, 197. Johnstone considered the housing target unachievable and irresponsible, and contemplated resigning from the LPO executive to oppose it: Beveridge papers, VI 103/1/26-8, LPO executive minutes, 31 Jan. 1945.
[126] *LPO Bulletin*, no. 63 (Feb. 1945), 8.
[127] Beveridge papers, VI 103/1/18, results of LPO Council elections, Feb. 1945, and VI 103/1/62, voting paper. 603 delegates cast valid votes for the vice-presidencies, of which 214 named Horabin as one of their four choices. The bottom six candidates for the Council were all Liberty League nominees, who received between fifty-five and 110 votes.

would lose some of its asperities during its development under vigilant Liberal eyes'.[128] Wages policy proved to be the least problematic of these issues, for Beveridge himself had been assured by trade-union leaders that a statutory wages policy would not be necessary, and restricted himself in *Full Employment in a Free Society* to suggesting that arbitration clauses should be included in wage agreements to reinforce the pressure on unions to exercise restraint.[129] The Liberal Party's commitment to free collective bargaining therefore survived the war without a serious challenge.

Trade policy caused greater controversy, as a result of Beveridge's insistence that the classical free-trade case no longer applied.[130] Most Liberals accepted that trade would have to be freed by multilateral rather than unilateral action, but Beveridge's rhetoric was nevertheless alarming, especially because – according to a Mass Observation survey earlier in the war – free trade was still the party's best-known policy.[131] Hirst's Liberal Free Trade Committee waged guerrilla warfare against Beveridge's pragmatism, and found support from the top of the party, where Harcourt Johnstone and Roy Harrod were planning to use Article VII of the Anglo-American Mutual Aid Agreement to turn the trade question into a major election issue.[132] Despite Johnstone's death in March 1945, Harrod pressed forward with this strategy with Sinclair's backing, and Beveridge was persuaded to acquiesce in it. When the election came, the Liberals positioned themselves as aggressive multilateralists, committed to freeing trade rapidly through international agreement. For a strict free trader, this stance was a betrayal of Liberal principles, but the vast majority of the party seems to have supported it, and by the end of the campaign Sinclair was giving the trade question so much emphasis that even Hirst was satisfied.[133]

With compromise positions at hand on these issues, the debate over government intervention in the post-war economy came to centre on public ownership. Indeed, this debate would range into the next Parliament, as the Liberals struggled to articulate a coherent response to the Attlee

[128] *MG*, 3 Feb. 1945, 4.
[129] Harris, *William Beveridge*, 437.
[130] *MG*, 18 Jan. 1945, 6.
[131] Rhys-Williams papers, J/10/3, 'Notes on Liberal Policy in relation to the Beveridge Employment Report'; University of Sussex, Mass Observation Archive, File Report 1128, 'Report on the British Public's Feeling about Liberalism', 3 Mar. 1942.
[132] Hirst papers, 68, Francis Hirst to Gertrude Hirst, 7 and 21 Mar. and 23 Apr. 1945; Beveridge papers, VI 13/2/21-4, 'Mr. R.F. Harrod's Statement', n.d. [18 July 1945], at fo. 21. Article VII committed Britain to work for the reduction of tariffs and the removal of all forms of trade discrimination after the war.
[133] Hirst papers, 68, Francis Hirst to Gertrude Hirst, 22 June 1945.

government's nationalization measures. On the one hand, Horabin, Davies, and left-wing Radical Action members believed that a far-reaching extension of public ownership was necessary to raise industrial efficiency, improve working conditions, protect the public from exploitation by monopolies, and provide an adequate field for public investment as part of a full employment policy. Beveridge and Bonham Carter broadly shared this view, and expressed it forcibly in meetings of the party Council.[134] On the other hand, Dodds, Walker, Harrod and Rhys-Williams regarded nationalization as a last resort, which should be pursued only if monopolies could not be broken up or placed under effective public control. Dodds' suspicion of 'natural monopoly' arguments had been strengthened by Arthur Shenfield, who emphasized the need to recognize the competition that existed *between* industries as well as *within* them: for instance, railways had to compete with road transport.[135] All Liberals could accept the principle of a mixed economy, but it was much harder to secure agreement on the nature of the mixture.

Sinclair, returning to party politics as the war neared its end, took a middle position in this debate. The Liberals, he explained at the 1945 Assembly, were not dogmatically committed to either private or public ownership, but would settle the issue 'calmly and objectively on the merits of each individual case'.[136] Seebohm Rowntree, who chaired the party's policy committees on transport and coal, took his leader's words to heart – and produced two divergent sets of recommendations. The Transport Committee reported in March 1945, and recommended that all railways, long-distance road haulage and passenger transport, and canals should be placed under a public utility corporation. Rowntree was impressed by the danger that the railways would develop into a private monopoly, by the difficulty of raising capital for railway modernization on the private market, and by the need to coordinate transport services.[137] By contrast, the Coal Committee recommended in its interim report in April that the coal industry should be placed under public control rather than public ownership. Here, Rowntree felt that competition between

[134] Beveridge papers, VI 18/2/57 and 58, LPO Council minutes, 21 Mar. and 18 Apr. 1945.
[135] Rowntree papers, PLA/4/3, 'Notes on Private and Public Enterprise in the Post-War World', by Shenfield, n.d. [1941-2].
[136] *MG*, 5 Feb. 1945, 3.
[137] Liberal Party, *The Future of British Transport: Proposals of a Liberal Party Committee under the Chairmanship of B. Seebohm Rowntree, C.H.* (1945).

different mines and districts was valuable, and that pressure from miners for higher wages was likely to result 'either in excessive coal prices, or else in continuous subsidies by the taxpayer'.[138]

Rowntree's nuanced approach meant that he came under fire from both wings of the party. When the transport report was presented to the LPO Council, it received support from left-wingers such as Horabin and from the industrialist E.H. Gilpin, but Ronald Walker and the London activist Harold Glanville were vigorously opposed.[139] Nationalization of road transport was particularly unpopular among Liberals in Lancashire and Yorkshire, and A.S. Comyns Carr proposed amendments which would restrict nationalization to the railway companies and their holdings.[140] After two heated meetings, it was agreed to adjourn the debate *sine die*.[141] Dodds was satisfied that the party had not endorsed road transport nationalization, but the absence of a clear Liberal line on this issue was bound to be an electoral handicap.[142]

On coal, it was the left-wingers' turn to be angry with Rowntree. At the Council meeting in April, Lady Dorothy Layton – wife of Sir Walter – joined Horabin in arguing that nationalization was essential to reorganize the coal industry and improve industrial relations.[143] Moderates such as Dodds found coal nationalization less objectionable than transport, but thought the case for competition between units was strong – a view which the Cardiff shipowner J.E. Emlyn-Jones vocally pressed – and were frustrated by the attitudes of those 'whose minds cease to function once they have uttered the word "nationalisation"'.[144] The Coal Committee was unmoved by radical criticisms, and resolved simply to 'try to bring out the progressive nature of the proposals' in its final report.[145] Before the final report could be submitted for approval, however, the war against Germany was over and the election campaign had begun.[146]

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[138] Beveridge papers, VI 13/2/173-6, 'Coal: Interim Report', 18 Apr. 1945; Beveridge papers, VI 13/2/123-6, 'Coal', at fo. 124.
[139] Beveridge papers, VI 18/2/57, LPO Council minutes, 21 Mar. 1945.
[140] Beveridge papers, VI 13/2/172, Dodds to Beveridge, 13 Apr. 1945.
[141] Beveridge papers, VI 18/2/58, LPO Council minutes, 18 Apr. 1945.
[142] Rhys-Williams papers, J/2/3/1, Dodds to Rhys-Williams, 19 Apr. 1945.
[143] Beveridge papers, VI/18/2/58, LPO Council minutes, 18 Apr. 1945.
[144] *LM*, 52 (1944), 335-9; *LM*, 53, 112-3; Rhys-Williams papers, J/2/3/1, Dodds to Rhys-Williams, 19 Apr. 1945.
[145] Rhys-Williams papers, J/2/3/1, Rhys-Williams to Dodds, 7 May 1945.
[146] The final report was published without party approval: Liberal Party, *Reorganisation of the Coal Industry: Report of a Liberal Committee* (1945).

With an election under way, the Liberal leadership took the nationalization issue into its own hands. Beveridge drafted a memorandum of guidance for candidates on outstanding policy questions in his capacity as chairman of the Campaign Committee; since the coal issue was so sensitive, this section was drawn up in consultation with Viscount Samuel and approved by Liberal MPs. The party's formal line was that coal should be a 'public service', run in the public interest but with a decentralized structure and no subsidy; the question of ownership was reserved for future judgment. Railways would be nationalized, along with 'the large part of road transport directly controlled by them', but otherwise road transport would be left in private ownership, and made more competitive by abolishing the licensing system established by the Road Traffic Acts of 1930 and 1934. Electric power was to be run as a public utility, and wholesale land nationalization was ruled out.[147] The Liberal manifesto, drawn up by Sinclair, Harris, Beveridge and Samuel, closely followed Beveridge's memorandum, declaring that the party would support public ownership 'without hesitation' where it was 'more economic', and calling for the railways and electric power to be nationalized, but resorting to the term 'public service' to describe the party's plans for the mines.[148]

The compromise outlined in Beveridge's memorandum and the manifesto was a sensible one, but clearly it did not constitute a coherent long-range policy, nor was it really binding on Liberal candidates. Radical Action, on the one hand, issued its own manifesto which called for public ownership of the land, the Bank of England, coal, transport, electricity and gas.[149] By contrast, Roy Harrod in Huddersfield only paid 'lip-service to the Liberal formula', and emphasized 'in every particular case' that nationalization would weaken trade unions' bargaining power and involve 'loss of liberty'.[150] This divergence was significant, and potentially embarrassing, as Bonham Carter found in the Wells constituency.[151] With Liberal candidates espousing radically different views on public ownership, it was difficult to believe that the party was united in its basic economic vision.

[147] Beveridge papers, VI 14/4/81-6, 'Outstanding Questions of Party Policy', 2 June 1945.
[148] *Liberal Manifestos*, 65-6.
[149] MS. Balfour 26/1, 'Radical Action Manifesto for the General Election', May 1945.
[150] Beveridge papers, VI 13/2/21-4, 'Mr. R.F. Harrod's Statement', at fos. 22-3.
[151] Bodleian Library, MS. Bonham Carter 231, fo. 69, Cyril Morgan to Bonham Carter, 30 June 1945.

The 1945 general election

The Liberal Party leadership pulled together after VE Day. With the European war finished, Churchill offered Sinclair and Attlee a choice between a summer election or the continuation of the coalition until the defeat of Japan. Sinclair would have preferred an October election, but neither Churchill nor Attlee favoured this suggestion, so the election was set for 5 July and a caretaker government took office in the meantime.[152] Sinclair treated Churchill with respect throughout the campaign and kept open the possibility of a post-war coalition, which Beveridge and other left-wingers thought was a mistake.[153] Nevertheless, the division between ministers and other Liberals which had developed during the war healed relatively quickly, and there were no significant internal arguments once the nationalization formula was settled. The Liberals fought the election as an independent force, with 306 candidates, and Sinclair and Beveridge toured the country to rally support for the party.[154]

The tone of the Liberal election campaign was almost revivalist. In some parts of the country, party organization had to be improvised, but enthusiasm was rarely lacking and many new activists came forward; some, indeed, would become Liberal stalwarts in later years.[155] Moderates and radicals generally worked well together, and Sinclair and Harrod's Article VII campaign tended in practice to complement Beveridge's emphasis on domestic full employment policy. More than 90 per cent of Liberal candidates mentioned social security and full employment, and many – including Arthur Shenfield at Birmingham Edgbaston – made specific reference to Beveridge's work on these subjects; this was not infrequently combined with strident attacks on socialism.[156] Many official Liberal candidates supported land value taxation as a policy, but without giving it the

[152] de Groot, *Liberal Crusader*, 220.
[153] Beveridge papers, IXa 38/2/137, 'My Entry to Politics', by Beveridge, Aug. 1945; Josephy papers, Add. 2/29, Frances Josephy to Wilfrid Roberts, 24 July 1945.
[154] Thorpe, *Parties at War*, 56; de Groot, *Liberal Crusader*, 220-5.
[155] Thorpe, *Parties at War*, 236-40; Mark Egan, 'Grass-roots Organisation', 197-8.
[156] R.B. McCallum and Alison Readman, *The British General Election of 1945* (Oxford, 1947), 96-7; CPA, PUB 229/8 (election addresses, 1945), 3/40 (A.A. Shenfield, Birmingham Edgbaston).

conceptual centrality desired by the Liberty Leaguers.[157] On the other hand, Ashley Mitchell ran as an independent Liberal in Batley and Morley, made opposition to Beveridge a major theme of his campaign, and managed to save his deposit.[158]

The Liberals faced very different electoral circumstances in different parts of the country. On the Celtic fringe and in other rural constituencies, the Liberals were still the main rivals to the Conservatives, but Labour posed a growing threat to their hold on the radical vote. Conversely, in many urban and suburban seats, Liberal candidates appeared for the first time since 1929, and faced the challenge of demonstrating the party's relevance to the electoral battle. In some areas, like the Pennine textile towns, this meant reawakening traditional Liberal loyalties; in others, like London and Birmingham, the party started almost from scratch. Liberal MPs, meanwhile, had to defend the seats they had won in 1935, many of which had experienced significant population turnover in the interim. The service vote, which made up almost one-tenth of the electorate, was a new and unknown factor in all constituencies, and made it unusually difficult to forecast the results.[159]

Before the election campaign began, Liberals had spoken privately of winning fifty or sixty seats, which would enable them to form 'a big wedge' in the new Parliament and build up their strength for later contests.[160] The vigour of the Liberal campaign seemed to bear out these hopes, and at the very least the party expected to increase its representation.[161] In fact, when the votes were counted on 26 July, the Liberals were reduced to twelve seats, as Labour swept urban Britain and took radical votes away from the Liberals in the rural and suburban constituencies they hoped to win. Sinclair and Beveridge, who had neglected their constituencies for much of the campaign, lost their seats, and Harris, White, Mander, and Dingle Foot were all defeated by Labour. In Scotland and urban England, the Liberals were wiped out; in Wales, the party did better, but Lloyd George's old seat of Caernarvon Boroughs, held after his January 1945 death by Seaborne Davies,

[157] *L&L*, no. 613 (June 1945), 66-7.
[158] Mitchell, *Memoirs*, 64.
[159] I have discussed these issues further in a recent article: Peter Sloman, 'Rethinking a progressive moment: The Liberal and Labour parties in the 1945 general election', *Historical Research*, 84 (2011), 722-44.
[160] David Lloyd George papers, LG/G/25/3/137, A.J. Sylvester to David Lloyd George, 1 Dec. 1944, reporting conversation with Sir Percy Harris.
[161] *The Times*, 10 July 1945, 4.

fell to the Conservatives. Victories by Frank Byers in North Dorset, George Wadsworth in Buckrose in the East Riding, and Rhys Hopkin Morris in Carmarthen – all in straight fights with one of the other parties – were the only compensating gains. Across the country, the party took 9 per cent of the vote, but came first or second in only thirty-eight constituencies, giving a narrow field for future advance.[162] Young voters seemed more receptive to the Liberal message than at any time since 1929, but they still overwhelmingly backed Labour.[163] Conversely, some older Liberal supporters seem to have voted Conservative out of gratitude for Churchill's wartime service.[164]

Liberals mostly attributed their poor performance to organizational deficiencies and their failure to field more candidates.[165] Nevertheless, the content of the party's campaign also came in for close scrutiny, with two substantive criticisms voiced inside the party. From the left, Beveridge complained that his efforts to give Liberalism a radical image had been undermined by the party's publicity material, which placed too much emphasis on the dangers of socialism, and by Sinclair's sympathetic attitude to Churchill.[166] Bonham Carter likewise felt that the failure to agree a radical line on coal and transport had left the party looking timid and confused.[167] In contrast, Dodds believed that the party had failed to distinguish itself sufficiently from Labour:

> We should have realised that we were competing with Labour for the anti-Conservative vote. Instead we hesitated to attack Labour and let the idea get about that our own programme was merely a milder variant of the Socialist programme.[168]

Roy Harrod argued, on this basis, that the party should have placed much more emphasis on the dangers of nationalization. 'Unless we can persuade [voters] to a horror of state control, why should they vote Liberal on a Liberal-Labour ticket? Why not Labour?'[169]

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[162] Peter Joyce, *The Liberal Party and the 1945 General Election* (Dorchester, 1995), 10.
[163] Mass Observation Archive, File Report 2261, 'The New Voters and the Old', n.d. [June 1945]; Henry W. Durant, *Political Opinion: Four General Election Results* (1949), 7.
[164] Beveridge papers, VI 13/2/6-8, 'Thoughts on the Present Discontents', by Elliott Dodds, 30 July 1945. On Churchill's efforts to appeal to Liberal voters, see Richard Toye, 'Winston Churchill's "crazy broadcast": Party, nation, and the 1945 Gestapo speech', *Journal of British Studies*, 49 (2010), 655-80.
[165] Thorpe, *Parties at War*, 57.
[166] MS. Bonham Carter 157, fos. 41f-44, Beveridge to Bonham Carter, 10 Aug. 1945.
[167] Beveridge papers, VI 18/2/92-7, Bonham Carter to Beveridge, 17 Aug. 1945.
[168] Beveridge papers, VI 13/2/6-8, 'Thoughts on the Present Discontents', at fo. 7.
[169] Beveridge papers, VI 13/2/21-4, 'Mr. R.F. Harrod's Statement', at fo. 23.

In a sense, both of these arguments had some force. Since most of the best prospects for Liberal gains in 1945 came in Conservative-held rural seats, and the election results revealed a sharp swing to the left, it made strategic sense in 1945 to take a left-wing line and try to benefit from radical sentiment. From this perspective, a more consistently radical image might have enabled rural Liberal candidates to squeeze the Labour vote, in a way that most of them failed to do. Moreover, it is difficult to see how Liberals could have used the nationalization issue to attack Labour nationally, during a short campaign, at a time when public ownership was relatively popular.[170] On the other hand, the landslide Labour victory made it imperative to develop a more distinctive identity in future. The Liberals would no longer be able to justify their continued existence – as in the 1920s and 1930s – by arguing that Labour had no record of constructive achievement, and was unable to win a parliamentary majority on its own.

Beveridge's personal value to the Liberal Party in 1945, which was taken for granted by contemporaries, has been questioned by some historians. Bentley Gilbert has claimed that the party's emphasis on Beveridge was a 'great tactical error', and finds support for this in the Gallup Poll's finding that only 8 per cent of Liberal voters backed the party because of Beveridge or the issue of social security.[171] More broadly, Andrew Thorpe has suggested that Beveridge's adhesion was a mixed blessing for the Liberals, because 'it set the Liberals up to try and rival Labour in the language of collectivism and security, when they might have been better off trying to rival the Conservatives in the language of individualism and freedom'.[172] Gilbert's point may be dismissed, because the Gallup responses seem to have been unprompted, and 73 per cent of respondents said simply that the Liberals stood for 'the middle way' or were 'the best party'; Thorpe's argument carries more weight, but it is difficult to believe that either Radical Action or left-leaning party office-holders would have allowed the party to take an overtly anti-collectivist line, or that such a

[170] Gallup polls in 1944-5 found that 60% of respondents supported coal mines nationalization, and 54% backed rail nationalization: see Steven Fielding, 'What did "the people" want? The meaning of the 1945 general election', *HJ*, 35 (1992), 623-39, at 634.
[171] Bentley Gilbert, 'Third parties and voters' decisions: The Liberals and the general election of 1945', *Journal of British Studies*, 11 (1972), 131-41, at 136.
[172] Thorpe, *Parties at War*, 286.

policy would have achieved much resonance in the political climate of 1945. [173] Beveridge gave form to the leftward turn in Liberal policy which took place during the war, but he did not single-handedly create it. On top of this, as Thorpe acknowledges, we must take into account the energy, confidence, and publicity that Beveridge gave to the Liberal campaign.[174] All told, it is difficult to believe that the Liberal Party would have done better at the 1945 election without Beveridge than it did with him.

Conclusion

As Angus Calder has shown, Britain's collective memory of the Second World War has been powerfully structured by a series of compelling 'myths': the miracle of Dunkirk, the heroism of the Few, and the solidarity expressed in the 'Blitz spirit'.[175] Party political myths emerged just as quickly, and were no less powerful: thus Labour politicians tended to attribute their 1945 election victory to wartime radicalism, whilst Conservatives blamed organizational disparities and complained that voters had been ungrateful to Churchill.[176] For many Liberals, the Second World War would appear in retrospect as a moment of ideological radicalization, when the Liberal Party shed its reservations about state intervention. 'Planning was much in vogue', Jo Grimond later recalled, and 'we were all to some extent Socialists'.[177] Left-wing Liberals, especially, tended to look back on 1945 with fondness – 'Ah, … in those days we were a Radical party', Megan Lloyd George once told Alan Watkins – and to regard subsequent departures from Beveridge's policy as a kind of betrayal.[178] When Tom Horabin joined Labour in 1947, he complained that the Liberal Party had changed its stance since the election, whereas he stood by the 1945 manifesto.[179] The party's wartime radicalism provided the benchmark against which a 'drift to the right' could be identified.

[173] *Public Opinion, 1935-1946*, ed. Hadley Cantril (Princeton, 1951), 197.
[174] Ibid., 238, 286.
[175] Angus Calder, *The Myth of the Blitz* (1991).
[176] Margaret Cole, *The General Election 1945 and After* (1945); Thorpe, *Parties at War*, 282-5.
[177] Jo Grimond, *Memoirs* (1979), 132.
[178] Alan Watkins, *The Liberal Dilemma* (1966), 38.
[179] *The Times*, 28 Nov. 1947, 6.

The evidence presented in this chapter shows that there was much truth to this characterization. The wartime popularity of planning ideas, and the apparent success of state planning for the war effort, reinvigorated the tradition of constructive Liberalism, and the New Liberal conception of the state as the instrument of the community also gained new purchase. The Yellow Book's pragmatic approach to industrial organization experienced a revival, and doubts about the efficacy of demand management and free trade drove Liberals to consider relatively interventionist measures for achieving full employment in peacetime. Beveridge gave the Liberal left a figurehead and a policy, and his resolution based on *Full Employment in a Free Society* was carried by an overwhelming majority at the 1945 Assembly.

At the same time, the Liberal Party's leftward shift had important limitations, which radicals were prone to forget in later years. First, the Liberal ministers in the Churchill coalition were almost untouched by it, and continued to espouse a cautious version of demand management which emphasized the international dimension. Second, the party showed little appetite for central planning of the kind that Horabin and Davies advocated in 1942-3, and consistently preferred a broadly Keynesian approach. Third, free-market ideas remained strong among sections of the Liberal grassroots, especially in northern England, and ensured that nationalization proposals faced spirited resistance. Finally, the party's choice of an interventionist Keynesian policy over a liberal Keynesian one – of *Full Employment in a Free Society* over the *Employment Policy* White Paper – was only finally settled by Beveridge's adhesion. The Structure of Industry sub-committee which met in 1942-3 had favoured an interventionist policy, but had found itself stymied by a cautious LPO executive. This might have happened again in 1944-5 if moderate Liberals, like Sinclair and Dodds, had not been influenced by the need to satisfy Beveridge and maximize his electoral value to the party.

The political situation which developed in wartime was essentially artificial. After the war ended, the Liberals found themselves back in opposition, facing – for the first time – a majority Labour government. They also faced a very different economic environment to the one which wartime policy discussions had assumed, in which inflation, rather than unemployment, was the most pressing problem and Beveridge's target of 3 per cent unemployment would come to be

regarded as relatively cautious. In this climate, the party would move back to liberal Keynesianism and ‘ownership for all’. The revival of the liberal Keynesian synthesis, and the tensions that appeared under Clement Davies’ leadership, form the subject of the next chapter.

6. Clement Davies and liberal Keynesianism, 1945-1956

The decade which followed the Second World War was the Liberal Party's nadir, a period in which – as David Dutton has put it – the party stood 'on the brink of oblivion'.[1] Labour's landslide victory in 1945 left the Liberals on the margins of political debate, and the defeat of Sinclair and Beveridge made it harder for them to gain a hearing; an attempted revival ended in disaster at the 1950 general election, when 319 of 475 Liberal candidates lost their deposits; and in 1951 and 1955 only six Liberal MPs were returned, five of them without Conservative opposition. Successive electoral reverses battered Liberal morale, and party's membership, its central income, and its representation on local councils all hit bottom in the early 1950s.[2] Disputes over electoral strategy caused severe ructions up to 1951, with left-wingers favouring a Lib-Lab arrangement and some right-wingers pressing for alliance with the Conservatives, and no sooner had this debate been settled – by Clement Davies' refusal to join Winston Churchill's peacetime government – than the party stumbled into an open conflict over agricultural policy, provoked by a group of diehard free traders, and a separate (though linked) debate over industrial co-ownership.[3] A steady stream of defections culminated in Megan Lloyd George, Dingle Foot and Wilfrid Roberts joining Labour in 1955-6, on the grounds that the Liberal Party had forfeited its radicalism. All in all, it is hardly surprising that historians have characterized these years as ones of Liberal decline, division, and incoherence.

The strategic tensions and electoral failures of the post-war decade have coloured perceptions of Clement Davies' leadership, and of Liberal policy development in these years. Malcolm Baines, for instance, regards free trade and co-ownership as the twin planks of Liberal economics after the war, though both deeply divided the party, and suggests that Davies was committed to a 'simplistic' Welsh radicalism which left him ill-equipped to reconcile the party's right and left

[1] David Dutton, 'On the brink of oblivion: The post-war crisis of British Liberalism', *Canadian Journal of History*, 27 (1992), 425-50.
[2] William J.L. Wallace, 'The Liberal Revival: The Liberal Party in Britain, 1955-1966' (unpublished Cornell University D.Phil. thesis, 1968), 268, 190, 271.
[3] On efforts to build alliances in the late 1940s, see Dutton, 'On the brink', *passim*, and Robert Ingham, 'A retreat from the left? The Liberal Party and Labour 1945-55', *JLH*, 67 (2010), 38-44.

wings.[4] Duncan Brack's recent discussion of Liberal economic policy takes much the same line. According to Brack, factional conflict between the extreme free traders and the left-wing Radical Reform Group structured the party's internal debate, and Davies 'was unable to give any clear lead for fear of alienating one wing or the other'.[5] Davies' own erratic political career, as a former Liberal National and wartime planning enthusiast, made it difficult for him to impose his authority on the party; so too did his reputation for emotionalism and verbosity.[6] Davies could be highly effective as a parliamentarian, committee chairman, and administrator, and some colleagues credited him with keeping the party alive during its darkest days.[7] Nevertheless, many Liberal activists seem to have considered him a weak leader, and his cautious style would later be contrasted unfavourably with Jo Grimond's decisive leadership.[8]

The conventional picture of a chronically divided Liberal Party, squabbling over free trade and co-ownership until Grimond restored discipline and purpose, is not wholly inaccurate, but it requires qualification in important respects. Firstly, it is truer of the early 1950s than of the late 1940s, when – despite a bleak electoral outlook – the party experienced a genuine organizational revival and had a relatively coherent policy-making process. Secondly, it is truer of the extra-parliamentary party, where the battle between the free traders and the Radical Reform Group was played out, than of the parliamentary party, which was largely united after 1951. Thirdly, it should not be allowed to obscure the extent to which Davies and other senior Liberals managed to articulate a distinctive line on economic questions in this period, based on a more mature version of the liberal Keynesian policy paradigm which had first appeared in the 1930s. In a marked departure from the interventionism of the war years, Liberals emphasized the effectiveness of fiscal and monetary policies for achieving full employment, became more critical of nationalization and other forms of planning, and revived their commitment to 'ownership for all'. The history of

[4] Baines, 'Survival', 93-5, 124.
[5] Brack, 'Political economy', 105. See also Robert Ingham, 'Battle of ideas or absence of leadership? Ideological struggle in the Liberal Party in the 1940s and 1950s', *JLH*, 47 (2005), 36-44.
[6] Robert Ingham, 'Clement Davies: A brief reply', *JLDH*, 26 (2000), 24-5.
[7] National Library of Wales, Roderic Bowen papers, 3, Roderic Bowen interview with Matt Cole, 8 Aug. 2000.
[8] Egan, 'Grass-roots Organisation', 231; University of Bristol Special Collections, Mirfin papers, 3/1, Desmond Banks to Derick Mirfin, 14 July 1956.

Liberal Party policy in these years is therefore best understood, not as indiscriminate guerrilla warfare between different factions, but as the evolution of a coherent liberal Keynesian synthesis at elite level, which came under fire in different ways from elements on the party's left and right wings.

As William Wallace has noted, the ongoing decline of the Liberal Parliamentary Party made the Liberal Party Organisation more important after the Second World War than it had previously been, as activists came to take more seriously the formal sovereignty of the Assembly and Council.[9] Nevertheless, the party leadership was still well placed to develop policy ideas in this period. The Liberal Party Committee, first established in 1944, functioned effectively as a shadow cabinet, with MPs, party officers, and experts among its members, and enabled Davies to thrash out the line the party would take in the House of Commons. On economic questions, Davies seems to have listened closely to Roy Harrod, the journalist Graham Hutton, and especially Frank Paish of the LSE, who became the party's official economic adviser and chaired an Economic Advisory Committee – dominated by LSE staff and graduates – during the 1950s.[10] Prominent office-holders such as Philip Fothergill and Sir Andrew McFadyean were also strong supporters of the liberal Keynesian position, and arguably did more than Davies to hold the party at large together in this period. After 1950, the new MPs Donald Wade, Jo Grimond and Arthur Holt added further ballast to the party's centre ground.

The structure of this chapter is designed to draw out the coherence of the Liberal Party's economic policy in the early post-war period, as well as its limitations. The first half of the chapter traces the party's turn towards a liberal Keynesian synthesis in three main fields of policy in the late 1940s and early 1950s: nationalization and industrial policy, economic management, and social welfare provision. In each field, the Liberal Party stood in the vanguard of the intellectual reaction against the Attlee government's policies, though it frequently found itself constrained, or conflicted, by the need to maintain its progressive credentials. The second half of the chapter considers the challenges to the party leadership, and to liberal Keynesianism, which emerged after

[9] Wallace, 'Liberal Revival', 220-1.
[10] Liberal Party papers, 5/16, Committee membership file, 1958-60, fo. 58.

the 1950 election debacle. Liberal Keynesianism remained the party's dominant policy paradigm at elite level, and underpinned a powerful campaign against inflation during the mid-1950s, but the party in the country became mired in controversy over co-ownership and agriculture.

Nationalization and industrial policy

The twelve Liberal MPs elected in 1945 were a highly disparate group. About half of them were instinctive rural radicals, who strongly sympathized with the new Labour government: Megan Lloyd George, Clement Davies, Tom Horabin, Wilfrid Roberts, Emrys Roberts, and W.J. Gruffydd fell obviously into this category. The other half tended to be more moderate, but also more idiosyncratic: thus Gwilym Lloyd George was already working with the Conservatives, and drifted out of the Liberal orbit in these years, whilst Rhys Hopkin Morris took a firmly individualist line and proved to be virtually unwhippable. The new parliamentary party chose Davies to act as its chairman, and hence as party leader, until Sinclair could return to the Commons (which he never did); Davies, in turn, appointed his friend Horabin as chief whip.[11] Many Liberals were horrified that these two 'lunatics and pathological cases', as Violet Bonham Carter had called them, were now in charge of the party, and Elliott Dodds feared that they would try to lead it 'into the Labour fold'.[12] In fact, Horabin would resign as chief whip in 1946 so that he could speak more freely on issues such as land nationalization, and would leave the Liberal Party shortly afterwards in protest at its perceived drift to the right.[13] However, it is impossible to understand the trajectory of Liberal policy after 1945 without recognizing how seriously activists feared that Davies would allow the party to be swallowed up by Labour.

When Parliament reassembled after the 1945 election, Davies made it clear that the Liberals would offer 'constructive opposition' and support the Attlee government on major economic

[11] Wyburn-Powell, *Clement Davies*, 140-3.
[12] *Champion Redoubtable*, 294; BL., Add. MS. 72735 (Harrod papers), fos. 102-4, Dodds to Harrod, 3 Sept. 1945, at fo. 102.
[13] Jaime Reynolds and Ian Hunter, 'Liberal class warrior', *JLDH*, 28 (2000), 17-21.

questions.[14] In line with this approach, the Liberals voted for the nationalization of the Bank of England, civil aviation, Cable and Wireless, the coal mines, electricity and gas.[15] Perhaps surprisingly, given the intensity of debate before the 1945 election, these votes sparked relatively little controversy in the Liberal ranks. On coal, moderate and right-leaning Liberals seem to have reconciled themselves to the view that coal was a special case, where public ownership was necessary 'to deal with a situation that has become hopelessly compromised by years of industrial bitterness and strife'.[16] In any case, Labour's election victory made nationalization inevitable, and even the mineowners did not bother to put up serious resistance.

By the middle of 1946, however, Liberal attitudes were changing, as the government's nationalization programme increasingly seemed to be open-ended. Bonham Carter told Liberal women that the Attlee government was like a bad cook, feeding Britons 'a monotonous diet of nationalisation': 'coal for breakfast, civil aviation for lunch, transport for tea, and steel for supper'.[17] Transport nationalization was especially controversial, since centre-right Liberals had already mobilized against the Rowntree committee's report.[18] Similarly, Liberals had never really envisaged public ownership of iron and steel, and Viscount Samuel declared at an early stage that the government's proposals for this industry went 'beyond reasonable limits'.[19] Many Liberals seem to have shared Geoffrey Crowther's view, which he articulated at the 1946 Liberal Summer School, that these industries were best left in private ownership on economic grounds.[20]

A more fundamental critique of transport nationalization came from Ronald Walker, whose pamphlet *Transport: Freedom or Nationalisation?* – a critique of the Rowntree proposals – appeared in autumn 1945. Walker argued in a Hayekian tone that Liberals should view nationalization not as a matter for pragmatic judgment, but as a question of principle.

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[14] H.C. Deb., fifth series, 413, 16 Aug. 1945, 113-8, at 116; Clement Davies papers, C/1/11, 'On the Need for a Constructive Opposition'.
[15] *LM* (Mar. 1946), 130. Ten of the Liberal MPs backed the Coal Industry Nationalisation Bill, with Gwilym Lloyd-George opposing it and Rhys Hopkin Morris abstaining.
[16] Tom Rothwell in *LM* (Jan. 1946), 17-18, at 18.
[17] *MG*, 9 May 1946, 2.
[18] For instance, the Council of the London Liberal Party voted to oppose nationalization of inland transport in Mar. 1946: London Metropolitan Archives, London Liberal Party papers, ACC. 1446/4, Council minutes, 2 Mar. 1946.
[19] *MG*, 27 June 1946, 6.
[20] *LM* (Aug. 1946), 340.

> If we do not really mind whether men can run their own little businesses. If we do not really mind that power grows and concentrates in the hands of a few men at the centre of things; if we are quite uncertain whether personal property breeds self-reliance, industry and thrift or not; then, of course, we can fiddle about with minor matters. But if we are like that, why are we a Party? Above all, why are we called a LIBERAL Party? ...
>
> I submit most urgently that except for broad and simple laws to prevent accident and to preserve public order and safety, it is of the highest importance that the Government should leave to the infinitely elastic adaptability of individual enterprise the whole business of the carriage of goods and of people. Any other proposal will swiftly entangle the Government and the industry in stiff, restrictive and harmful fetters.[21]

Walker believed that competition in transport was economically justified, but he emphasized that 'something… much more important than good or bad transport' was at stake. Every measure of nationalization, he argued, tended to 'narrow down the area of free and property-owning citizenship' – and lead Britain down the road to eastern European-style tyranny.[22]

Walker's robust restatement of the case for private ownership intersected with a revived interest in 'ownership for all'. Even in the heat of the 1945 election campaign, a Liberal Party committee on Monopoly chaired by A.S. Comyns Carr had recommended new anti-trust measures, with the transfer of monopolies to public ownership reserved for exceptional cases.[23] This emphasis on competition, which echoed the 1938 *Ownership for All* report, would become more pronounced as the 1945 Parliament went on: the 1948 Monopolies and Restrictive Practices Act, for instance, was welcomed but considered too cautious.[24] At the same time, the idea of a property-owning democracy regained its purchase within the party as an alternative to socialism, and drew reinforcement from the post-war flowering of Christian Democracy in France, Italy and Germany. In a Cold War context, the idea of positive liberty based on both natural and social rights seemed to have a compelling appeal, and Elliott Dodds' references to Catholic social teaching were echoed by many of his colleagues.[25] 'Liberalism', Dodds claimed, was 'the only real protection against

[21] Ronald Walker, *Transport: Freedom or Nationalisation? A Liberal View* (Leeds, [1945]), 2, 4.
[22] Ibid., 3.
[23] *MG*, 29 June 1945, 5.
[24] *LM* (June 1948), 213.
[25] Elliott Dodds, *The Defence of Man* (1946); Alan Bullock in *LM* (Aug. 1946), 346; Peter Calvocoressi in *LM* (May 1947), 132-4.

Communism.'[26] At one level, personalist ideas legitimated corporate institutions within the economy, and highlighted the need to promote industrial democracy; indeed, as we shall see, Dodds became an outspoken advocate of compulsory co-ownership in this period. On the other hand, 'personality' was liable to be crushed by an overweening state. The maintenance of a large and competitive private sector therefore seemed essential.

On the Labour government's Transport Bill, which appeared at the end of 1946, the Liberal leadership took a nuanced line. Since rail nationalization had been included in the 1945 manifesto, the Liberal Party Committee decided that this section of the bill deserved 'general but critical support'; long-distance road haulage, however, was better left in private hands and deregulated, providing competition for the railways.[27] This decision was endorsed by the party Council and received full support from the parliamentary party, which voted against the bill at both second and third reading.[28] Not coincidentally, the *Manchester Guardian* and *The Economist* also criticized the government's proposals.[29] Lancelot Spicer complained that the Rowntree report had been thrown over, but the left-leaning MPs who remained in the party do not – at this stage – seem to have shared his view that opposition to nationalization of road transport portended a broader rightward drift.[30]

A 1947 policy statement on nationalization, prepared by the LPO executive and approved by the Council, neatly straddled the party's division between pragmatists and free-marketeers.[31] The Liberal Party, it declared, was 'inexorably opposed to collective ownership of all the means of production, distribution, and exchange', and believed that no industry should be nationalized until an impartial inquiry had shown it was necessary. Moreover, 'the benefit of State ownership in any given case must be great enough to overcome the special disadvantages which are inherent in it'.[32] On the basis of these criteria, the government's 1948 Iron and Steel Bill was clearly unsupportable,

[26] *LM* (June 1948), 204.
[27] *MG*, 11 Dec. 1946, 6.
[28] *LM* (Jan. 1947), 22; H.C. Deb., fifth series, 431, 17 Dec. 1946, 2089-94, and 437, 5 May 1947, 167-71.
[29] *MG*, 14 Dec. 1946, 6; *Economist*, 7 Dec. 1946, 897-9.
[30] *MG*, 23 Dec. 1946, 4. Significantly, Emrys Roberts was the Liberal speaker in the third reading debate on 5 May 1947.
[31] The statement was intended to be debated at the Assembly, but it was deferred to the Council because other debates overran: *MG*, 16 June 1947, 6.
[32] *MG*, 5 Mar. 1947, 6.

as Davies pointed out in the Commons: there had been no proper inquiry into the industry's needs, and the large increases in output achieved since 1939 suggested that the industry was already relatively efficient.[33] Megan Lloyd George and three other MPs were disposed to support the bill at second reading and amend it later, but Davies and his new chief whip Frank Byers eventually persuaded them to join their colleagues in opposing it.[34] As an alternative to public ownership, a party committee commended the creation of an independent Iron and Steel Authority, which would operate controls over steel prices and oversee the industry's development.[35]

By the 1950 general election, the Liberal Party's new attitude was clear. The manifesto put the position succinctly:

> Monopoly where it is not inevitable is objectionable and should be broken up. If it cannot be broken up it should, if possible, be controlled in the public interest without a change of ownership; only when neither the restoration of competition nor control is possible should nationalisation be considered.

A Liberal government, the manifesto promised, would return iron, steel and road transport to the private sector, and impose a five-year moratorium on further nationalization. It would also 'free road transport' from licensing, establish a permanent commission of inquiry into monopolies and restrictive practices, and promote competition in the nationalized industries by 'decentralising control'.[36] This line was maintained with little controversy throughout the 1950s. Broadly speaking, it seems fair to conclude that the Liberals accepted the nationalization of the most obvious 'natural monopolies' of power and the railways, and the special case of coal, but otherwise returned to the pro-competition stance of *Ownership for All*.

In some respects, the Liberal Party's hardening opposition to nationalization was a triumph for the Liberal right, and a reflection of the political atmosphere of the late 1940s. As middle-class hostility to the Attlee government grew, anti-statist arguments enjoyed much greater purchase than in wartime, and the Liberal Party's centre of gravity moved visibly rightwards; government seemed to be the problem, and the market the solution, in a growing number of fields, and Hayekian

[33] H.C. Deb., fifth series, 458, 16 Nov. 1948, 251-62.
[34] Wyburn-Powell, *Clement Davies*, 171.
[35] Scottish Liberal Party papers, 46, 'Ad Interim Report of the Iron and Steel Committee', 1 Sept. 1949.
[36] *Liberal Manifestos*, 73.

rhetoric about the 'road to serfdom' became quite common.[37] At the same time, it is important to recognize that the Liberal left was relatively indifferent towards nationalization once coal had been dealt with. Three reasons for this phenomenon may be noted. Firstly, there had always been a strand of left-wing Liberalism which cared much more about social reform than economics, and valued public ownership mainly for its symbolism rather than as a general policy. This tendency was personified by Megan Lloyd George, who became the party's most prominent left-winger during the late 1940s.[38] Lloyd George had a reputation, deserved or otherwise, for being disorganized and indolent, but even if she had been prepared to challenge Davies' leadership she was unlikely to have chosen public ownership as her issue.[39]

Secondly, more constructive-oriented Liberals were impressed by the notion that ownership was irrelevant to the pursuit of greater efficiency in most industries. In a sense, this argument had been implicit in the Yellow Book, but it gained a more definite form in American managerialist writings such as Adolf Berle and Gardiner Means' *The Modern Corporation and Private Property* (1932) and James Burnham's *The Managerial Revolution* (1941). The Oxford economist Peter Wiles was the most committed Liberal exponent of this line. Since ownership had become 'divorced from management', Wiles wrote in the *Liberal Magazine* in 1948,

> five times out of ten, to change ownership is to change nothing of any importance: and another four times out of ten it is to make but the smallest dent on the vital problem of efficiency.[40]

In view of this fact, Wiles argued, Liberals ought to put the ownership question to one side, and focus on improving the quality of management and production processes. Wiles' views were influential among left-wing Liberals, and helped keep alive the constructive emphasis on efficiency

[37] See, for instance, Philip Fothergill in *LM* (Mar. 1948), 96-101, and R. Hopkin Morris, *Dare or Despair* ([1949]).
[38] Mervyn Jones, *A Radical Life: The Biography of Megan Lloyd George, 1902-66* (1991), 195.
[39] Ibid., 105, 107.
[40] *LM* (Jan. 1948), 3-8, at 4, 5.

and economies of scale. Like contemporary Labour revisionists such as Anthony Crosland, however, left-wing Liberals abandoned their wartime enthusiasm for nationalization.[41]

Over time, the managerialist critique of nationalization became firmly embedded in Liberal thought and rhetoric. The idea of a moratorium, included in the 1950 manifesto, reflected the perception that nationalization plans brought instability, deterring private firms from investing in new plant. From this perspective, denationalization could equally be considered destabilizing. In the case of road transport and the iron and steel industry, the advantages of private enterprise outweighed this drawback, but more generally Liberals accepted that nationalized industries were best left in the public sector.[42] By 1951, the Liberals were trying to capitalize on public fatigue with ownership changes by appealing to voters to 'get off that see-saw', a theme which they would continue to press for the following three decades.[43] Among other merits, the promise to stop further nationalization gave the Liberals an easily understood justification for seeking the balance of power. In a later generation, this stance would also provide a basis for rapprochement with social democrats such as Roy Jenkins, who found Britain's 'queasy rides on the ideological big dipper' equally frustrating.[44]

A third reason for left-wing Liberals' loss of interest in nationalization was the emergence of a radical alternative, in the form of proposals for compulsory co-ownership. The idea of 'ownership for all', of course, had become a major Liberal theme a decade earlier, but the 1938 *Ownership for All* report had concentrated on measures such as death duties and anti-trust legislation, which were likely to disperse ownership on a significant scale only in the relatively long run. During the 1940s, some Liberals came to the conclusion that a more radical approach was required if the party was to challenge Labour's appeal among the working class. The appearance of 'property-owning democracy' as a Conservative slogan after the war made it all the more imperative that 'ownership for all' should be given a more radical edge.

[41] On the influence of managerialist ideas in Britain, see Stephen Brooke, 'Atlantic crossing? American views of capitalism and British socialist thought 1932-62', *TCBH*, 2 (1991), 107-36, and Jackson, *Equality*, 155-7.
[42] Wiles argued this case particularly strongly: *LM* (Jan. 1948), 6-7.
[43] Graham White papers, WHI/1/5/67, 'Giddy?' leaflet with cartoon by Naylor, n.d. [c. 1951].
[44] Roy Jenkins, *Home Thoughts From Abroad* (1979), 9.

The promotion of profit-sharing and workers' participation in industry seemed to offer the best opportunity for action. Among other advantages, this policy applied directly to workers, and formed a neat contrast with Labour's nationalization proposals; it also fitted well with the post-war vogue for raising productivity and sharpening work incentives.[45] *Ownership for All* had advocated incentives for profit-sharing, but earlier Liberal documents – including *The Liberal Way* – had envisaged compulsory measures, and Comyns Carr's Monopoly Committee revived this more radical approach, proposing that firms with more than fifty employees or £50,000 in capital should be compelled to introduce co-ownership schemes. Under Comyns Carr's proposals, all co-ownership schemes would have to meet four requirements: the payment of trade-union or statutory wage rates, the encouragement of employee shareholding, elected representation for employees on the board of directors, and the division of profits between shareholders and employees.[46]

A new Ownership for All Committee, chaired by Dodds, took up these proposals for legislative compulsion and presented more detailed plans to the 1948 Assembly. Advocates of compulsory co-ownership – including Dodds, who had changed his mind since 1938 – argued that incentives would work too slowly, and pointed out that the state already set the terms on which firms engaged in business through the company law.[47] Conversely, opponents of compulsion, like Ronald Walker and Stephen Cawley, believed it would constitute an arbitrary interference in shareholders' rights, and would alienate businessmen from the party.[48] After a stormy debate, the former arguments won out, and the Ownership for All resolution was comfortably carried. The policy of compulsion was later reaffirmed by the 1949 and 1952 Assemblies.[49]

Compulsory co-ownership enjoyed a chequered history within the Liberal Party, not least because Davies and other MPs were lukewarm towards it, and it would eventually be sidelined in

[45] Of course, the Labour Party itself had largely abandoned workers' participation by this period, arguing – in common with contemporary industrial relations experts – that the trade unions provided an adequate form of representation. See Peter Ackers, 'Collective bargaining as industrial democracy: Hugh Clegg and the political foundations of British industrial relations pluralism', *British Journal of Industrial Relations*, 45 (2007), 77-101.
[46] Wade and Banks, *Political Insight*, 36.
[47] *LM* (June 1948), 209-13; Wade and Banks, *Political Insight*, 36-8.
[48] *LM* (June 1948), 209-13.
[49] *MG*, 26 Mar. 1949, 3, and 17 May 1952, 5.

the mid-1950s in favour of a policy based on tax incentives.[50] Nevertheless, its ideological significance must be recognized. It shifted the main focus of the 'ownership for all' agenda from the market to the workplace, and gave it an interventionist and institutional form, bringing it closer to the constructive tradition than the 1938 report had been. Moreover, although co-ownership was frequently advocated on pragmatic grounds, many of its supporters also asserted that workers had a moral right to share in the profits created by their labour. As Stuart White has noted, this assertion carried radical – if not always fully articulated – implications for Liberals' understanding of what property ownership entailed.[51] At a more practical level, the adoption of compulsory co-ownership as Liberal policy in 1948 helped give the party a sense of radical momentum at a time when its wider economic policies were moving in a free-market direction. It is to the revival of liberal Keynesianism in the field of economic management that we will now turn.

Economic management under Labour, 1945-51

The ownership of industry was, of course, only one aspect of economic policy debate in Britain during the 1940s, and – as Liberals frequently noted – by no means the most important one. Indeed, in many respects it was incidental to the task of adjusting the British economy to post-war needs. In the aftermath of the Second World War, policy-makers were confronted not only by the domestic tasks of demobilization and reconstruction, but also by a world shortage of food and raw materials, a shortage of dollars resulting from high demand for North American goods, and sustained pressure from the United States to make sterling convertible and liberalize trade under the terms of the December 1945 Anglo-American Loan Agreement. High import prices, rising money wages, and unfulfilled demand for consumer goods meant that the British economy was beset by inflationary pressures for most of the late 1940s, while balance of payments difficulties were recurrent, and sterling was eventually devalued from $4.02 to $2.80 in 1949. Although full

[50] Jorgen Scott Rasmussen, *The Liberal Party: A Study of Retrenchment and Revival* (1965), 129-30.
[51] White, '"Revolutionary Liberalism"?', 170-2.

employment was successfully maintained, the early post-war years were experienced by contemporaries as ones of austerity and crisis.

As Alec Cairncross and Jim Tomlinson have shown, the Attlee government sought to manage the post-war transition mainly by maintaining the wartime apparatus of planning and control.[52] Manpower budgeting remained the main tool of macroeconomic policy until 1947, whilst import controls were used to reduce the balance of payments deficit, allocation systems channelled raw materials to key industries, and price controls, rationing, and food subsidies ensured 'fair shares' for all. Along with the high level of taxation required to finance an expanded welfare state and ongoing defence commitments, these measures tended to suppress domestic consumption in favour of exports and investment.[53] The government also retained some labour controls – the Essential Works Order and the Control of Engagement Order – to ensure an adequate labour supply for basic industries like coal and agriculture, and persuaded the TUC to support a voluntary wage freeze in 1948-50.[54] The export drive made necessary by the dollar shortage meanwhile gave urgency to the government's efforts to raise output and productivity through rationalization, an active investment policy, and the promotion of research and development.[55]

The decision to retain controls during the transition period initially enjoyed widespread support, but by 1947 several prominent economists were criticizing government policy on liberal Keynesian lines. According to this critique, the use of controls and rationing to keep living costs down was merely suppressing inflation instead of dealing with its causes, whilst also restricting consumer choice and civil liberties. The lesson of Keynesianism seemed to be that inflation could be dealt with more effectively by removing excess demand using fiscal policy. This case was made within Whitehall by James Meade, who had succeeded Lionel Robbins as director of the Economic Section and urged Hugh Dalton, the Chancellor, to adopt a national income and expenditure analysis which revealed an 'inflationary gap' between aggregate demand and supply. Meade was also keen that food subsidies should be reduced so that the price mechanism could operate more

[52] Alec Cairncross, *Years of Recovery: British Economic Policy 1945-51* (1985); Tomlinson, *Democratic Socialism and Economic Policy*.
[53] Cairncross, *Years of Recovery*, 23-8.
[54] Ibid., 395-408.
[55] Tomlinson, *Democratic Socialism and Economic Policy*, 68-93.

freely, a position which Treasury officials such as Sir Edward Bridges supported.[56] Outside government, the most forceful advocate of a liberal Keynesian policy was Roy Harrod, whose October 1947 tract *Are These Hardships Necessary?* called for swingeing cuts in public investment to reduce total outlay by £500,000,000 and bring the economy into balance.[57] Robbins, John Hicks, and Dennis Robertson also advanced versions of this argument, although they tended to stop short of Harrod's stridency.[58] In retrospect, all of these economists can be loosely identified with the neoclassical synthesis, and some – notably Robbins – might also be identified with the early neoliberal movement.[59] By contrast, Keynes' Cambridge disciples, such as Richard Kahn and Joan Robinson, tended to believe that market failure was endemic, placed greater emphasis on expectations, and were less hostile to direct state intervention.[60]

The Labour government moved part-way towards a liberal Keynesian approach after its abortive attempt to make sterling convertible in summer 1947. Hugh Dalton and Sir Stafford Cripps used their budgets in November 1947 and April 1948 to increase taxes, curb public investment, and cap food subsidies, whilst Harold Wilson at the Board of Trade presided over a steady removal of controls which ministers no longer considered necessary. However, the fiscal tightening undertaken in 1947-8 was much milder than Harrod believed was required, and the exigencies of Korean War rearmament seem to have pushed the government back towards physical planning in 1950-1. Calls for the abolition of food and housing subsidies were resisted, and as Neil Rollings has shown, even the relatively liberal Hugh Gaitskell believed that some direct controls would always be necessary to maintain full employment.[61]

Two strands of Liberal thinking on the Attlee government's policy may be discerned. One strand, which drew on the constructive tradition, was broadly sympathetic to the government, and tended to suggest that the failings of 'planning' were technical rather than fundamental. At the start

[56] Booth, *British Economic Policy*, 158-66.
[57] Roy Harrod, *Are These Hardships Necessary?* (1947), 66-102.
[58] T.W. Hutchison, *Economics and Economic Policy in Britain, 1946-1966: Some Aspects of their Interrelations* (1968), 49-55, 60-2.
[59] Robbins was a founder member of the Mont Pèlerin Society, and drafted its first programme, but resigned soon afterwards: see Howson, *Lionel Robbins*, 661-4.
[60] Middleton, *Charlatans*, 201-78.
[61] Neil Rollings, 'Poor Mr. Butskell: A short life, wrecked by schizophrenia?', *TCBH*, 5 (1994), 183-205, at 189-95.

of the Parliament, Davies strongly endorsed the use of controls to prevent inflation, and throughout the Parliament he argued that planning would be more effective if it was overseen by a small executive Cabinet on the wartime model.[62] Violet Bonham Carter took a similar line in her speech to the 1946 Assembly:

> Our Liberal cry should be "plan better", plan with greater foresight, courage, wisdom; and not "do not plan at all".[63]

Along with more left-wing Liberals, Bonham Carter was sympathetic to the idea of extending planning to include a national wages policy, which was endorsed – albeit in fairly vague terms – by the 1947 Assembly.[64] Many Liberal activists also worried about the impact which rapid decontrol might have on working-class living standards.[65]

A second, liberal Keynesian strand of thought, however, became dominant in the Liberal Party from 1947 onwards. In one sense, liberal Keynesianism was a natural fit for the Liberals, since its emphasis on the allocative superiority of the price mechanism over planning and the value of individual choice strongly echoed classical Liberal assumptions. At the same time, liberal Keynesians had to overcome suspicions that decontrol would jeopardize price stability and full employment. The academic standing of the liberal Keynesian economists, and the support which they received from the financial press, helped them win this argument; so too did their ability to claim the mantle of Keynes.[66] Clement Davies was certainly influenced by published criticisms of government policy, such as an October 1947 article by Robbins which he quoted in the Commons, but direct advice from economists was probably even more important.[67] Harrod's membership of the Liberal Party Committee gave him Davies' ear until 1948, when he resigned to pursue Liberal-Conservative cooperation, while Frank Paish joined the committee in 1949 and was later

[62] H.C. Deb., fifth series, 414, 24 Oct. 1945, 2051-7, and 434, 11 Mar. 1947, 1164-76.
[63] *LM* (June 1946), 242-5, at 243.
[64] Ibid.; *LM* (June 1947), 172-4.
[65] See the debate on rationing at the 1948 Assembly, reported in *LM* (June 1948), 218-9.
[66] Roy Harrod, of course, was able to gloss Keynes' intellectual legacy by writing his biography: R.F. Harrod, *The Life of John Maynard Keynes* (1951). For a critical analysis of Harrod's interpretative choices, see Scott Newton, 'Deconstructing Harrod: some critical observations on *The Life of John Maynard Keynes*', *CBH*, 15 (2001), 15-27.
[67] Lionel Robbins, 'Inquest on the Crisis', *Lloyds Bank Review*, new series, no. 6 (Oct. 1947), 1-27; H.C. Deb., fifth series, 443, 24 Oct. 1947, 384-97, at 384.

designated as the party's economics expert.[68] The freelance journalist Graham Hutton, formerly of *The Economist*, also seems to have been influential.[69] A succession of other free-market economists, including Stanley Dennison and John Jewkes, contributed one-off articles to the *Liberal News* or addressed the Liberal Summer School.[70]

An early, and controversial, flowering of liberal Keynesianism came in the Design for Freedom Committee, a ginger group of Conservative and Liberal MPs and candidates which was formed in February 1947 to develop a basis for centre-right cooperation. Most of the 110 signatories to the launch pamphlet *Design for Freedom* were Conservatives, but the group also included more than thirty Liberal candidates and activists, led by Juliet Rhys-Williams, who became the committee's vice-chairman and worked closely with its chairman Peter Thorneycroft.[71] The group's publications drew heavily on neoliberal and liberal Keynesian thinking, as the August 1947 pamphlet *Design for Survival* – signed by Thorneycroft and Rhys-Williams – showed. On the one hand, the pamphlet insisted in Hayekian vein that there was no 'half-way house' between a socialist economic regime based on rationing and 'the machine gun', and a liberal one based on the market.[72] On the other hand, the authors emphasized that they were just as committed to demand management and social security as to individual freedom. *Design for Survival* went on to expound a liberal Keynesian solution to the convertibility crisis: cuts in food subsidies, public investment, and military spending, and an increase in indirect taxation, would enable the government to run a large surplus, reduce the standard rate of income tax (to improve work incentives), and begin to remove controls and rationing in earnest.[73] Thorneycroft and Rhys-Williams later amplified these proposals in a 1948 pamphlet, *Design for Recovery*.

Design for Freedom was treated with suspicion by most Liberals, was rapidly repudiated by Liberal headquarters, and subsequently fizzled out. In other circumstances, this initiative might well have discredited liberal Keynesian ideas among Liberals, but in fact the Liberal leadership

[68] Phelps Brown, 'Harrod', 29; *MG*, 23 Dec. 1949, 6.
[69] Clement Davies papers, H/4/1, typescript of 'The Economic Background to Britain's Crisis' by Hutton, 1952, and H/4/3, G[ilbert] Y. P[onsonby] to Davies, 19 Feb. 1956; *LM* (Sept. 1949), 385-403.
[70] *LN*, 25 Aug. 1950, 3, and 7 Aug. 1953, 1, 4.
[71] *The Times*, 19 Feb. 1947, 2. Oliver Smedley and Arthur Shenfield also appeared among the signatories.
[72] Design for Freedom Committee, *Design for Survival* (1947), 11.
[73] Ibid., 11-14.

was already moving towards a similar diagnosis by the time *Design for Freedom* appeared. When the Commons debated the economic situation in March 1947, Davies accused the government of presiding over 'suppressed inflation', and argued that in such circumstances it was essential to balance the budget.[74] Since taxation was already very high, Davies argued, this had to be done by cutting expenditure, especially by abandoning conscription, shrinking the armed forces, and postponing the proposed increase in the school-leaving age. Davies' call for spending cuts was endorsed by the party Council shortly afterwards.[75]

Davies pushed this liberal Keynesian analysis further when he responded to Dalton's third budget in April 1947. He welcomed the fact that the Chancellor's speech had dealt with the whole economy rather than just the public finances, but argued that he should have produced a much larger surplus to deal with mounting inflationary pressures.[76] Davies also urged a cut in the food and clothing subsidies, which had reached the 'appalling' figure of £400,000,000 per annum and which implied that Britons required 'a sort of Poor Law institution' to enable them to purchase food and clothing.[77] These points were elaborated in the July 1947 Liberal policy statement *Action Now*, issued in response to the convertibility crisis, which argued that only a major reduction in domestic demand, and a shift towards production for export, would provide a permanent solution to the dollar problem. Demand could be reduced by raising indirect taxes, and by a £500,000,000 cut in government spending, concentrated on investment programmes.[78] On this basis, the £200,000,000 cut in planned public investment which Dalton announced in his November 1947 budget would seem to Davies, as to Harrod, to be grossly inadequate.[79]

The Liberal Party at large seems to have been convinced by the case for using fiscal policy to curb demand and reduce inflation from 1947 onwards. Harrod's claim that this would facilitate rapid decontrol remained controversial, but as inflation fell in 1948-9, the Liberals seem to have

[74] H.C. Deb., fifth series, 434, 11 Mar. 1947, 1164-76, at 1168.
[75] *The Times*, 17 Mar. 1947, 2.
[76] H.C. Deb., fifth series, 436, 16 Apr. 1947, 226-35.
[77] Ibid., at 233.
[78] *The Times*, 1 Aug. 1947, 4.
[79] H.C. Deb., fifth series, 444, 13 Nov. 1947, 577-84, at 577-9; Roy Harrod, 'And Still No Plan', *Soundings* (Dec. 1947), reprinted in id., *And So It Goes On: Further Thoughts on Present Mismanagement* (1951), 89-105.

become more confident that liberalization could be carried through. The economic policy resolution which the 1949 Liberal Assembly adopted, entitled 'Programme for Recovery', took an especially bold line. 'Programme for Recovery' declared that a Liberal government would use 'financial and budgetary control… to maintain full employment', restore 'free multilateral trade' at 'the earliest possible moment', and attack monopoly; it also promised 'searching scrutiny of Government expenditure', tax reductions, 'a progressive reduction in the Food subsidies', '[t]he removal of those industrial controls which prevent competition', and 'the abolition of restriction of output by the quota system'.[80] It was not suggested that all controls could be abolished immediately, but the ambition of Liberal policy was clear. The 1950 Liberal manifesto echoed this line, promising to generate 'an excess of revenue over expenditure, until supply in every direction meets demand', and to abolish '[e]very control not imposed by the need for fair shares or scarcity'.[81] In 1951, Korean War bottlenecks made the Liberals more cautious, and prompted them to defer proposals for abolishing food subsides 'until the increased productivity campaign has brought down the cost of living'.[82] Nevertheless, the optimistic liberal Keynesianism of the late 1940s would return with force in the subsequent Parliament, as Conservative Chancellor R.A. Butler presided over a steady reduction of the tax burden, the revival of monetary policy as an instrument of fine-tuning, and thoroughgoing decontrol.

Economic management under the Conservatives, 1951-6

Liberal Keynesianism was a coherent and intellectually credible policy position, but in political terms it had one serious shortcoming: it placed the Liberals very close to the Conservatives. Moderate Liberals, like Elliott Dodds, had always hoped that demand management and 'ownership for all' would provide a distinctive alternative to Labour's version of progressivism, but they had not counted on the Conservative Party moving into this territory, as it did after 1945 in an attempt to project a new, modern, and moderate image. The 'Industrial Charter', issued in 1947, confirmed

[80] *LM* (Apr. 1949), 186-7.
[81] *Liberal Manifestos*, 71, 72.
[82] Ibid., 84.

the Conservatives' commitment to an active employment policy on the lines of the 1944 White Paper, and outlined a pragmatic approach to the nationalized industries, whilst Anthony Eden claimed the idea of 'property-owning democracy' for the Tories and critiqued Labour's planning measures on essentially liberal grounds. As Nigel Harris has shown, the need for competition became a major Conservative theme in these years, and the party's historic protectionism went into decline.[83] By the time of the 1950 and 1951 general elections, the Conservatives were well placed to profit from frustration with post-war austerity by promising to 'set the people free'. Liberals could point to the discrepancy between the Conservatives' rhetoric and their inter-war record, but they could not plausibly deny the similarity between the two parties' stated views on economic management.[84] Conversely, the policies which most distinguished the Liberals from the Conservatives, such as free trade, co-ownership, conscription, and proportional representation, tended to be peripheral to the economic policy debate as Labour and the Conservatives defined it, and were easy for the party's opponents to dismiss as 'faddist' obsessions.

Controversy over Liberal-Conservative relations was a major handicap for the Liberals in the 1950 and 1951 general elections. Although the party vigorously proclaimed its independence, local anti-socialist pacts developed in some towns, notably Bolton and Huddersfield, and erstwhile Liberals such as Harrod and Rhys-Williams sought Conservative candidatures. At the same time, the Conservative Party sowed confusion by running 'Conservative and Liberal' candidates in many constituencies.[85] In reaction against the prospect of Liberal-Conservative cooperation, left-wingers such as Megan Lloyd George and the remnants of the wartime Radical Action pressed for an alliance with Labour in defence of the welfare state.[86] Partly as a result of these divisions, partly because of organizational difficulties, and partly because of the strength of class-based identification with the Labour and Conservative parties, the Liberals struggled to make an impression on the electorate in 1950 or 1951, and were reduced successively to nine and then to six MPs. As we shall see, the years after the 1950 election were marked by the rapid growth of

[83] Harris, *Competition and the Corporate Society*, 123-8.
[84] MS. Bonham Carter 171, fos. 146-7, Bonham Carter to Dingle Foot, 28 Apr. 1950.
[85] Dutton, 'On the brink', 437-9.
[86] Ingham, 'Retreat'.

factional conflict within the party in the country, which centred on the issues of free trade and co-ownership. At Westminster, however, the defeat of most of the party's left-wingers – including Wilfrid Roberts, Megan Lloyd George, and Emrys Roberts – meant that the parliamentary party became *more* cohesive in the early 1950s, and continued to articulate a liberal Keynesian policy.

When the Conservatives won the 1951 election with a majority of sixteen, Clement Davies turned down an invitation to become Minister of Education in the interests of the party's independence. Nevertheless, the Liberals promised to support 'measures clearly conceived in the interests of the country as a whole', and proceeded to vote with the government in most divisions during the 1951 Parliament.[87] Economic policy was perhaps the most important subject of agreement. Broadly speaking, R.A. Butler's strategy as Chancellor was to use monetary policy – in the form of higher Bank Rate – to defend the external position of sterling, whilst boosting consumption through tax cuts as the economic situation allowed. Davies and his colleagues welcomed the revival of an active monetary policy, voted for the Finance Bill which followed the tight 1952 budget, and supported the more expansionary 1953 one.[88] Indeed, the Liberals' main criticism was that Butler should have gone further and faster in reducing marginal tax rates, pursuing sterling convertibility, removing restrictions and controls, and encouraging private savings. At the same time, they continued to urge a close watch on inflation.[89] In practice, the apparent success of Butler's policy made it difficult to press these criticisms with much force. Up to the 1955 election, Liberal and Conservative policies stood within the same basic paradigm of fiscal and monetary fine-tuning combined with microeconomic liberalization, which seemed to be delivering a new era of prosperity.[90]

The year 1955 was a turning point for two reasons. Firstly, Butler's efforts to offset fiscal expansion with monetary restraint broke down in the context of buoyant demand and rumours that

[87] *MG*, 29 Oct. 1951, 9; Matt Cole, '"An out-of-date word": Grimond and the left', *JLH*, 67 (2010), 50-6, at 52.
[88] H.C. Deb., fifth series, 497, 12 Mar. 1952, 1424-30; 498, 7 Apr. 1952, 2441-6; and 514, 16 Apr. 1953, 418-30.
[89] Subsidiary, and recurrent, criticisms related to Butler's failure to extend family allowances to the first child, to reform the structure of the tax system, and to provide more assistance for old age pensioners. See Clement Davies in H.C. Deb., fifth series, 514, 16 Apr. 1953, 418-30, and 526, 7 Apr. 1954, 395-9.
[90] J.C.R. Dow, *The Management of the British Economy, 1945-60* (Cambridge, 1964), 70-7.

sterling would soon be made convertible. The income tax cuts which Butler introduced in his April budget stoked an election-year boom, which later had to be tamed by tightening credit and hire-purchase restrictions in July, curbing public investment, and raising taxes in a supplementary budget in October.[91] Eden, who had succeeded Churchill as Prime Minister, would move Butler from the Treasury at the end of the year and appoint Harold Macmillan in his place. Secondly, inflation returned as a major political issue. Partly as a function of the boom, Retail Price Index inflation climbed rapidly from mid-1954 onwards, averaging 4.5 per cent in 1955 and peaking at 7.3 per cent in spring 1956. At the same time, economists and politicians became more concerned about the consequences of a mild but persistent rise in prices. In a March 1955 article, Sir Dennis Robertson warned that 'creeping inflation' undermined the basis of financial contracts and harmed those citizens who lacked the bargaining power to maintain their real incomes. Robertson believed that post-war governments had defined full employment too stringently, and had given too little priority to the task of maintaining the value of money.[92]

Frank Paish echoed Robertson's argument in a memorandum for the Liberal Party Committee, and the Liberal leadership enthusiastically accepted it.[93] The free-trade tradition, of course, had given the party a historic concern for cheapness, and the 'cost of living' rhetoric of the 1930s was ripe for revival. Above and beyond this, however, many Liberals raised moral and constitutional objections to the practice of steadily expanding the money supply. Nathaniel Micklem, the Congregationalist theologian who served as party president in 1957-8, thought a deliberate policy of inflation involved 'deceit, misrepresentation, breach of contract, [and] injustice', because it enabled government to inflate away the national debt at the expense of savers.[94] In similar vein, Philip Fothergill claimed that it was 'a classic Liberal doctrine that it is the job of Government to maintain the value of our money', and argued that it was a 'down-right swindle' for politicians to introduce new welfare benefits without stabilizing their value.[95] It is

[91] Ibid., 78-80, 85-90.
[92] D.H. Robertson, 'The problem of creeping inflation', *London and Cambridge Economic Bulletin*, new series, no. 13 (1955), ii-iv.
[93] Liberal Party papers, 16/27/10-12, 'The Revival of Inflation', memorandum by F.W. Paish, 22 Feb. 1955.
[94] Nathaniel Micklem in *Contemporary Review*, 195 (1959), 57-72, at 57.
[95] CPA, CCO3/4/74, text of election broadcast by Fothergill, 12 May 1955.

hardly surprising, then, that the Liberal campaign in the 1955 general election placed inflation front and centre. As the manifesto put it:

> By the inflationary policy of two Socialist Governments, continued in modified form by the Conservatives, pensioners and people living on small fixed incomes and the lowest wage scales have been most cruelly penalised. A constantly and rapidly depreciating pound strikes at the root of social justice. The Liberal Party, which made possible the Welfare Society by its early reforms, is maintaining its traditions by calling for a radical attack upon false economic policies which inevitably lead to ever-rising costs of living. Will either the Conservative or the Labour Party have the courage, on this side of disaster, to stem the tide of rising prices, subsidies and nominal wages?[96]

Posters produced by Liberal headquarters echoed this theme, promising that Liberal MPs would fight for 'lower cost of living', 'reduced govt. spending' and 'freedom of the individual'.[97] Many Liberal candidates in the constituencies seem to have taken the same line.[98] As Garry Tregidga suggests, these arguments are likely to have achieved particular resonance among the small farmers, tradesmen, and non-unionized workers who bulked large in peripheral areas, such as Devon and Cornwall.[99]

Bemoaning the persistence of inflation was an easy populist move, but the Liberals did try to articulate an alternative. Part of the Liberals' solution lay in microeconomic reforms: abolishing tariffs, tackling monopolies and restrictive practices, and using co-partnership to encourage wage restraint and greater productivity. Macroeconomic policy, however, was also an important part of the mix. The obvious implication of Robertson and Paish's arguments was that the government should restrain aggregate demand, and accept a higher unemployment rate as the price of price stability. Paish consistently argued that a modest rise in unemployment, perhaps to the 3 per cent rate which Beveridge had defined as 'full employment', would eliminate inflationary pressures and change workers' expectations.[100] By the end of the 1950s, this would be understood as a

[96] *Liberal Manifestos*, 91.
[97] *LN*, 13 May 1955, 1.
[98] For instance, Richard Wainwright at Pudsey: *LN*, 13 May 1955, 5.
[99] Tregidga, *Liberal Party in South-West Britain*, 158.
[100] Paish revised his estimate of the rate of unemployment needed to conquer inflation downwards from 3-4% in the early 1950s, to 3% in 1955 and just over 2% by 1958. See *LN*, 21 Mar. 1952, 4, and 4 Mar. 1955, 4; and F.W. Paish, 'Progress, prices and the pound', *District Bank Review*, no. 125 (Mar. 1958), 1-17.

downwards move along the Phillips Curve.[101] Some Liberals were alarmed by this prospect, but Paish's insistence that his policy did not require a return to mass unemployment seems to reassured many.[102] Liberals could demand that inflation should have 'overriding priority in national economic policy' – as Paish, Graham Hutton, and Laurence Robson did in their submission to the Radcliffe Committee on the Working of the Monetary System – only because a reasonably high level of employment was taken for granted.[103]

The Liberal leadership's macroeconomic analysis in this period centred on the Keynesian diagnosis of an 'inflationary gap', which could be closed by both fiscal and monetary measures. At the same time, many Liberals were impressed by the extent to which inflation was a monetary phenomenon. 'The root cause' of inflation, Jo Grimond believed, 'must be a continual tendency for too much credit and money to get into the system'.[104] Paish, similarly, had 'no doubt' that inflation could be ended 'simply by action to ensure that the quantity of money does not rise further'.[105] Sir Alfred Suenson-Taylor, ennobled as Lord Grantchester in 1953, echoed the Currency School of the 1840s in arguing that this could be achieved by controlling the note issue, but Paish considered bank deposits much more important.[106] In policy terms, Paish's concern to control the volume of bank deposits led him to advocate a wide-ranging credit squeeze, involving Bank Rate, liquidity ratios, Treasury Deposit Receipts, hire-purchase restrictions, and the funding of government debt.[107] This was a more eclectic and discretionary approach than Milton Friedman and other monetarist economists were beginning to advocate, but it was a decidedly non-Keynesian means of tackling inflation, and it placed the Liberal leadership – along with Peter Thorneycroft – at the monetarist end of British policy debate during the mid- and late 1950s.[108]

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[101] A.W. Phillips, 'The relation between unemployment and the rate of change of money wage rates in the United Kingdom, 1861-1957', *Economica*, new series, 25 (1958), 283-99.
[102] One critic was N. Ridley Temperley, in *LN*, 18 Mar. 1955, 2.
[103] *Committee on the Working of the Monetary System: Principal Memoranda of Evidence. Volume 3* (1960), 189-93, at 192.
[104] H.C. Deb., fifth series, 545, 8 Nov. 1955, 1700-6, at 1705.
[105] F.W. Paish, 'Open and Repressed Inflation', *EJ*, 63 (1953), 527-52, at 551.
[106] H.L. Deb., fifth series, 202, 6 Mar. 1957, 279-85, at 283-4; F.W. Paish, 'Gilt-edged and the Money Supply', *The Banker*, 109 (1959), 17-25.
[107] F.W. Paish, 'Inflation in the United Kingdom, 1948-57', *Economica*, new series, 25 (1958), 94-105.
[108] For conflicting views on Thorneycroft's monetarism, see E.H.H. Green, 'The Treasury resignations of 1958: A reconsideration', in id., *Ideologies of Conservatism* (Oxford, 2002), 192-213, and Chris Cooper,

The Liberals' approach to fiscal policy also took on a new form. In principle, Keynesian analysis suggested, tax increases could be just as effective as spending cuts in removing excess demand, but in practice the Liberals were increasingly adamant that spending cuts were preferable. High taxes seemed to raise the cost of living directly and damage work incentives, whilst high government spending was liable to increase the monetary circulation.[109] Defence expenditure, government administration, and agricultural subsidies seemed to offer scope for relatively painless savings; so, too, did the idea of forcing the nationalized industries to raise capital on the market. Social service cuts, such as those sought by Thorneycroft in 1958, were consequently deemed unnecessary, although fiscal discipline was still needed here and public investment would have to be curtailed.[110]

The theoretical gap between the Liberal leadership and the Conservative government was not much larger after 1955 than it had been during the first half of the decade: most obviously, the government's credit squeeze of 1955-8 broadly followed Paish's recommendations.[111] Nevertheless, the Liberals made the most of the government's failings. Above all, the Liberals argued that fiscal and monetary policy needed to be used together to conquer inflation, and complained that high government spending undermined the credit squeeze. On this basis, Macmillan turned out to be a more satisfactory Chancellor than Butler, and Thorneycroft more satisfactory still.[112] Liberals claimed, however, that Thorneycroft's unpopular September Measures would not have been necessary if a tighter policy had been followed earlier on.[113]

Since the electoral ramifications of the Liberals' anti-inflation stance mostly followed Jo Grimond's succession to the party leadership in 1956, it makes most sense to consider these in the next chapter. For the time being, it is sufficient to note that anti-inflationary rhetoric was central to the Liberal Party's electoral identity during these years. Armed with a detailed critique of

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'Little local difficulties revisited: Peter Thorneycroft, the 1958 Treasury resignations, and the origins of Thatcherism', *CBH*, 25 (2011), 227-50.

[109] *The Times*, 17 Apr. 1953, 9; H.C. Deb., fifth series, 545, 27 Oct. 1955, 460-9, at 460.

[110] H.C. Deb., fifth series, 544, 26 July 1955, 1051-6; *LN*, 16 Mar. 1956, 1, 4; CPA, CCO 3/5/94, 'The Penny Liberal', no. 2, n.d. [1958].

[111] F.W. Paish, 'Monetary policy and the control of the post-war British inflation', in id., *Studies in an Inflationary Economy: The United Kingdom, 1948-1961* (1962; second edition, 1966), 120-54.

[112] *LN*, 18 Jan. 1957, 1.

[113] *LN*, 27 Sept. 1957, 3.

government policy which combined a Keynesian focus on aggregate demand with a proto-monetarist strategy for tackling inflation, the Liberals managed to profit from the 'middle-class revolt' which developed during the 1955 Parliament amid frustration at rising prices. Whatever its flaws, the liberal Keynesianism of the 1950s must be given some credit for the successes which Grimond's party enjoyed, at Torrington and elsewhere, during the first phase of its long-awaited revival.

The state and social welfare

Across the fields of economic and social policy, the main trajectory of Liberal thought during Clement Davies' leadership reflected an increasingly cautious attitude towards the state. As good democrats and progressives, Liberals rarely questioned the legitimacy of state action in economic and social fields, but they were deeply aware of the dangers of arbitrary power. In pursuing full employment and social justice, Liberals felt, it was essential that the state should act within the rule of law, and that free enterprise and individual responsibility should be preserved. In respect of industrial organization and economic management, of course, this stance had been foreshadowed by Liberal policy during the late 1930s. In matters of social welfare, by contrast, the caution which Liberals began to display during the post-war period was rather newer.

From the beginning of the twentieth century onwards, the Liberal Party was clearly committed to the expansion of social welfare provision through the state. In unemployment insurance, national health insurance, and old age pensions, it was the Asquith government that established the architecture of Britain's welfare system; in education, Herbert Fisher's 1918 Education Act built on the Forster Act of 1870 to extend compulsory schooling up to the age of fourteen. During the inter-war period, the Liberals had little opportunity to add to their record, but MPs like Ernest Simon, Sir Percy Harris, and Graham White proved strenuous advocates of progressive policies such as council house-building, the development of day nurseries, and the extension of unemployment insurance to black-coated and agricultural workers. If Liberals tended to be more sensitive than Labour to the cost of social reforms, they could also be readier than

Labour to support measures such as family allowances, which the trade unions initially opposed.[114] Certainly, it seemed natural that the Beveridge Report and proposals for a national health service should be backed by most Liberals. 'Along the path of social reform,' Elliott Dodds could write in 1949, 'all progressives have marched together.'[115]

The Attlee government's flagship social legislation, the National Insurance Act and National Health Service Act of 1946, mostly received enthusiastic Liberal backing. Nevertheless, the Liberals expressed serious concerns about several points of detail. Firstly, the Liberals were critical of the government's treatment of voluntary organizations, and especially of its decision to exclude the friendly societies from the new social insurance system. Beveridge himself would later emphasize the value of mutual provision in his 1948 report on *Voluntary Action*.[116] Secondly, Liberals pressed for 'a maximum amount of local interest and local responsibility' to be maintained in the NHS, and argued for Hospital Management Committees and regional boards to include elected representatives.[117] Thirdly, the Liberals offered qualified support for the British Medical Association's campaign for General Practitioners to be paid mainly by capitation fees, instead of becoming salaried state employees.[118] Finally, Liberals questioned whether the new welfare state was as comprehensive as the government claimed, criticizing the National Insurance Act for distinguishing between employed and self-employed workers and regretting the omission of the industrial medical service from the NHS.[119] Over time, this criticism was augmented by concern about the quality and scope of provision for the elderly and mentally ill, and the growing number of pensioners who were wholly or partially reliant on National Assistance.[120] The Women's Liberal Federation was especially active in drawing attention to these 'Cinderellas of the Welfare State'.[121]

Liberals were well aware of the danger that state social welfare provision, pushed to its greatest extent, would undermine individual responsibility and make citizens dependent on the

[114] John Macnicol, *The Movement for Family Allowances, 1918-45: A Study in Social Policy Development* (1980), 138-68.
[115] Elliott Dodds, 'The welfare state', *The Fortnightly* (Sept. 1949), 172-8, at 172.
[116] Lord Beveridge, *Voluntary Action: A Report on Methods of Social Advance* (1948).
[117] *LM* (June 1946), 275.
[118] Ibid.
[119] *LM* (Mar. 1946), 128; *LM* (June 1946), 275.
[120] *LM* (Apr. 1948), 121-2; *LN*, 24 Nov. 1950, 3; *MG*, 16 Nov. 1953, 10.
[121] *LN*, 27 Mar. 1953, 3.

state. Hayek's *Road to Serfdom* contained clear warnings in this vein; so, too, did Wilhelm Röpke's treatise *Civitas Humana*, published in English in 1948, which contrasted the 'proletarianized society' with the liberal aim of a large property-owning middle class.[122] After the war, indeed, Beveridge himself came to emphasize that he envisaged a welfare society rather than a welfare state.[123] In the circumstances of the late 1940s, the benefits of universal health-care and social insurance seemed to outweigh the disadvantages, but the Attlee government's policy of maintaining wartime food subsidies was a different matter entirely. To Elliott Dodds, food subsidies seemed to be a classic case of the state interfering with consumption patterns for well-meaning but misguided ends:

> Is it right that the State should appropriate so large a proportion of the citizens' incomes and spend it on their behalf, instead of leaving them to spend it according to their own free choices?[124]

Liberals' ethical objections to subsidies were backed up by economic ones. Classical reasoning suggested that subsidies concealed the true cost of goods and distorted the allocation of resources; analysis emerging from the New Welfare Economics of the 1930s and 1940s added the point that they were an inefficient way of fighting poverty.[125] The same objections broadly applied to government intervention in the housing market, through rent controls and council house subsidies. Over and above these considerations, the abolition of subsidies fitted well with the Liberals' macroeconomic stance.

Liberals, then, had good reasons in principle for attacking food and housing subsidies. At the same time, it was clear that such an attack carried serious political risks, since – as James Hinton and Ina Zweiniger-Bargielowska have shown – questions of food, austerity and welfare gave rise to sharply differing attitudes among the working and middle classes.[126] Indeed, this class division

[122] Wilhelm Röpke, *Civitas Humana: A Humane Order of Society* (English edition, 1948).
[123] *LN*, 18 Sept. 1953, 1, 3.
[124] Dodds, 'The welfare state', 173.
[125] For economic criticisms, see Dennis Robertson in *MG*, 30 Aug. 1947, 3, and James Meade, *Planning and the Price Mechanism: The Liberal-Socialist Solution* (1948), 41.
[126] James Hinton, 'Women and the Labour vote, 1945-50', *Labour History Review*, 57 no. 3 (1992), 59-66; James Hinton, 'Militant housewives: the British Housewives' League and the Attlee Government', *History*

cut across the gendered dimension of austerity policies, which Zweiniger-Bargielowska considers more important but which most contemporaries seem to have taken for granted. From different perspectives, Dingle Foot, Elliott Dodds and Peter Wiles all warned their colleagues that criticism of the welfare state would be seen as an assault on working class interests.[127] At the very least, the Liberals would have to show that the poorest citizens would be compensated for the loss of benefits in kind.

Proposals for integrating social security with the income tax system appealed to Liberals as a solution to this problem. During the Second World War, Juliet Rhys-Williams had canvassed a plan for universal cash allowances as an alternative to the Beveridge scheme, and had gained an enthusiastic reception from Liberal women, who recognized the plan's value as a means of raising women's incomes.[128] After the war, Rhys-Williams' scheme gained wider traction, and the 1949 Liberal Assembly approved the principle of tax-benefit integration as part of the 'Programme for Recovery'.[129] The Liberal Party Council then established a committee, chaired by the accountant Guy Naylor, to work out plans in more detail, with expert input from Paish and his LSE colleague Alan Peacock. The Naylor Committee proposed a weekly cash allowance of 12/6 for each man, woman and child, financed by a flat-rate income tax of 5/- on earned and 6/- on unearned incomes, with a supplementary tax levied on incomes over £600 per annum. Food subsidies would be abolished, and citizens would gain more freedom in deciding how to spend their money.[130] This policy was approved by the 1950 Liberal Assembly, and later formed the basis of the party's submission to the Royal Commission on the Taxation of Profits and Income (1951-5).[131] In the short term, it had little political impact and was rejected by the Royal Commission.[132] In a longer

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Workshop Journal, 38 (1994), 129-56; Ina Zweiniger-Bargielowska, *Austerity in Britain: Rationing, Controls, and Consumption, 1939-1955* (Oxford, 2000), 60-98, 249-51.

[127] Jones, *A Radical Life*, 207; *LN*, 19 Aug. 1949, 3; Dodds, 'The welfare state', 172-4. Wiles' argument drew heavily on Honor Croome, 'Liberty, equality and full employment', *Lloyds Bank Review*, new series, no. 13 (July 1949), 14-32.

[128] Juliet Rhys-Williams, *Something to Look Forward To* (1943); Rowntree papers, POV/3/18, Geoffrey Crowther to Seebohm Rowntree, 6 June 1944.

[129] *LM* (Apr. 1949), 187.

[130] Liberal Party, *Reform of Income Tax and Social Security Payments: A Liberal Party Yellow Book* (1950); Sir Alan Peacock, *Anxious to Do Good: Learning to be an Economist the Hard Way* (Exeter, 2010), 52-5, 59-70.

[131] *LN*, 22 Sept. 1950, 1; *MG*, 2 Oct. 1950, 7.

[132] Cmd. 9015, *Royal Commission on the Taxation of Profits and Income*. *Second Report* (1954).

perspective, though, it may be seen as a precursor of the basic incomes and negative income tax proposals which have been a familiar feature of social policy debate in Britain since the mid-1960s.

The problems of the housing market were if anything more difficult to unravel. Even so, an *ad hoc* Liberal committee on rent restrictions, chaired by the London activist Granville Slack, was adamant that housing subsidies should be phased out over time:

> With full employment, wages can be, and are in fact, sufficiently high for an economic rent to be paid, and subsidy by the taxpayer should be unnecessary.[133]

The patchwork of rent controls which had developed since the First World War was equally undesirable, although the committee proposed to retain it while the post-war housing shortage remained.[134] In the longer term, Liberals were keen to promote owner-occupancy as part of their drive for 'ownership for all'. The 1948 Liberal Assembly approved proposals to give local authority tenants the right to buy their council houses, and the party's Ownership for All Committee even suggested extending this right to private tenants.[135]

In social policy, as in economic policy, the attitudes which the Liberal leadership developed in the late 1940s led the party to offer critical support to the Conservatives' conduct of affairs after 1951. Food subsidies were sharply reduced by R.A. Butler in his 1952 budget, with compensatory increases in family allowances and pensions, though – as some Liberals complained – he did not pursue a wider reform of the tax and benefit system.[136] Later in the decade, the Liberals backed the 1956 Housing Subsidies Act, which restricted subsidies to slum clearance schemes, and the 1957 Rent Act, which decontrolled properties in England and Wales with a rateable value of more than £30 (£40 in London), though they would have preferred a more gradual and flexible approach to decontrol.[137]

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[133] Liberal Party, *Report of the Liberal Party Sub-Committee on the Rent Restrictions Acts and Housing Subsidies* (1948), 11.
[134] Ibid., 7-10.
[135] *LM* (June 1948), 214; Scottish Liberal Party papers, 45, 'Report on Home-Ownership Submitted by the Ownership for All Committee', n.d. [Nov. 1949].
[136] For Liberal comments on Butler's policy, see Clement Davies in H.C. Deb. fifth series, 497, 12 Mar. 1952, 1424-30, and Lucy Masterman in *LN*, 2 May 1952, 3.
[137] H.C. Deb., fifth series, 548, 15 Feb. 1956, 2483-8; 560, 21 Nov. 1956, 1821-7; and 567, 28 Mar. 1957, 1477-82; *MG*, 4 Feb. 1957, 4.

A comprehensive treatment of Liberal attitudes to social welfare in the 1940s and 1950s is impossible in the space available here. The drift of Liberal thinking in this field, however, is very significant, not least because it culminated in a radical restatement of the party's social vision in the 1957 volume *The Unservile State*. Here, a group of Liberal politicians and academics, organized by Elliott Dodds and including Grimond, Hutton, Peacock and Wiles, pushed 'ownership for all' to its logical conclusion. The book's tone was nuanced and realistic, but its implications profound and startling. 'With the value they attach to self-direction', Dodds argued, Liberals should view the existing social services like 'crutches', which men and women could discard as they became able to provide 'welfare' for themselves.[138] In practice, as Wiles suggested, this meant that the welfare state could be dismantled as ownership was dispersed more widely through death duties, personal savings, and rising home-ownership, and as real incomes rose.[139] Peacock added that, in the meantime, the state should focus on cash transfers wherever possible, and perhaps even finance health and education through voucher systems.[140]

The Unservile State was an unofficial exercise in Liberal thought, not an official policy statement; but it was not wholly idiosyncratic, as the foregoing discussion of Liberal policy shows. Despite the Liberal Party's historic commitment to social reform, the disadvantages of state welfare provision had received sustained attention during the post-war decade. Extreme poverty, Jo Grimond thought, had been largely abolished by the welfare state; the task for Liberals was to deal with the 'pockets' of poverty which remained and stimulate voluntary action.[141] In social policy, as in economics, the state could provide a framework within which individuals could prosper. In this sense, *The Unservile State* set the capstone on the optimistic, liberal Keynesian synthesis which characterized Liberal thinking at elite level during the early post-war period.

[138] Elliott Dodds, 'Liberty and welfare', in George Watson (ed.), *The Unservile State: Essays in Liberty and Welfare* (1957), 13-26, at 18.
[139] Peter Wiles, 'Property and equality', in Watson (ed.), *Unservile State*, 88-109.
[140] A.T. Peacock, 'Welfare in the Liberal state', in Watson (ed.), *Unservile State*, 113-30.
[141] National Library of Scotland, Jo Grimond papers (dep. 363), 15/10, untitled typescript by Grimond, n.d. [1955].

The free trade controversy

The liberal Keynesian synthesis did not command universal assent within the Liberal Party during the late 1940s. As we have seen, many activists were alarmed by the prospect of removing controls and food subsidies, and left-wing Liberals such as Dingle Foot and Megan Lloyd George regarded the party's criticisms of the Attlee government as symptomatic of a 'drift to the right'. However, it was only after the 1950 general election that grassroots unrest and ill-discipline gave way to concerted factional conflict over the party's direction. The catalyst for this conflict was a strident campaign against the party's support for the 1947 Agriculture Act, waged by diehard free traders.

The preamble to the party's 1936 constitution declared that free trade remained a central Liberal principle, but Liberal leaders nevertheless faced the challenge of defining its scope and application. After 1945, the party revived its pre-war policy of abolishing tariffs by stages in the lifetime of a five-year Parliament, starting with the abolition of tariffs on food and raw materials. Quotas and other non-tariff devices would be abolished or regulated by international agreement.[142] This approach to tariff reduction was relatively uncontroversial, but the same could not be said of agricultural policy. At Wilfrid Roberts' instigation, the Liberal Parliamentary Party backed the system of guaranteed prices and assured markets embodied in the 1947 Agriculture Act. Roberts, as a farmer, was impressed by the Act's emphasis on nutritional needs, and felt that it pointed in 'the natural economic direction' by supporting livestock as well as cereal production.[143] Georgist and classical Liberal activists, however, reacted with fury, and began to agitate for a return to pure free-trade principles. By 1951, young candidates such as Bernard Dann were growing 'a little tired of the futile squabbling over whether we are a Free Trade Party'.[144] In fact, the squabbling had barely begun.

The campaign against guaranteed prices was initiated and run, not by the free traders of the 1930s, but by Oliver Smedley and S.W. Alexander, relative newcomers to the party who became parliamentary candidates in Saffron Walden and Ilford North respectively. The two men

[142] *MG*, 5 Mar. 1947, 6.
[143] H.C. Deb., fifth series, 432, 27 Jan. 1947, 657-65, at 659.
[144] *LN*, 9 Feb. 1951, 3.

complemented each other well, since Smedley was a highly effective platform orator, whilst Alexander was a financial journalist who bought the weekly *City Press* newspaper and used it to champion the free-trade cause. Smedley and Alexander espoused an extreme classical Liberalism, rejecting the welfare state, denouncing Keynesian policies, and demanding a return to the gold standard.[145] The United Nations and other international institutions were also repudiated because they imposed constraints on Britain's freedom of action. Smedley and his allies described themselves as 'radicals', since they resisted arbitrary power and went to the 'root' of social problems, and claimed to be more loyal Liberals than those who supported guaranteed prices.[146] Nevertheless, they also worked for free trade outside the Liberal Party, forming the Cheap Food League in August 1951 with Conservative and Labour allies.[147] Such were the ambiguities of the extreme free traders.

The core of Smedley and Alexander's support came from former members of the Liberal Liberty League, which merged into the Land Value Taxation League in the autumn of 1952, but they also drew backing from young candidates such as Roy Douglas and Peter Linfoot and developed a significant following within the London Liberal Party.[148] Valuable academic backing came from the economist Colin Clark, who argued that British agriculture could survive under free-trade conditions.[149] However, considering Smedley's later role as a co-founder of the Institute of Economic Affairs, there was surprisingly little collaboration with the other neoliberals then involved in the Liberal Party, such as Arthur Seldon, Arthur and Barbara Shenfield, and Lord Grantchester. Mainstream Liberals, meanwhile, resented the way in which Smedley and Alexander had appropriated the free-trade label. Elliott Dodds, indeed, was roused to fury by the Smedleyites' rhetoric:

> I was fighting for Free Trade long before Mr. Alexander attached himself to the Liberal Party. I shall continue to do so despite the handicap of propaganda

[145] See Oliver Smedley, *The Abominable No-Men: "The Answer to Bevan, Beaverbrook, Beveridge and Butler"* (1952).
[146] Ibid., 9-12; *LN*, 24 July 1953, 2.
[147] *LN*, 13 Mar. 1953, 2, and 31 Aug. 1951, 4.
[148] For the demise of the Liberal Liberty League, see *L&L*, nos. 701-2 (Oct.-Nov. 1952), 122.
[149] *LN*, 8 Jan. 1954, 2.

> which ignores both the difficulties that face us in restoring Free Trade and the problems that must arise in doing so.[150]

Most senior Liberals shared Dodds' view of the Smedleyites: Clement Davies and Sir Archibald Sinclair considered them extreme and misguided, and Philip Fothergill warned that 'an exclusive sectional group' should not be allowed to dominate Liberal counsels.[151] In practice, there was never much risk that the Smedley faction would gain a general ascendancy. No Liberal Assembly was likely to vote for an end to demand management, a return to the gold standard, or withdrawal from the United Nations.

On the narrow issue of agricultural subsidies, however, the Smedleyites made a strong appeal to Liberal free-trade sentiment. All the classical arguments against protectionism could be trotted out: subsidies favoured one industry over others, sheltered inefficiency, and distorted the allocation of resources. 'If you really want guaranteed prices', Ronald Walker told delegates at one Assembly, 'you have no right to be here. All the arguments for them are protectionist.'[152] To this economic reasoning, the Smedleyites added civil libertarian concerns about the dispossession of farmers under the 1947 Act. The defenders of guaranteed prices, by contrast, emphasized the need to provide security for farmers and agricultural workers, pointed to the emerging 'world food shortage', and argued that the 1947 Act had kept retail prices down.[153] In Wilfrid Roberts' view, the Smedleyites were closet Conservatives with no 'constructive' response to agriculture's problems.[154] Perhaps unsurprisingly, the electoral implications of this debate were never far from the surface. Liberal candidates in rural seats, especially in the West Country, were alarmed by the prospect of fighting on an anti-subsidy platform. Free traders, on the other hand, mocked the idea that Liberal principles should be sacrificed for electoral gain.[155]

The first set-piece debate over agriculture took place at the 1952 Assembly, and ended in defeat for the free traders. However, the executive agreed to sound out the opinions of the regional

[150] *LN*, 13 Nov. 1953, 2.
[151] Clement Davies papers, J/3/13, Davies to Sinclair, 24 Jan. 1950; *LN*, 24 Apr. 1953, 3.
[152] *LN*, 17 Apr. 1953, 4.
[153] *LN*, 12 Oct. 1951, 2, and 23 May 1952, 3.
[154] *LN*, 20 Mar. 1953, 2.
[155] *LN*, 7 June 1957, 2.

federations, six out of seven of which came down against guaranteed prices.[156] At the following year's Assembly in Ilfracombe, the executive backed a Reigate motion which called for guaranteed prices to be abolished, and after a stormy debate this motion was carried, despite opposition from several MPs and candidates and a large delegation of University Liberals.[157] After the vote, Jeremy Thorpe seized the microphone to declare that West Country candidates could not accept this policy.[158] The Liberal Party would nevertheless remain committed to a free market in agriculture for the rest of the 1950s. In a sense, the Smedleyites' position was similar to that which the Georgists had faced for half a century. Free trade and land value taxation could win widespread support as stand-alone policies, but only a small minority of Liberals were prepared to accept the full implications of a classical or Georgist economic vision.

The divisions which emerged over free trade in the early 1950s were compounded by renewed controversy over compulsory co-ownership. Davies and other Liberal MPs had always been sceptical about the case for compulsion, whilst the Smedleyites were predictably hostile, and when the co-ownership issue arose again in 1954 a majority of the LPO executive favoured a move to a more permissive approach.[159] Frank Byers argued that a legislative approach would be excessively rigid, and even Comyns Carr had come to the view that it was best for an opposition party to avoid committing itself to details.[160] The party's Economic Advisory Committee, chaired by Paish and also including Graham Hutton and Alan Peacock, reinforced this scepticism with a provocative memorandum which argued that compulsion would discourage entrepreneurship and deter investment.[161] An attempt to challenge compulsion at the 1954 Assembly narrowly failed, but Granville Slack was asked to chair a new, more representative committee, with a brief of reconciling the party's conflicting views.

With strong feelings on both sides of the co-ownership debate, the prospect of Slack's committee developing a policy which could command broad acceptance seemed slim. However,

[156] *MG*, 16 May 1952, 5.
[157] *MG*, 9 Apr. 1953, 2; *LN*, 17 Apr. 1953, 3-4.
[158] *MG*, 11 Apr. 1953, 1.
[159] Rasmussen, *Liberal Party*, 129-30.
[160] *MG*, 24 Apr. 1954, 2.
[161] Mirfin papers, 6/11, 'Liberal Party and Co-Partnership', Apr. 1954.

Slack and his colleagues succeeded in their task, producing a report which was endorsed almost unanimously by the party Council and adopted by the 1956 Assembly.[162] The compromise reached was that the party remained committed to the principle of compulsion, but would concentrate for the next five years on pressing for the removal of the obstacles to the voluntary introduction of co-ownership which existed in the tax system, and replacing them with positive incentives. Richard Wainwright, a Leeds accountant and future MP for Colne Valley, had proposed this course of action during the 1954 debate, and subsequently worked to develop proposals for Employee Savings Accounts – which would not be subject to income tax until money was withdrawn – into a main feature of Liberal policy.[163] From 1956 until the early 1960s, Liberal MPs Donald Wade and Arthur Holt energetically sought to amend annual Finance Bills to introduce co-ownership incentives along these lines.[164]

The new approach to co-ownership which the Liberals took after 1956 was a sensible compromise, which allowed party unity on this issue to be restored. Even Dodds, indeed, was satisfied, since co-ownership could at last be preached without embarrassment by the Liberal leaders.[165] Nevertheless, the shift represented a notable retreat from the radicalism of the late 1940s. For its champions, compulsory co-ownership had been a powerful symbol of the party's determination to bring the capital-labour conflict to an end.[166] With its institutional focus and its emphasis on the rights of labour, the idea of compulsion linked 'ownership for all' to the constructive and New Liberal traditions. By contrast, the use of tax incentives avoided direct state intervention and assumed that capitalists and workers could be nudged towards cooperation. A more perfect reflection of the assumptions of post-war liberal Keynesianism is difficult to imagine.

[162] *LN*, 16 Dec. 1955, 1, and 5 Oct. 1956, 2. The report was accompanied by a 'synopsis of agreement' signed by economists from both sides of the compulsion debate, George Allen, Graham Hutton, Frank Paish and Peter Wiles, setting out the points on which they could agree: Liberal Party, *Interim Report of the Liberal Party Co-Ownership Committee* (1955).
[163] Employee Savings Accounts were first proposed by George Copeman, editor of the journal *Business*, who outlined his ideas in *The Challenge of Employee Shareholding* (1958). Wainwright summarized the party's proposals in *Own As You Earn: The Liberal Plan* (1958).
[164] See *LN*, 6 July 1956, 4; 10 July 1958, 4; 12 May 1960, 3; 16 June 1962, 3.
[165] *LN*, 8 June 1961, 4.
[166] *LN*, 8 Apr. 1949, 5, and 21 Nov. 1952, 2.

The Radical Reform Group

The Smedleyites' activities and the assault on compulsory co-ownership had one further consequence: they galvanized the Liberal left. During the 1950s many of the older generation of left-wing Liberals, including the former MPs Megan Lloyd George, Wilfrid Roberts, Dingle Foot, Emrys Roberts and Edgar Granville, defected to Labour in protest at the Liberal Party's rightward drift, and perhaps also to revive their careers. These years, however, also witnessed the emergence of a new Liberal left, which would assume greater influence in the party after Jo Grimond became leader. The Radical Reform Group, founded in 1953, gave institutional embodiment to this movement.

Several weeks before the 1953 Assembly, a group of Liberal candidates from the Home Counties, led by Peter Grafton, Desmond Banks and an ex-MP, A.J.F. Macdonald, announced the formation of the Radical Reform Group, dedicated to defending 'the policy of social reform without socialism which Liberals have developed from 1908 onwards' against the advocates of 'pure laissez-faire'.[167] As the group explained in an early policy statement, *Radical Aims*, its organizers were

> concerned at the lack of enthusiasm in certain Liberal circles for the welfare society…, for full employment policies along the lines of that advocated by Lord Beveridge, for partnership in industry as set out in the 1948 Liberal Co-ownership proposals and for some form of assured prices for agriculture, approved in 1947 by all three political parties.[168]

Over time, the RRG would become the spearhead of the fight-back against the Smedleyites, but in its early days it was conspicuously unsuccessful at rallying left-Liberal opinion. One problem was that Liberal students such as Timothy Joyce and Derick Mirfin, who shared the RRG's hostility to the free traders, thought it paid too little attention to the need for a dynamic and competitive economy; another was the perception that it sought to be 'a Party within a Party'; a third was the

[167] *MG*, 27 Mar. 1953, 6.
[168] Radical Reform Group, *Radical Aims: A Statement of Policy by the Radical Reform Group* (1954), 2.

enthusiasm which some of its members showed for Lib-Lab cooperation.[169] Indeed, after losing the battle over guaranteed prices in 1953 and 1954, the RRG briefly became a non-party organization, and its first chairman, E.F. Allison, joined the Labour Party.[170] Only after it returned to the Liberal fold at the beginning of 1956 did the RRG really gain momentum. Under Desmond Banks' leadership, the RRG emphasized its loyalty to the Liberal cause, and won the confidence of senior figures such as Dodds, White, and Micklem; it also made a more consistent appeal to young candidates and students.[171] The group's standing in the party would be sealed in 1958, when Jo Grimond agreed to serve as its president.[172]

The ideological character of the RRG, like that of Radical Action a decade earlier, was always somewhat ambiguous, since its leaders were prone to conflate the Smedleyite campaign against state intervention with free-market drift of party policy in general.[173] Many of the group's members seem to have regarded it as a bulwark against the Smedleyites, or merely as a moderate ginger group, as the involvement of Dodds, Micklem and Deryck Abel – all supporters of liberal Keynesian policies – implies. Desmond Banks and other leading figures, however, had a more overtly left-Liberal agenda in mind. Most strikingly, the authors of *Radical Aims* criticized 'Right-Wing Liberals' and *The Economist* for advocating higher unemployment, and argued that inflation should instead be restrained by winning the unions' confidence and introducing co-ownership.[174] Banks reiterated this view in later years, and also felt – in common with Mirfin – that the deficiencies of the existing welfare state were liable to be overstated.[175] More broadly, Banks was discomfited by the emphasis which Frank Paish placed on greater production as the main remedy for poverty, and found the egalitarian approach taken by Labour revisionists such as Anthony Crosland much more appealing.[176]

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[169] *Ahead*, no. 20 (Apr. 1954), 4; Mirfin papers, 1/11, Mirfin to Peter Grafton, 17 Apr. 1953, and 3/1, Desmond Banks to Mirfin, 12 Feb. 1956.
[170] MG, 18 Apr. 1955, 3.
[171] Mirfin papers, 3/1, Banks to Mirfin, 12 Feb. 1956.
[172] Mirfin papers, 3/1, RRG AGM minutes, 8 Feb. 1958.
[173] For contemporary recognition of this ambiguity, see Paul Rose in *MG*, 23 Apr. 1954, 8.
[174] RRG, *Radical Aims*, 10-11, at 10. Significantly, the authors of this pamphlet acknowledged their debt to C.A.R. Crosland, *Britain's Economic Problem* (1953).
[175] *RRG Newsletter*, Dec. 1957, 6-8, and Mirfin papers, 3/1, Mirfin to Nathaniel Micklem, 23 Apr. 1958.
[176] Mirfin papers, 3/1, Banks to Mirfin, 14 July 1956.

The RRG was never a large organization – at its peak, it seems to have had about two hundred members – and it had little impact on Liberal policy-making during the 1950s; if anything, its stylized fight with the Smedleyites seems to have dismayed much of the Liberal rank-and-file.[177] Nevertheless, its intellectual significance within the Liberal Party was considerable, since its members articulated an alternative not only to Smedleyism but to the liberal Keynesian synthesis itself. At a time when liberal Keynesian views were dominant among the Liberal leadership, the RRG played a crucial role in reviving constructive and New Liberal arguments about the instability of markets and the need for state action to facilitate self-development, and in reclaiming Keynes and Beveridge for the radical tradition. The RRG thus paved the way for the party as a whole to turn towards social Liberal policies in the 1960s.[178]

Conclusion

The prevailing image of the Liberal Party under Clement Davies' leadership is one of division and confusion: a party without strategy or purpose, divided over its basic economic principles, and dominated by rival groups of 'faddists' who sought to impose unilateral free trade or compulsory co-ownership on the party's leaders. The evidence presented in this chapter shows that such an image is, at best, only half accurate. Between the extreme free traders and the RRG there stood a large centre ground, which included most of the party's MPs and office-holders. Within this space, free-market criticisms of nationalization, central planning, and state social welfare provision flourished during the post-war decade and chimed with a revival of 'ownership for all' as the party's social objective. The Liberal Party's centre of gravity unquestionably moved rightward, and radicals such as Dingle Foot and Megan Lloyd George were justified in complaining of this. At the same time, it is important to emphasize that this 'drift to the right' took place within a broadly Keynesian policy framework, and that the Liberal leadership remained committed to demand-

[177] Graham Lippiatt, 'Radical Reform Group', *JLH*, 67 (2010), 45-9.
[178] This interpretation contrasts with that offered by Mark Egan, who argues that '[t]here was nothing new about the RRG's thinking' and that the group simply presented 'the mainstream Liberal view' at a time when the party leadership was too weak to do so. See Egan, 'Grass-roots Organisation', 182.

management policies, along with the retention – at least, for the time being – of most of the nationalized industries and the welfare state. Liberal MPs, too, were generally committed to guaranteed agricultural prices, despite the agitation of grassroots free traders. There is no historical justification for conflating the pragmatic free-market Keynesianism adopted by Clement Davies and his shadow cabinet after 1947 with the dogmatic classical Liberalism of the Smedley group.

The liberal Keynesianism of the late 1940s and early 1950s was a credible attempt to apply Liberal principles to Britain's post-war situation in the light of contemporary economic opinion. Indeed, if the Liberals had still been a major party this policy might have served them well, although there good reasons to question whether Frank Paish's remedy for inflation would have been economically effective or politically sustainable. In electoral terms, however, the liberal Keynesian synthesis contributed relatively little to the Liberals' pursuit of revival until after the 1955 general election. In one sense, of course, it is hard to see how any policy could have prevented the Liberals' marginalization in this period. The Attlee government's success in maintaining full employment and extending the welfare state enabled Labour to consolidate working-class support, whilst the Conservatives rebuilt their predominantly middle-class coalition by stressing their moderation and modernity.[179] The close-fought elections of 1950 and 1951 seem to have marked the zenith of this class polarization. One does not need to believe that the Liberals were entirely at the mercy of the blind forces of electoral sociology to suspect that the conditions for a significant national revival largely lay outside the party's hands in these years.

In another sense, though, the content of Liberal policy necessarily shaped the party's political direction in the post-war period. If the Liberals had stuck with the interventionist Keynesianism of *Full Employment in a Free Society*, as Foot, Lloyd George, and the younger left-wingers of the RRG would have preferred, they might have moved closer to Labour during the late 1940s and helped prolong the Attlee government's existence. Instead, the Liberals' reversion to free-market policies after 1945 both reflected and reinforced the anti-planning mood of the austerity years, and helped legitimize the tendency for Liberals and ex-Liberals – including Gilbert Murray and

[179] David Butler and Donald Stokes, *Political Change in Britain: Forces Shaping Electoral Choice* (1969), 247-74; John Bonham, *The Middle Class Vote* (1954), *passim*.

Graham Hutton – to vote Conservative in the early 1950s where Liberal candidates were not standing.[180] To moderate progressives and working-class voters, meanwhile, the party's anti-statist rhetoric too often made it appear conservative and middle-class, as Sir Percy Harris complained after failing to regain his Bethnal Green constituency.[181] Certainly, Labour revisionists in this period showed little interest in Lib-Lab cooperation, and the Liberals also made only modest progress in their rural target seats up to 1959.[182] The Liberals could win protest votes in by-elections, as the experience of the 1955 Parliament showed, but beyond this, liberal Keynesianism added relatively little to the party's appeal; it was certainly no substitute for an electoral and political strategy, which was notably lacking towards the end of the Davies era. It would fall to Jo Grimond, who succeeded Davies as leader in the autumn of 1956, to articulate a more developed vision of the Liberal Party's purpose.

[180] MS. Bonham Carter 171, fos. 146-7, Bonham Carter to Foot, 28 Apr. 1950.
[181] Harris papers, HRS/22, 'The General Election of 1950', by Harris, n.d. [1950].
[182] The main exceptions were North Devon and North Cornwall, where the party recovered strongly in 1955 as a result of vigorous local campaigning: Tregidga, *Liberal Party in South-West Britain*, 149-55.

7. Jo Grimond and the Liberal revival, 1956-1964

The Liberal Party's revival under Jo Grimond's leadership during the late 1950s and early 1960s was a seminal episode in modern British politics. After years in the political wilderness, the Liberal Party returned to public prominence, gained new support and started winning by-elections. Indeed, Eric Lubbock's sensational victory at Orpington in March 1962 raised hopes that the Liberals might regain major party status and return to government. In practice, these ambitions proved wildly over-optimistic, as the party won just nine seats – though more than three million votes – at the 1964 general election. Nevertheless, the Grimond revival placed the Liberals back on the political map as a significant third party. A new generation of activists swelled the party's membership from 76,000 to 350,000 between 1953 and 1964, and helped build a new local government base, especially in small-town and suburban England, whilst the party's national organization and income grew correspondingly.[1] More broadly, Grimond renewed the party's identity as a progressive movement, which aimed to supplant the Labour Party as the fulcrum of the centre-left. It is a commonplace of Liberal historiography that, under Grimond's leadership, 'social Liberalism' was reborn.

Jo Grimond was renowned for his belief that 'the content of politics' was 'all-important', and – as Geoffrey Sell has noted – stands out among twentieth-century Liberal leaders for his interest in ideas.[2] Grimond fostered a lively culture of policy debate within the party, used funding from the Rowntree Trust to establish a Research Department, and recruited a host of academics and outside experts to serve on policy panels, some of whom – such as Michael Fogarty and Christopher Layton – later became parliamentary candidates. The Unservile State Group, the Oxford Liberal Group (founded by Oxford dons in 1959), and the New Orbits Group (formed by young Liberals and students in 1960) also produced a steady stream of ideas, some of which

[1] For membership, see Wallace, 'Liberal Revival', 268, and *LN*, 19 Mar. 1964, 1; for national organization, see Wallace, 'Liberal Revival', 180-244.
[2] Joseph Grimond, *The Liberal Challenge* (1963), 7; Sell, 'Liberal Revival', 25.

Grimond took up in his books *The Liberal Future* (1959) and *The Liberal Challenge* (1963).[3] Existing Liberal advisers and party committees remained important, but Grimond tended to be impatient with the party's policy-making process, and had a habit of flying policy kites which he assumed his colleagues would follow. The contrast with Clement Davies' style could hardly have been greater.

Of course, the contribution which policy made to the Liberal Party's revival must not be overstated, since a series of external factors, including Labour and Conservative missteps, a mood of national introspection following the Suez crisis, and the growth of consumer affluence, helped create conditions in which the Liberals could gain a hearing. 'This new atmosphere', Grimond recognized, was 'much more congenial to Liberalism' than that of the early post-war years.[4] Local organization also played its part in the Liberal revival, and shaped the pattern of Liberal electoral successes, as Mark Egan has shown.[5] It may not, therefore, have mattered that the electorate's knowledge of Liberal policy was relatively low.[6] '[F]ew Liberal supporters', William Wallace has suggested, 'had much [if] any detailed knowledge of their party's policies, beyond [a] vague general image of a youthful and modern but moderate party'.[7] Nevertheless, policy fulfilled some important functions for Grimond's party. Firstly, it helped shape the party's image, fleshing out its claims to be progressive and modern. Secondly, it helped persuade opinion-formers, including press commentators, to take the Liberals seriously. Thirdly, policy objectives seem to have motivated grassroots activism to a significant degree. Egan has found that many Grimond-era recruits took a strong interest in policy, and that constituency campaigning often reflected the leader's progressive tone.[8]

As leader, Grimond reshaped the Liberal Party's ideological orientation, marginalizing the extreme free traders and asserting that Liberalism stood on the centre-left. By the early 1960s, the party's attitude to the state had been transformed, and had come substantially into line with the

[3] Jones, *Revival*, 9.
[4] Grimond, *Liberal Challenge*, 19.
[5] Egan, 'Grass-roots Organisation', *passim*.
[6] Even in 1964, half of Gallup respondents said they did not know what the party stood for: Wallace, 'Liberal Revival', 395.
[7] Ibid., 382.
[8] Egan, 'Grass-roots Organisation', 192-240.

views of social democrats such as Anthony Crosland and John Kenneth Galbraith. Grimond and his colleagues embraced the 'soft left' diagnosis of Britain's relative economic decline popularized by journalists such as Andrew Shonfield and Michael Shanks, and sought to articulate a distinctively Liberal remedy, based on a reassessment of Britain's place in the world, greater investment in infrastructure and public services, and the promotion of competition and innovation in the private sector.[9] Over time, the Liberals' left turn would pave the way for cooperation with moderate elements in the Labour Party under David Steel's leadership, in the form of the 1977-8 Lib-Lab Pact and the SDP-Liberal Alliance. However, there are important paradoxes here. One is that Grimond himself frequently viewed the state with suspicion, and never had much sympathy for the Labour Party. The liberal Keynesianism of the 1950s certainly seems to have come more naturally to him than his 1960s enthusiasm for indicative planning. Another paradox is that it is not clear that the heavy involvement of experts and intellectuals made for better Liberal policy. As the Liberal revival progressed, the pursuit of votes and the assumption that rapid economic growth could be achieved seem to have led the party to evade hard choices in the distribution of public spending, and to overlook the problems which indicative planning entailed. The implications of rapid growth for external economic policy – that is, the value of sterling – also received insufficient attention. Some activists, at least, felt that the party's intellectual inheritance had been abandoned in its headlong pursuit of economic modernization.[10] As long as Grimond was leader, this charge gained little traction, but under his successors Jeremy Thorpe and David Steel there would be a widespread sense that Liberalism had lost its cutting edge.

This chapter explores the development of Liberal economic policy under Grimond's leadership, up to the 1964 general election. It shows that the liberal Keynesianism of the 1950s was supplanted after 1959 by a new policy, oriented around indicative planning, which was designed to reverse Britain's relative economic decline by raising the growth rate. The constructive Liberal tradition was partly rehabilitated, although Grimond's new synthesis also emphasized the value of competitive markets and suggested that the state could harmonize economic interests through

[9] The classic analysis of 'declinism' in this period is Tomlinson, *Politics of Decline*.
[10] For instance, R. Irvine Smith in *LN*, 24 Feb. 1962, 4.

persuasion rather than coercion. This shift in Liberal policy had significant implications for wider policy debate. In the late 1950s, the Liberals' improving by-election performances added to pressure on the Conservative government to conquer inflation and defuse a growing 'middle-class revolt'. By contrast, Liberal successes in the early 1960s amplified declinist concerns about slow growth and stagnation, and reinforced policy imperatives which were pushing the government towards indicative planning and higher public spending.

The economics of Jo Grimond

From the very beginning of his political career, Jo Grimond possessed a strong sense of what political Liberalism ought to be. As Peter Barberis points out, Grimond's educational background at Balliol College, Oxford, in the 1930s – where he studied history, then switched to PPE – would have brought him into close contact with T.H. Green's idealist Liberalism, with its emphasis on concepts such as the community, the good life, and the public interest.[11] Perhaps because of this, Grimond consistently regarded Liberalism as a humanitarian creed, informed by empirical judgments, and was impatient with attempts to define it in terms of economic principles. In a 1953 article for *Political Quarterly*, for instance, he argued that the Liberal Party had declined from the late nineteenth century onwards precisely because its members 'forgot that man is a social animal who has always lived in communities', and relaxed their attempts to ameliorate poverty and injustice by state action.[12] Unsurprisingly, then, Grimond was deeply hostile to the Smedleyites, and defended guaranteed prices at the 1953 Assembly, insisting that Liberals had to be concerned above all with the lives of human beings.[13] He was also keen to broaden the Liberal message beyond economic issues, and to identify the party more strongly with progressive positions on foreign policy, decolonization, and European integration.

Grimond did not, however, regard economic policy with indifference. He had gained a decent foundation in economic theory at Balliol, and put this to good use in later life: as a young MP, for

[11] Barberis, *Liberal Lion*, 13.
[12] Joseph Grimond, 'The principles of Liberalism', *Political Quarterly*, 24 (1953), 236-42, at 237.
[13] *MG*, 11 Apr. 1953, 2.

instance, he often spoke on economic issues.[14] Since he conceived Liberalism as a dynamic and humanitarian movement, Grimond saw no objection in principle to advocating interventionist measures, and in the mid-1940s he was a staunch supporter of Beveridge's full employment policy.[15] Later, as we have seen, Grimond defended guaranteed prices, and pressed for the creation of a development board which would build roads, piers and housing in the Highlands.[16] Nevertheless, Grimond's revulsion at Marxist doctrine made him receptive to arguments against state intervention, as he later recalled in his memoirs:

> I was convinced that Socialism as an all-embracing creed, and that is what it claims to be, was wrong – morally wrong and practically inefficient… I believed that only individuals had any ultimate value and that therefore any system such as communism, which treated them as means and subordinated them to the state, must be evil.[17]

During his years as Clement Davies' chief whip, Grimond became known for his forthright espousal of liberal Keynesian views, tinged with a belief in the significance of the money supply. Indeed, this remained the case during the early part of his leadership. Like his predecessor, he developed a close working relationship with Frank Paish, and broadly echoed Paish's policy recommendations. Grimond also met relatively frequently with journalists such as Donald Tyerman of *The Economist* and Donald McLachlan of the *Daily Telegraph*.[18] In economic matters, at least, these men seem to have exerted more influence on Grimond's thinking during the 1950s than his more radical associates, such as Alastair Hetherington of the *Manchester Guardian* or the members of the Radical Reform Group.

Grimond's nuanced policy views enabled him to command support from the bulk of the Liberal Party, with the Smedleyites – predictably – being the exception. Just as importantly, Grimond was convinced that the times were ripe for a Liberal revival, since social changes were beginning to dissolve the class divisions on which the two-party system rested. The future of British politics, he argued, rested with 'the new technicians of the atomic era', who would 'live in a

[14] McManus, *Jo Grimond*, 26, 99-100.
[15] Beveridge papers, VI/14/2/27, Grimond to C.P. Fothergill, 11 July 1945.
[16] McManus, *Jo Grimond*, 93-4.
[17] Grimond, *Memoirs*, 152.
[18] Grimond papers (dep. 363), 1, engagement diaries of Jo Grimond, 1952-60.

land between the old working and the old middle-classes'.[19] Grimond also floated from an early stage the idea of a party realignment. A conservative party, of course, would always exist, but there was no reason why the British left should be dominated by socialists in perpetuity. Grimond hoped that the Liberal Party might become the centre of a non-socialist progressive movement, which moderate Labour elements and progressive Conservatives could join. Ultimately, Grimond declared, the Liberals aimed 'to replace the Labour Party as the Progressive wing of politics in this country'.[20]

In his first year as Liberal leader, Grimond worked to sharpen the party's identity as 'the only Progressive Non-Socialist Party' (a slogan added to the *Liberal News*' masthead in July 1957) and develop his own public profile. At one level, he aimed to demonstrate the Liberals' responsibility and moderation, providing 'an alternative which people who had voted Conservative could contemplate without alarm'.[21] At the same time, two bold policy moves were intended to underline the party's radicalism and relevance. Firstly, Grimond declared that Britain should abandon its independent nuclear deterrent in favour of participation in a shared western nuclear capability.[22] Quite apart from pacific motives, and the hope of stimulating multilateral disarmament, Grimond argued that abandoning the British H-bomb would save the Exchequer £200,000,000, and so help relieve inflation. Secondly, with encouragement from his mother-in-law Violet Bonham Carter, Grimond steered the party towards support for British membership of the new European Common Market.[23] Free traders were alarmed by the Common Market's external tariff, but most of the party accepted the argument that political integration was intrinsically desirable, and that the grouping could become a first step towards wider trade liberalization if British Liberals were involved in it.[24] Over time, indeed, the prospect of Common Market membership provided a useful means of

[19] *LN*, 29 July 1955, 1.
[20] *LN*, 20 Nov. 1958, 2.
[21] Grimond, *Memoirs*, 201.
[22] *LN*, 5 Apr. 1957, 1. On Liberal attitudes to this policy, see Rasmussen, *Liberal Party*, 123-8.
[23] Baines, 'Survival', 117.
[24] For instance, Sir Arthur Comyns Carr in *LN*, 13 Oct. 1960, 2.

marginalizing the Smedleyites and reconciling the party as a whole to agricultural subsidies. The anti-Marketeers would eventually be routed at the 1960 Assembly.[25]

The Liberals and the 'middle-class revolt', 1955-9

Grimond's vision of realignment required the Liberal Party to win 'converts' and 'allies' from liberal-minded voters across the political spectrum, but especially on the centre-left.[26] Grimond wanted to appeal to 'the frustrated idealists of the Labour Party', as well as to the 'many Tories who are horrified by Suez, Cyprus, Nyasaland and the treatment of [rebel Conservative MP Nigel] Nicolson'.[27] As nuclear weapons, decolonization, and Common Market entry became more salient, Grimond argued, the issue agenda was moving onto Liberal terrain, while the Labour Party, obsessed with public ownership, was becoming a spent force.[28] Nevertheless, the Liberals had to gain electoral traction if they wanted to be taken seriously. Consequently, during the 1955 Parliament, Grimond was happy to maintain an electoral strategy which reaped its largest rewards among the discontented middle class.

Inflation was the central theme of the Liberal campaign in 1955, as we have seen in the previous chapter. At national level, at least, the party was happy to target middle-class voters on this issue; its only television broadcast featured Mr. and Mrs. Hastings, a middle-aged, middle-class couple who had usually voted Conservative, putting questions to Frank Byers and John Arlott.[29] In by-elections, there was even more scope to harness protest votes against the rising cost of living. Grimond made this appeal most explicitly at the Torquay by-election in December 1955, where he spoke for Liberal candidate Peter Bessell:

> Let there be no doubt that a continuance of a Conservative Government under the present leadership will mean the extinction of the middle classes and grave hardship to those who are not highly organised…

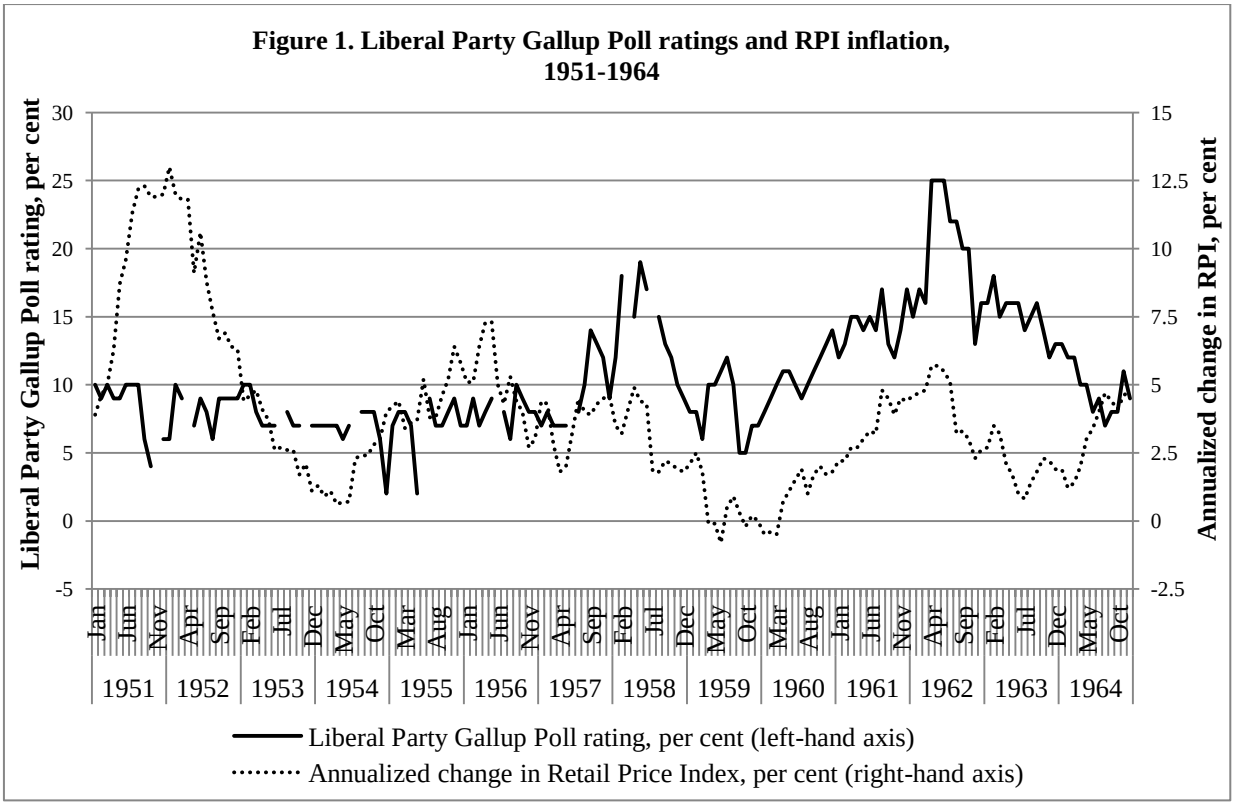
[25] This episode is discussed in detail by Muriel Burton, 'The Making of Liberal Party Policy, 1945-1980' (unpublished University of Reading Ph.D. thesis, 1983), 230-322.
[26] *LN*, 22 Apr. 1955, 1.
[27] *LN*, 24 Sept. 1959, 6-7, at 6.
[28] *LN*, 9 July 1959, 1.
[29] *MG*, 20 May 1955, 16.

> A by-election gives the people an opportunity to express its dissatisfaction with the current behaviour of the Government even if they have not yet made up their minds that the Party in power should be changed. There is no question whatever of removing the Conservative Party from power. There is a wonderful opportunity, however, of saying to them in unmistakable language that if they want to retain the confidence of the people they must honour their pledges and bring some new thought on our vital problems.[30]

The Liberals' improving by-election performances during the 1955 Parliament are best understood in this frame. At Hereford in 1956, Gloucester and Ipswich in 1957, and Rochdale and Torrington in 1958, rising inflation figured as a major issue, and Liberal candidates criticized the government for failing to tame it.[31] A detailed NOP poll at Rochdale found that the Liberals' new support came mainly from ex-Conservatives, and disproportionately involved female voters, who tended to be more concerned than men about the cost of living.[32] Strikingly, too, as Figure 1 shows, the Liberals' Gallup Poll rating closely tracked the inflation rate from 1957 onwards. Conservative ministers and strategists certainly viewed the Liberals' success as part of a larger 'middle-class revolt', and noted that Liberal support fell away sharply in 1958-9 as inflationary pressures receded.[33]

[30] *LN*, 9 Dec. 1955, 1.
[31] *LN*, 3 Feb. 1956, 1, 6 Sept. 1957, 1, and 11 Oct. 1957, 1; MS. Balfour 30/4, 'Rochdale', 14 Feb. 1958, and 'Torrington and a Liberal Revival', 27 Mar. 1958.
[32] CPA, CRD 2/21/5, 'An Analysis of the Voting in the Rochdale By-Election', NOP report for Conservative Central Office, n.d. [Feb. 1958].
[33] E.H.H. Green, 'The Conservative Party, the state and the electorate, 1945-64', in Jon Lawrence and Miles Taylor (eds.), *Party, State and Society: Electoral Behaviour in Britain since 1820* (Aldershot, 1997), 176-200, at 192-3; CPA, CRD 2/21/5, 'Report of Public Opinion' by David Dear, 9 Oct. 1958.

Figure 1. Liberal Party Gallup Poll ratings and RPI inflation, 1951-1964



The Liberals' crusade against inflation helped place the party back on the political stage. Mark Bonham Carter's victory at Torrington, especially, compensated for the 1957 loss of Carmarthen (which had been won for Labour by Megan Lloyd George) and allowed Grimond to claim that the party was growing again. Clearly, however, there was no long-term future for Liberalism in appealing to the disaffected middle class, as Grimond readily acknowledged:

> The fact is that we are a progressive party or we are nothing. We shall never get and we do not want the die-hard Tory vote. They have a perfect right to their opinions, and they are invariably ignorant.[34]

As the 1959 general election approached, then, Grimond began a subtle repositioning, and stepped up his rhetoric about replacing the Labour Party. Although the Liberals remained concerned about the cost of living, they focussed increasingly on appealing to 'the left of the political rainbow' on issues like defence, the Common Market, and co-ownership in industry.[35] For this election, the party had two aims. Its tactical objective was to win more seats in Parliament by targeting

[34] *LN*, 24 Sept. 1959, 7.
[35] *LN*, 9 July 1959, 1.

winnable constituencies, mostly in rural areas, such as North Devon, North Cornwall, Anglesey, Hereford, and Inverness. Anti-inflationary rhetoric was still likely to play well in these areas, and Liberals privately seem to have hoped for six or seven gains.[36] The strategic objective, meanwhile, was to start winning over progressive voters more generally, and 'to assert ourselves', as Frank Byers put it, 'as the real, effective challenge to Toryism'.[37]

The 1959 election, broadly speaking, was a strategic success but a tactical failure. With falling inflation, growing prosperity, and a huge publicity budget, the Conservatives were well placed to win a third term, but the Liberal vote still rose to 1,600,000, with the party making progress – mainly at Labour's expense – in southern England, the Midlands, and the London and Manchester suburbs. The Liberals, like the Conservatives, seem to have benefited from the spread of affluence, and Labour's emphatic defeat seemed to confirm Grimond's argument that socialist policies had little appeal to the new middle class.[38] However, the Liberals did worst in their target constituencies, and remained marooned on six seats overall, losing Torrington whilst gaining the neighbouring North Devon, where Jeremy Thorpe stood. The Liberal revival, *The Guardian* concluded, had received a 'gentle push' from the election, rather than the 'catapult' for which Grimond had hoped.[39]

Despite this disappointment, Grimond rapidly moved on to the next stage in his plan. On the weekend after the election, he used an interview in *The Observer* to call on moderate Labour elements to join the Liberals in a new movement, in order to make progressive opinion 'more united and effective'.[40] As Labour descended into internecine conflict over Clause IV, Grimond reached out to that party's revisionist wing and began to advocate cooperation around a common programme. With Hugh Gaitskell as party leader, and the Liberals still electorally weak, most Labour politicians were unreceptive to these overtures, and no significant realignment would take place during the 1959 Parliament. Nevertheless, Grimond's desire to attract support from moderate

[36] *LN*, 15 Oct. 1959, 1, 3; CPA, CCO 3/5/94, A. Bowen-Gotham to C.F.R. Bagnall, 10 Apr. 1959.
[37] *LN*, 15 Oct. 1959, 3.
[38] For suggestive (though hardly conclusive) evidence of Liberal progress among affluent workers, see *The Guardian*, 29 Oct. 1959, 22, and 17 Nov. 1959, 8; and Mark Abrams and Richard Rose, *Must Labour Lose?* (Harmondsworth, 1960), 43.
[39] *The Guardian*, 10 Oct. 1959, 6.
[40] *The Observer*, 11 Oct. 1959, 1.

progressives, both in the Labour Party and in the electorate at large, helped set the context for Liberal policy development in the 1960s.

The rise of 'growth consciousness'

By the late 1950s, the liberal Keynesianism which Liberals and Conservatives had espoused for the previous decade was going out of fashion. If the overheating boom of 1955 had made R.A. Butler seem incompetent, the disinflationary policy that followed proved unpopular, and its most forthright proponent, Peter Thorneycroft, was easy to caricature as a reactionary. Butler, in his earlier optimism, had articulated the goal of doubling Britain's living standards in twenty or twenty-five years, but industrial production stagnated between 1955 and 1958, and it seemed that economic growth was being sacrificed to the conquest of inflation and the maintenance of external stability. In this period, as Terence Hutchison and Jim Tomlinson respectively have noted, 'growth consciousness' became widespread and 'declinism' was invented.[41] Economic journalists, led by Andrew Shonfield of *The Observer*, played a key role in this process by drawing attention to Britain's slow growth rate in comparison with her continental rivals.[42] By the turn of the 1960s these economic arguments were embedded in a wider 'state-of-the-nation' literature, typified by Michael Shanks' *The Stagnant Society* (1961), which linked slow growth with Britain's perceived social and cultural conservatism, the enduring dominance of the 'establishment', and the persistence of class divisions and restrictive practices in British industry.[43]

Andrew Shonfield's 1958 analysis of *British Economic Policy Since the War* deserves particular attention, since it was one of the earliest declinist works and – like Shanks' book – a widely-read Penguin Special. Shonfield attributed Britain's growth problem to the government's preoccupation with the defence of sterling, its habit of curtailing investment when faced with balance of payments crises, and the strain which large defence spending and other external

[41] Hutchison, *Economists*, 126; Tomlinson, *Politics of Decline*, 30.
[42] Glen O'Hara, '"This is what growth does": British views of the European economies in the prosperous "golden age" of 1951-73', *Journal of Contemporary History*, 44 (2009), 697-718.
[43] Matthew Grant, 'Historians, the Penguin Specials and the "state-of-the-nation" literature, 1958-64', *CBH*, 17 (2003), 29-54.

payments placed on the economy. As a solution, he argued, the government should take a political decision to prioritize growth, and develop a five-year plan to double Britain's growth rate by raising productive investment and setting annual production targets for industry. Balance of payments difficulties would be prevented by reducing overseas commitments and reviving exchange controls; inflationary pressures could be dealt with through a wages policy, introduced for a defined period by agreement with the TUC.[44]

The idea of planning for growth gained currency most rapidly among Oxbridge-based economists and Labour politicians, who regarded inflation primarily as a cost-push phenomenon and had always been sceptical of monetary fine-tuning. The Labour Party, indeed, fought the 1959 election on a platform of 'planned expansion' which largely followed Shonfield's line. However, young Liberal activists inside and outside the Radical Reform Group were also receptive to this analysis. As we have seen, the RRG's 1953 pamphlet *Radical Aims* fiercely criticized Frank Paish's deflationary approach, and urged that inflation should instead be tackled through co-ownership and wage restraint.[45] When Peter Wiles judged essays on 'Inflation' in a competition for young Liberals in 1956, he found that these views were widespread:

> Certain Party circles should be dismayed at the emphasis on State control in almost all entries, to the neglect of the quantity of money and, even more so, Free Trade. If this is what the younger generation thinks, Liberal policy is in for a change.[46]

In similar vein, the young candidate Evan Richards argued that the true Liberal cure for inflation was to raise the national income and link wage rates to productivity.[47] Richards also advocated a twenty-year programme of 'specific industrial and social measures', focussing on fuel and power, rail electrification, road-building and coastal defences, which would give the nation a positive purpose – and revive 'the spirit of the great Yellow Book'.[48]

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[44] Andrew Shonfield, *British Economic Policy Since the War* (Harmondsworth, 1958).
[45] RRG, *Radical Aims* (1954), 10-11.
[46] Graham White papers, WHI/15/4/70, 'Ramsay Muir Memorial Prizes', report by P.J.D. Wiles, 15 July 1956.
[47] *LN*, 29 Mar. 1957, 2.
[48] *LN*, 15 July 1955, 1.

Shonfield's analysis involved a significant departure from the Liberal Party's existing policy, but it commended itself to Grimond and his colleagues for several reasons. Firstly, it fitted well with the party's approach to foreign policy, which involved abandoning Great Power pretensions, reducing defence spending, and engaging with continental Europe. Secondly, many Liberals were already concerned by Britain's slow growth rate – the subject of Graham Hutton's lecture to the 1957 Liberal Summer School – and were impressed by suggestions from economists that fine-tuning was not working.[49] The Radcliffe Committee's 1959 report seemed to provide authoritative support for the latter point. Thirdly, the Liberals were already committed to higher investment in several fields, such as road-building, where a party committee chaired by Peter Bessell had recommended investing an extra £750,000,000 over the next decade.[50] The Shonfield approach suggested there was no reason to restrain this investment for macroeconomic reasons. Finally, a growth-oriented policy rescued Liberals from the uncomfortable position of advocating a deliberate rise in unemployment. This was the natural corollary of Paish's approach, but it had never been easy for Liberals to stomach. When unemployment rose to more than 600,000 – roughly 3 per cent of the workforce – in winter 1958-9, Liberal MPs took fright, and called for measures to reduce it. Unemployment was 'a human tragedy', Mark Bonham Carter pointed out, as well as an economic problem.[51]

New political imperatives, a changing intellectual climate, and generational turnover within the Liberal Party together caused Grimond to embrace the vogue for growth. During 1960 he became a vocal advocate of higher public investment, and used a pamphlet entitled *Let's Get On With It* to echo John Kenneth Galbraith's complaint that private opulence was coexisting with public squalor.[52] At the same time, Grimond recast his criticism of prestige projects like the British nuclear deterrent, arguing not that they caused inflation but that they took resources away from more necessary uses. The crucial shift to indicative planning, however, came in an April 1961

[49] For Hutton's address, see *LN*, 9 Aug. 1957, 1; for appreciation of the limits of fine-tuning, see Grimond, *Memoirs*, 211.
[50] *LN*, 15 Nov. 1957, 3.
[51] *LN*, 12 Mar. 1959, 1; see also Arthur Holt in *LN*, 26 Feb. 1959, 1.
[52] *The Observer*, 29 May 1960, 8; Jo Grimond, *Let's Get On With It* (1960), quoted in McManus, *Jo Grimond*, 412-3.

pamphlet, *Growth not Grandeur*, drafted for Grimond by the party's new research director, Harry Cowie.[53] The pamphlet proposed a 5 per cent growth target, an independent growth agency, and production targets for industry on the French model, as part of a general drive for modernization; Grimond apparently demurred at this interventionist approach, but signed the pamphlet anyway.[54] Young activists such as Frank Ware and Patrick Furnell joined Cowie in pressing indicative planning on Grimond, and acted as out-riders for the policy within the party, while more senior radicals like Desmond Banks, who chaired the LPO executive from 1961 to 1963, were also enthusiastic.[55] At the 1961 Assembly in Edinburgh, delegates approved a resolution calling for a five-year plan by an 'overwhelming majority', despite opposition from Heather Harvey, one of the party's treasurers, and the veteran electoral reformer Enid Lakeman.[56] With one bound, *The Guardian* concluded, the Liberals had 'moved decisively to the Left', and 'finally buried their unreconstructed Gladstonians'.[57]

From the Edinburgh Assembly up to the 1964 general election, and indeed for the rest of the 1960s, Liberal economic policy was framed around growth and indicative planning. The extent of the party's theoretical shift was rarely acknowledged, but it is significant that the Economic Advisory Committee was disbanded, and that Grimond named Christopher Layton, *The Economist*'s expert on European cooperation, as the party's new economic spokesman. The reservations about planning which Liberals had held since the 1940s seem to have evaporated. It is therefore worth considering in detail the character of the party's new programme.

The dimensions of Liberal planning

On the centre and right of British politics, the memory of the Attlee government cast a long shadow over the idea of planning. Despite its superficial appeal, state planning in practice seemed

[53] Interview with Harry Cowie, 26 Sept. 2012.
[54] Jo Grimond, *Growth not Grandeur* (1961); Barberis, *Liberal Lion*, 105.
[55] Frank Ware, *5 Year Plan: Social Objectives, Industrial Growth, Taxation Reform* (1961); *LN*, 13 Apr. 1961, 2, and 8 June 1961, 5.
[56] *LN*, 28 Sept. 1961, 4-5, 8, at 5.
[57] *The Guardian*, 25 Sept. 1961, 8.

to be austere, wasteful, and coercive, bearing out the theoretical criticisms offered by Hayek and others; Grimond, indeed, spent most of the 1950s encouraging this impression. When the Liberals turned back to planning in the 1960s, then, they took pains to emphasize that their plans differed from the socialist variant. Liberal plans would be oriented towards growth, rather than restriction; they would respect private enterprise and promote competition; and they would guide economic development along broad lines, instead of attempting detailed direction.[58] Rhetorically, at least, many of these arguments echoed those used by Liberal planners during the 1930s and 1940s. Most strikingly, Grimond's argument that planning was safe under Liberals, because they realized that 'all planning is for people', echoed the riposte which Keynes and Beveridge had made to Hayek.[59]

The new Liberal planners self-consciously identified with earlier interventionists. 'Economic planning is not new to the Liberal party', Patrick Furnell emphasized:

> It was there in the Yellow Book of 1928; it re-appeared in Beveridge's "Full Employment in a Free Society". Now it needs to be brought up to date.[60]

In their emphasis on institutions, government's coordinating role, and the need to plan ahead, the new planners stood firmly in the constructive tradition. At the same time, the idea that the state should articulate the public interest, set positive goals for the community, and hold the ring between different sectional groups broadly echoed New Liberal thinking. Furnell, indeed, cited T.H. Green in support of the view that the 'community interest' required a national incomes policy.[61] On the other hand, Grimond and his colleagues continued to conceive the state's role as providing a framework for economic activity, and many of the fields in which they advocated greater public spending, such as roads and education, had been widely acknowledged as suitable fields for state action for more than a century. The planners' innovation lay in applying the concept of a framework to production decisions and wage determination. Lippmann and Hayek had argued

[58] See especially Grimond, *Liberal Challenge*, 137-54.
[59] *LN*, 28 Sept. 1961, 5; Keynes to Hayek, 28 June 1944, in *JMK*, XXVII, 385-8; Sir William Beveridge, *Why I am a Liberal* (1945), 10, 37-8.
[60] *LN*, 8 June 1961, 5.
[61] *LN*, 7 Sept. 1961, 5.

that the state should lay down rules of the road; Furnell now asked why it should not set 'a Highway code for incomes'.[62]

France, with its enviable growth record, provided the main model for the Liberals' planning proposals, although as Glen O'Hara points out Britons often had a sketchy understanding of what French planning involved.[63] As one *Liberal News* contributor explained it, the French system of indicative planning was designed to focus the nation's attention on the need for higher output – 'psychological factors are far more important than mere machinery' – and to persuade sectional interests 'to pool their efforts for the common good'.[64] At the heart of the French system was the Commissariat du Plan, which organized the process of consultation between firms, government, and trade unions and set production targets in the light of a national target for economic growth. The French state backed up the plan by using its control of public investment, along with tax incentives, loans, and guarantees to private firms, to channel capital into priority sectors. Grimond called for a similar growth agency to be established in Britain, and welcomed the creation of the National Economic Development Council by Selwyn Lloyd, but emphasized that the government had to take responsibility for setting the growth target and for bringing the two sides of industry together.[65] Later, Grimond and Layton called for NEDC to be developed into a fully-fledged Ministry of Expansion.[66] Grimond's 5 per cent growth target, meanwhile, copied a different overseas model: it was the same as President Kennedy's target for the US economy.

The Liberals shared fully in the 'growthmanship' which Colin Clark diagnosed in this period.[67] Nevertheless, they were adamant that growth was desirable as a means to social ends, rather than an end in itself.[68] Higher industrial production would facilitate the modernization of Britain's infrastructure and a much-needed expansion of the welfare state. Galbraith's vision of a civilized society was influential here; so too was the ongoing 'rediscovery of poverty' by Peter

[62] *LN*, 14 Sept. 1961, 5.
[63] O'Hara, *From Dreams to Disillusionment*, 21. On the development of indicative planning in France, see Richard F. Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century* (Cambridge, 1981), 219-71.
[64] *LN*, 2 Nov. 1961, 5.
[65] Grimond, *Growth not Grandeur*; H.C. Deb., fifth series, 651, 18 Dec. 1961, 1029-36, and 657, 10 Apr. 1962, 1189-96.
[66] *LN*, 30 Mar. 1963, 5, and 21 Sept. 1963, 2.
[67] Colin Clark, *Growthmanship: A Study in the Mythology of Investment* (1961).
[68] Ware, *5 Year Plan*, 3.

Townsend, Brian Abel-Smith, and other social scientists. To their existing plan for road-building, the Liberals added a ten-year plan for education – including a doubling of full-time university places, a new school-building programme, and the promotion of comprehensive schools – and a pledge to build 500,000 new homes each year. The party also promised an overhaul of welfare payments, including an increase in the basic pension to half average earnings, financed by a new social security tax on payrolls.[69] Of course, as Rodney Lowe has shown, the Conservative government embarked on ambitious plans for expanding state welfare in 1962-3, including Sir Keith Joseph's Hospital Plan and the university expansion outlined in the Robbins report.[70] The Liberals, however, promised to go further and faster.

Tax reform was another element of the Liberals' modernization project. With such large spending commitments, the party could no longer promise overall tax cuts, but it could rationalize the tax system and sharpen incentives by shifting the burden from earnings to expenditure and capital. Grimond called for income tax and surtax to be merged, with a single graduated scale, and argued that a capital gains tax and land value taxation would offset any revenue loss.[71] (Indeed, partly in response to housing shortages and Rachmanism, land value taxation gained renewed prominence in these years.) The Liberal leader also advocated a flat-rate corporate tax in place of profits tax, and proposed to replace purchase tax with a general sales tax. These proposals were drawn together into a radical tax reform package by a party committee on taxation, chaired by Professor Geoffrey Wheatcroft, in 1961-2.[72] The overall objective was to remove 'artificial complications' from the system, make it easier to use fiscal policy to regulate demand, and encourage innovation and competition.[73]

At the level of the product market, it should be emphasized, the Liberals remained vocally committed to free competition. Growth required that Britain should be internationally competitive, and both tariff cuts and Common Market membership were advocated as means of forcing British

[69] *LN*, 16 Mar. 1963, 5; *Liberal Manifestos*, 112-4.
[70] Rodney Lowe, 'The replanning of the welfare state, 1957-1964', in Martin Francis and Ina Zweiniger-Bargielowska (eds.), *The Conservatives and British Society, 1880-1990* (Cardiff, 1996), 110-35.
[71] H.C. Deb., fifth series, 639, 4 May 1961, 1686-91, at 1688.
[72] Liberal Party, *Taxation: A Report to the Liberal Party* (1962).
[73] Ibid., 3-6, at 6.

firms to reduce their costs.[74] The Liberals also called for the abolition of retail price maintenance, which the Conservatives eventually carried through in 1963-4, and for stronger anti-trust measures, including powers for the Monopolies Commission to block mergers.[75] Trade unions' restrictive practices were equally damaging, and would need to be abandoned. Christopher Layton believed that cost and price reductions could help reduce wage inflation, and the NEDC's 1963 report on *Conditions Favourable to Faster Growth* provided semi-official support for these Liberal arguments.[76]

In relation to investment and incomes, by contrast, the Liberals took a much more interventionist approach. The idea of setting targets for particular industries and interfering with the distribution of investment was, of course, a marked departure from free-market principles, but it aroused relatively little controversy, perhaps because it was never fleshed out in detail. Wage determination enjoyed much greater prominence, as a result of Selwyn Lloyd's 1961-2 'pay pause' and the government's subsequent 'guiding light' policy. The Liberals advocated an incomes policy based on two 'guiding lights', an average and a ceiling, and insisted that rents, profits and dividends should be included in it; they also suggested using the tax system to penalize firms and employees that exceeded the ceiling, an idea which Peter Wiles and the North Cornwall MP John Pardoe would develop into an 'inflation tax' in the 1970s.[77] Within this framework, the Liberals were keen to promote plant-level bargaining on the American model, and to link wage increases to productivity.[78] Grimond and his industrial relations expert, Michael Fogarty, believed that trade unions could be persuaded to accept these reforms if they were combined with measures to raise workers' status and security, for instance by making employment contracts obligatory, abolishing distinctions between manual and non-manual workers, and promoting workers' participation.[79]

[74] *LN*, 11 Aug. 1960, 4; Grimond, *Growth not Grandeur*.
[75] *Current Topics*, 1/9 (Feb. 1962), 12-15; *LN*, 3 Mar. 1962, 2.
[76] *LN*, 2 Mar. 1963, 1.
[77] Michael Fogarty, *Opportunity Knocks* (1961); Liberal Party papers, 2/1/170-8, LPO Council minutes, 25 May 1963, at fos. 171-2.
[78] *Current Topics*, 1/9 (Feb. 1962), 2-4.
[79] *Current Topics*, 2/4 (Nov. 1962), 19-23.

Profit-sharing was quietly downplayed, but the 1962 Assembly passed a resolution which called for all workers to have the right to elect company directors.[80]

Finally, it must be noted, the Liberals continued to support demand management within a national plan. Under a Liberal government committed to 5 per cent growth, of course, unemployment seemed unlikely to be a problem; but in 1962-3 it was a major political issue, as cautious Conservative policies and severe winter weather pushed joblessness to its highest level since the war. Christopher Layton and Arthur Holt, who served as economic spokesman in the House of Commons, recommended an immediate income tax cut to stimulate consumer spending.[81] In a return to Keynesian orthodoxy, fiscal rather than monetary policy was now the preferred demand-management tool. At the same time, Liberals recognized that unemployment was concentrated in Scotland, Northern Ireland and northern England, and emphasized the need to attend to this regional dimension. Grimond called on the government to develop its 1960 Local Employment Act into a more comprehensive regional policy, using loans, grants and investment allowances to broaden the industrial base of struggling regions.[82] Under a Liberal government these measures would form part of regional development plans, drawn up by elected regional authorities.[83]

Taken as a package, the planning proposals which the Liberal Party adopted during the early 1960s overlapped significantly with the modernization agenda that Harold Wilson evolved in the same period, first as Shadow Chancellor and then as Labour leader. Not only was Wilson's rhetoric very similar to Grimond's, but the large number of policies which both parties advocated – such as a national growth target, a capital gains tax, and higher public investment – reflected the extent to which they drew on common intellectual sources. Nevertheless, the ideological differences between 'Wilsonism' and Grimond's Liberalism must also be recognized. As Ilaria Favretto has shown, Wilson used declinist ideas to buttress views on planning, investment, and efficiency which he had held since the 1940s, and argued that scientific and technological developments had to be

[80] *LN*, 29 Sept. 1962, 2.
[81] *LN*, 9 Mar. 1963, 1.
[82] *LN*, 15 Dec. 1962, 1.
[83] Liberal Party papers, 2/2/8-14, LPO Council minutes, 26 Oct. 1963, at fo. 9.

controlled by the state, if necessary through public ownership.[84] By contrast, Grimond and his colleagues retained the traditional Liberal belief that competitive private enterprise was the mainspring of economic progress, and emphasized the indicative character of the planning measures they advocated.

The Liberals and the New Right

Jo Grimond's new-found enthusiasm for indicative planning did not go wholly unchallenged in the Liberal ranks. Among veteran activists, especially, scepticism seems to have been relatively widespread. Heather Harvey, for instance, thought the five-year plan policy was 'a staggering hotch-potch', riddled with 'vagueness and inconsistencies', which gave little indication of how faster growth could be achieved; Leonard Behrens was equally alarmed by the prospect of a statutory incomes policy, and Nathaniel Micklem wondered how this could be reconciled with the party's historic commitment to the market.[85] The Smedleyites naturally took a similar line. In the party at large, however, these were isolated voices, which carried little weight with most Liberal members. Many new recruits had radical instincts, or were simply prepared to trust Grimond's judgment; for others, the party's electoral successes seemed to vindicate its new policy. In consequence, there was no concerted attempt to return the party to a liberal Keynesian line.

One significant cleavage did exist within the planning group, although it did not emerge into the open until after the 1964 election. This concerned the external implications of a growth strategy: in particular, whether sterling should be devalued to facilitate rapid growth. Christopher Layton was adamant that Britain should 'put growth before the pound', but Grimond seems to have been sceptical towards devaluation, perhaps partly because Paish – who retained Grimond's ear – strongly opposed it.[86] Grimond and Layton floated devaluation during the 1966 election campaign, but the party remained deeply divided on the issue, and a plan for a 'creeping devaluation' devised

[84] Ilaria Favretto, '"Wilsonism" reconsidered: Labour Party revisionism 1952-64', *CBH*, 14 (2000), 54-80.
[85] *LN*, 28 Sept. 1961, 5; 19 Oct. 1961, 2; and 1 June 1963, 1, 8.
[86] Liberal Party papers, 16/27/29-33, LPO press release of speech by Christopher Layton on 'Prices, Incomes and the Creation of Wealth', 3 Sept. 1964, at fo. 33; for Paish's influence on Grimond, see Richard Lamb in *New Outlook*, 62 (Mar. 1967), 3.

by young Liberal economist John Williamson offered only a partial resolution.[87] Like both Labour and the Conservatives, then, the Liberals found it difficult to come to terms with the implications of a growth-oriented policy.[88] The failure to establish a clear line on this point is a serious indictment of the Liberals' planning exercise.

The Liberals' conversion to planning contributed to the breach between the party and some of its free-market supporters which took place during this period. It was the Institute of Economic Affairs, after all, which published Colin Clark's *Growthmanship* (1961) and Paish's *Policy for Incomes?* (1964) – both critical of the assumptions of indicative planning – and which did most to propagate Milton Friedman's monetarist ideas in Britain. Nevertheless, involvement with the IEA and other New Right think-tanks was not always considered an alternative to Liberal Party activism, nor was macroeconomic policy the proximate cause of defections away from the Liberal fold.

The IEA was founded in 1955 by the Conservative businessman Anthony Fisher and the free-trade Liberal Oliver Smedley to promote free-market ideas and stimulate a broader intellectual reaction against state intervention. The Liberal peer Lord Grantchester was an early donor, and recommended Arthur Seldon to Fisher to serve as the Institute's editorial director.[89] Both Seldon and IEA authors such as Paish and Alan Peacock, however, remained members of the Liberal Party throughout the Grimond years. Among these neoliberal economists and propagandists, the Liberal Party's changing attitude to the welfare state seems to have been the main cause of disaffection. Seldon's plan for abolishing contributory state pensions was rebuffed by the Liberal leadership in the late 1950s, and a more serious dispute over Peacock's Friedman-inspired proposals for education vouchers followed in the mid-1960s. For Peacock and Seldon, Liberalism was defined by a commitment to promoting choice and competition, and vouchers seemed wholly in line with the vision of a welfare society outlined in *The Unservile State*. Some prominent Liberals, including Grimond, Fogarty, and Pardoe, were sympathetic, but opponents – led by Nancy Seear and the

[87] *The Guardian*, 19 Mar. 1966, 4; John Williamson, *How to Stop Stop-Go* (1966). Williamson's plan, which envisaged a 7 per cent devaluation over three and a half years, was endorsed by the 1966 Assembly: *The Guardian*, 24 Sept. 1966, 4.
[88] Interview with John Williamson, 13 July 2012.
[89] Cockett, *Thinking the Unthinkable*, 132-5.

educationalist Alec Peterson – argued that vouchers would destabilize public services and exacerbate inequalities, and carried the party with them.[90] If the idea of 'ownership for all' did not disappear, it was nevertheless confined to the industrial sphere, and lost its cutting edge as an alternative to state welfare provision. Grimond's personal magnetism helped keep intellectuals in the party as long as he was leader, and he would continue to take an interest in the IEA's activities during the 1970s and 1980s; indeed, he later attended at least one meeting of the Mont Pèlerin Society itself.[91] After Jeremy Thorpe took over as leader in 1967, however, there was no longer much reason for New Right activists to self-identify as Liberals, particularly as the Conservative Party seemed increasingly receptive to neoliberal ideas.

The Smedleyites, by contrast, left the Liberal Party in the early 1960s over the Common Market. Smedley's involvement in the IEA did not last long – he was edged out in a dispute with Fisher, though he remained a trustee – and in 1959 Smedley and S.W. Alexander took over the Free Trade Union as a base for their campaigns.[92] By this time, their influence within the party was already clearly waning, and they were reduced to fighting a rearguard action to resist Common Market entry.[93] After the Liberal Assembly backed British membership in 1960, Smedley resigned his candidature and threw his energies into the Keep Britain Out campaign which Alexander founded.[94] Other free-trade opponents of the Common Market, such as Roy Douglas, remained active Liberals, but the party's individualist wing had essentially disintegrated.

The Liberal Party's left turn under Jo Grimond did not destroy the influence of classical ideas within the party, but it did closely circumscribe it. Most importantly, despite his personal sympathy with anti-statist arguments, Grimond was adamant that Liberals should view economics as a means to social and political ends.[95] Free trade was a policy, not a principle; the market had to be servant, rather than master. Most progressive Liberals, of course, had always taken this view, but until the

[90] On this debate, see Jones, *Revival*, 54-5, and Peacock, *Anxious to Do Good*, 145-200.
[91] Barberis, *Liberal Lion*, 193.
[92] Cockett, *Thinking the Unthinkable*, 137; BLPES, Cockett papers, 2/7, 'My Ten Years at Austin Friars', by Oliver Smedley, n.d. [c. 1963].
[93] For instance, Smedley was defeated for re-election as a vice-president of the party in 1957: *LN*, 4 Oct. 1957, 4.
[94] Smedley dramatically resigned his candidature at the 1961 Assembly: *LN*, 28 Sept. 1961, 8.
[95] J. Grimond, *The Liberal Future* (1959), 54-6; Grimond, *Liberal Challenge*, 23.

1960s there was sufficient ambiguity to allow classical and Georgist traditionalists to claim to be the party's purists. By the time Grimond retired as leader, the issue was no longer contested: most of the party's new recruits under his leadership were indifferent or hostile to classical economics, and the 1969 revision of the party's constitution deleted free trade from the preamble listing Liberal aims. Perhaps it was in this sense, more than any other, that Grimond was the father of modern social Liberalism.

Economic policy and 'Orpington Man'

The years which followed the 1959 election were the heyday of Grimond's new Liberalism. Grimond himself became a major public figure, and the party in the country continued to strengthen. At first, the Liberals benefited from Labour's internal disputes over defence and nationalization; then, in 1961-2, the Liberals successfully exploited discontent over the government's pay pause to erode the Conservative vote. Eric Lubbock's victory at Orpington in March 1962 placed the Liberals in the limelight, and was followed by sweeping local election gains; one NOP poll placed the Liberals narrowly ahead of both the other parties, and fears of a Liberal breakthrough seem to have prompted Harold Macmillan to overhaul his Cabinet in July 1962 in the so-called 'Night of the Long Knives'. Between mid-1962 and the 1964 general election the Liberal bubble steadily deflated, as the Labour and Conservative parties encroached on the Liberals' terrain; when the election came, the party was confined to 11 per cent of the vote, and it gained seats only in the Highlands and the West Country. 'Orpington Man' nevertheless became shorthand for the Liberals' new appeal to the English suburbs, which paved the way for further advances in the 1970s and 1980s.

What did economic policy contribute to this second wave of Liberal revival? In so far as Liberal success was based on 'protest voting', it might be thought to have contributed relatively little. Despite the party's turn away from anti-inflationary rhetoric, its Gallup rating continued to track the inflation rate until the end of 1963, suggesting that the party still served as a safety valve for disaffected Conservatives. The Orpington by-election took place with inflation at 4.8 per cent,

and Grimond promised voters there that Lubbock would act as a 'champion' for 'those being crushed between rising prices and rising taxation on the one hand, and the pay pause on the other'.[96] Clearly, too, many of the voters who supported the Liberals in this period were attracted by the party's general image, and did not develop any enduring attachment to the party's policies.

Such a negative verdict, though, is surely incomplete. For one thing, there is abundant evidence that the protest vote of the early 1960s took a different form to that of 1955-9. In the earlier period, disaffection resulted mainly from the Conservatives' failure to cut spending and conquer inflation; in the later period, it was the government's efforts to curb wage increases (through the pay pause) and place the railways on a commercial footing that alienated voters in the commuter belt. For another thing, voters' grievances are themselves constructed through political argument, and perceptions that the pay pause was unjust and Britain's economy was growing too slowly presupposed that alternative policies could be pursued. Even *The Spectator,* not an organ sympathetic to the Liberals, credited the party with providing 'an intelligent and sophisticated rationalisation' of voters' disaffection.[97]

From this perspective, the Liberal Party's conversion to indicative planning and growth may have aided its electoral performance at two levels. Firstly, among suburban voters at Orpington and elsewhere, the Liberals' commitment to growth burnished the party's 'modern' image and suggested that the rigours of the pay pause could be avoided by an expansionary policy. For the progressive middle class, especially, the Liberals offered rising living standards and an expanded welfare state, combined with a meritocratic and internationalist outlook which contrasted favourably with those of the Conservative establishment and the class-conscious Labour movement.[98] The technocratic bent of the Liberals' new programme may have appealed especially to industrial and commercial managers, although survey data from 1964 suggests that the party did even better among those who worked in the welfare and creative sectors.[99] In any case, the party's new policy enabled it to catch the *zeitgeist* for a period.

[96] *The Guardian*, 6 Mar. 1962, 3.
[97] *Spectator*, 6 Sept. 1963, 275.
[98] See especially Mark Abrams' survey, 'Who are the new Liberals?', in *The Observer*, 1 July 1962, 17-18.
[99] Anthony Heath et al., *Understanding Political Change: The British Voter, 1964-1987* (Oxford, 1991), 96.

Secondly, the Liberals' new commitment to planning and regional development seems to have played well in their target seats on the Celtic fringe. The party promised to devolve power to the regions, create development agencies to oversee investment in infrastructure, and establish 'growth points' in under-developed areas. Suitable industries would be attracted to the peripheral regions, depopulation would be halted, and geographical disparities in education and service provision would be reduced. Liberals had called for action on these lines since the 1920s, but only under Grimond did regionalism and devolution become a major Liberal theme at national level, especially during the 1964 election campaign. The Liberals gained their reward with victories in Inverness, Ross and Cromarty, Caithness and Sutherland, and Bodmin. Peter Preston of *The Guardian* thought the Scottish seats had been won by the regionalist message, and Garry Tregidga has more recently emphasized the appeal of regional development in the West Country.[100]

The twin electoral pillars of post-Grimond Liberalism, namely progressive voters in the suburbs and radicals on the Celtic fringe, may therefore have been constructed in part by the party's conversion to growth, indicative planning and state activism. Certainly, it seems unlikely that the Liberals would have done as well in the early 1960s if they had remained wedded to anti-inflationary liberal Keynesianism. On the other hand, the party's new policy also had electoral limitations. Adopting moderate and fashionable positions could be a weakness as well as a strength in a three-party system: it left the Liberals vulnerable to a pincer movement, as Labour and the Conservatives converged on the centre ground, and it meant that Liberal policy was rendered outdated as economic circumstances changed. By 1964, the Conservatives had embarked on a modernization programme, the economy was growing rapidly under Reginald Maudling's stewardship, and Harold Wilson was staking Labour's claim to the 'white heat' of the 'technological revolution'. Since the Liberals themselves had only recently adopted their planning policy, it was difficult to claim that there was much that was intrinsically Liberal about it. After Labour returned to office in 1964, matters became even more difficult. On the one hand, Grimond and his colleagues were left to voice constructive criticisms of the Wilson government's ill-fated

[100] *The Guardian*, 21 Oct. 1964, 10; Tregidga, *Liberal Party in South-West Britain*, 205 and *passim*.

National Plan. On the other hand, with Labour back as a party of government, it was clear that 'realignment of the left' was no longer a serious possibility.

Conclusion

In the light of the foregoing analysis, an assessment of Jo Grimond's leadership must operate at a variety of levels. Grimond clearly enjoyed great success in reinvigorating the Liberal Party, reasserting its political relevance and attracting new recruits; in this respect, he laid the foundations for its later successes. Grimond also showed considerable skill as a party manager, repositioning the party as a centre-left force without serious internal dissension: as Muriel Burton has noted, he had a happy talent for convincing Liberals of almost all stripes that he was on their side.[101] In electoral terms, the picture was much more mixed, as the anticipated Liberal breakthrough failed to materialize and the party was left to make incremental progress in the constituencies; in 1970, indeed, the party would again be reduced to six seats. William Wallace, Geoffrey Sell, and Tudor Jones have justifiably concluded that Grimond's strategy of 'realignment of the left' was intrinsically flawed, since it overstated the speed and political impact of *embourgeoisement* and understated the resilience of the Labour movement.[102] Only in the very different political climate of 1973-4 would the Liberals achieve wider electoral success, and only in the 1980s would disaffected social democrats ally themselves with the party. Even then, the SDP-Liberal Alliance would struggle to break through the glass ceiling which geographically dispersed third parties face under Britain's electoral system.

In policy matters, too, Grimond's record must be considered a mixed one, despite his reputation as 'the thinking man's politician' and the instigator of the turn to social Liberalism.[103] The intellectual limitations of soft-left declinism and growth-oriented planning, which Grimond came to appreciate in hindsight, form the crux of the problem. As Jim Tomlinson has noted, the declinist literature of the 1950s and 1960s tended to ignore the 'catch-up' element in the faster

[101] Burton, 'Making', 154.
[102] Wallace, 'Liberal Revival', 170-9; Sell, 'Liberal Revival', 224-47; Jones, *Revival*, 47-50.
[103] Sir Alan Peacock, letter to the author, 1 Apr. 2012.

growth rates of Britain's competitors, and attributed Britain's perceived economic malaise to an extraordinary array of failings – from entrepreneurial failure and low investment to social and cultural conservatism – whose relative importance was always difficult to quantify.[104] In retrospect, Grimond appears as guilty as any of his contemporaries of taking declinist arguments at face value, and falling prey to the illusion that a determined government could bring about more rapid growth without creating other problems. The issue of devaluation, and the difficulties involved in setting production targets, were not really considered by the Liberals until after the 1964 election, whilst the implications of an active policy for influencing the distribution of investment do not seem to have been seriously considered at all. The inescapable conclusion is that a Liberal government would have faced similar difficulties to Harold Wilson's administration in putting planning into practice. Expectations of continued growth and rising public spending had been raised so far that they were almost unattainable, and the Liberals' proposals for growth targets and a statutory incomes policy could do little, by themselves, to resolve the tensions which existed between internal and external objectives, or between competing economic interests.

These failings of Grimond's policy, however, do not tell the whole story. For one thing, declinist assumptions were shared in different ways by politicians of all parties, and Grimond's prescription for improving Britain's economic performance, based on Common Market membership, higher investment, and the promotion of competition in the private sector, was arguably as far-sighted as anyone else's. Even more importantly, Grimond's legacy of a renewed social Liberalism would outlast the failure of the 1960s growth experiment, and would provide an intellectual basis for Liberal policy for the next quarter-century. Grimond breathed new life into historic Liberal principles such as internationalism and citizen participation, whilst reviving the constructive and New Liberal traditions and emphasizing the limits of classical economics. From Grimond onwards, at least up to the Thatcher years, practically all Liberals would accord the state the role of setting communal goals, articulating the public interest, and establishing a framework for market competition. In other words, it was Grimond who ensured that the Liberal Party would

[104] Tomlinson, *Politics of Decline*, 65-82.

seek common ground with social democrats during the 1970s and 1980s, instead of supporting the monetarist and neoliberal policies which the Conservative Party adopted under Margaret Thatcher.

The economic policy which the Liberal Party adopted in the early 1960s did not, of course, survive unchanged in later years. Under Jeremy Thorpe and David Steel's leadership, the party's response to perceived economic decline came to focus on constitutional change and cross-party cooperation as prerequisites for consistent policy-making, and placed less emphasis on economic measures themselves. As the 1979 manifesto put it:

> Economic and industrial recovery can only follow from a radical programme of political and social reform.[105]

At the same time, environmentalist influences – mediated, especially, through the Young Liberal movement – prompted Liberals to question the value of conventional economic growth and emphasize the importance of sustainability.[106] Nevertheless, Grimond's vision of social and economic modernization, guided by the state, based on industrial partnership and backed up with a statutory incomes policy, remained the main intellectual paradigm within which Liberal policy was made until the 1980s.[107] Ironically, Grimond became critical of this approach in his old age, feeling that the party had put too much faith in the state, and urged a sharper focus on free markets and voluntary action.[108] Sceptical about the Lib-Lab Pact and the Alliance, he saw no future for a party of 'semi-dirigiste' moderation.[109] In truth, however, it was Grimond himself who had overseen this turn towards the state two decades earlier. In his zeal for modernization, and in bringing about a Liberal revival, Grimond had helped set the party on an intellectual course which he came to consider misguided.

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[105] *Liberal Manifestos*, 188.
[106] See especially Ralf Dahrendorf, *After Social Democracy* (1980), and Michael Meadowcroft, *Liberal Values for a New Decade* (Manchester, 1980).
[107] Gamble, 'Liberals and the Economy', 206-15.
[108] Jo Grimond, *The Common Welfare* (1978).
[109] *Spectator*, 31 Jan. 1981, 11.

Conclusion

The introduction to this thesis outlined a simple objective: to move beyond caricatures of the mid-twentieth-century Liberal Party as an interventionist social Liberal party or a Gladstonian classical Liberal one, and offer a more nuanced and rounded portrait of the Liberal Party's economic thinking. In the light of the arguments developed in the intervening chapters, it is now possible to flesh that picture out. Five main findings deserve to be highlighted.

The character of Liberal policy-making

Firstly, we should note what this thesis tells us about the Liberal Party as an organization during its wilderness years. The difficulties which the Liberal Party faced during the 1930s, 1940s and 1950s are well-documented, but it nevertheless emerges from this study as a resilient political formation with a distinctive identity and an impressive capacity for developing new policies. A political party may be a 'space' which is 'traversed or tenanted' by different groups, as Gareth Stedman Jones has suggested of Labour, but parties are also *institutions* whose histories, traditions, and inherited commitments shape the way they understand the world around them and respond to its problems.[1] Even – or especially – in the small and oft-divided Liberal Party, institutional memory played an important role in shaping a collective identity and thus promoting party cohesion.

The representative organs of the NLF and LPO did much to link the party of Jo Grimond's day with the party of Lloyd George's, and to establish the party's credentials as the official Liberal Party in the face of the Liberal National challenge. Liberal activists bulked increasingly large in a shrinking party and played an important policy-making role, both by setting boundaries for the party leadership – notably over free trade in the 1930s – and by introducing new ideas such as 'ownership for all'. However, it was usually Liberal leaders who took the initiative in policy development, deciding what kind of policy was needed, which experts to consult, and how their

[1] Gareth Stedman Jones, 'Introduction' to *Languages of Class: Studies in English Working Class History 1832-1982* (Cambridge, 1983), 22.

advice should be used. Significantly, almost all of the NLF and LPO's major policy statements – the Yellow Book, *The Liberal Way, Ownership for All*, 'Programme for Recovery', and the five-year plan resolution of 1961 – embodied positions which the party leadership already broadly supported. The main exception to this pattern was the Full Employment resolution passed by the 1945 Assembly, which appeared at a time when Sir Archibald Sinclair's ministerial duties sharply constrained his involvement in party business.

At times, Liberals sought to use economic policies to win votes or capture the public's imagination, notably in 1929, 1945 and the early 1960s. In all three cases, the party moved leftward; at all these times Liberal politicians were reasonably confident about the prospects for revival. In other periods, however, Liberals seem to have been motivated more strongly by the desire for economic credibility and the need to burnish the party's distinctiveness, which often involved emphasizing their support for free markets and free trade. Ironically, of course, neither approach made much difference to the party's political fortunes. The radicalism of Lloyd George, Beveridge, and Grimond tended to win the party votes, but not many new seats; and just as Labour colonized the territory of planning and full employment in the 1930s, so the Conservatives managed to claim the languages of free enterprise and property ownership after the Second World War. Only with the thawing of the class-based two-party system in the 1960s and 1970s, and growing doubts about the economic performances of both the major parties, did the conditions for a large-scale Liberal revival really come into being.

Liberal political thought

A second finding of interest concerns the Liberal Party's political thought in this period, which inevitably shaped the party's use of economic knowledge. Liberalism as a creed is known for its ambivalence towards the state, and the Liberal politicians studied here fully exhibited this tendency. However, such ambivalence cannot really be explained in terms of a divide between classical and social Liberals, based on contrasting negative and positive conceptions of liberty, since the idea that the state should seek to extend the positive liberty of its citizens enjoyed wide

acceptance among Liberals from the Edwardian period onwards.[2] As Michael Freeden has observed of the inter-war years, practically all Liberals were progressives in the sense that they wanted 'to improve and reform individuals and their social arrangements', instead of merely setting individuals free from constraint.[3] Only a handful of Liberal activists, such as Francis Hirst and (later) Oliver Smedley, can plausibly be viewed as pure classical Liberals in the philosophical sense.

The bulk of the Liberal Party, then, was *in principle* in favour of state intervention to relieve or eliminate poverty and unemployment, and to provide the material conditions for men and women to develop their full potential. Liberal ambivalence stemmed rather from the fact that this was not the party's only objective. Perhaps most importantly, Liberals were always sceptical of the notion that positive freedom might require the *loss* of the older civil and political liberties. With the rise of totalitarian regimes in continental Europe, old Liberal concerns about the dangers of arbitrary power gained a new salience, and prompted Liberals to define more carefully the kinds of state action they were willing to support: predictable, impartial, in the general interest, and subject to parliamentary accountability and the rule of law.

Two other political commitments also constrained the party's support for state intervention. Firstly, Liberals' internationalism reinforced the economic case for free trade and ruled out autarchic policies, especially during the 1920s and 1930s. At root, this stance was nourished by a Cobdenite belief in the interdependence of nations and a Gladstonian belief that Britain should exercise moral leadership in the world. Secondly, Liberals insisted that government should seek not merely to promote greater material wealth and greater equality, but also to create a community of responsible and self-reliant citizens in line with the civic republican vision. For Elliott Dodds, indeed, property ownership was still the only robust basis of independence, active citizenship, and choice. As a result of Dodds' 'ownership for all' initiative, Liberals in the late 1930s, late 1940s and 1950s articulated a vision of positive liberty which privileged citizens' capacity to act *apart*

[2] David Howarth has made a similar argument in respect of the contemporary Liberal Democrats: David Howarth, 'What is Social Liberalism?', in Duncan Brack, Richard Grayson and David Howarth (eds.), *Reinventing the State: Social Liberalism for the 21st Century* (2009).
[3] Freeden, *Liberalism Divided*, 12.

from the state, and suggested that state welfare was a poor second best to private and voluntary provision.

The weight which Liberals gave to these other commitments varied over time, and some radicals – such as Beveridge – tended to set them aside altogether in their zeal to tackle visible social evils. Nevertheless, it is the richness and complexity of the Liberal Party's ideological heritage, rather than the strength of a classical Liberal *faction*, that best explains the party's ambivalence towards state intervention.

The Liberals and the 'Keynesian revolution'

A third conclusion we may draw from this thesis concerns the Liberal Party's relationship with the 'Keynesian revolution'. John Maynard Keynes' involvement with the Liberal Industrial Inquiry is justly famous, and in the field of policy the Liberals have a credible claim to be the first Keynesian party. *We Can Conquer Unemployment* was a landmark in the development of a Keynesian policy agenda, and the proposals for loan-financed public works which it outlined were broadly the same as those which Keynes would advocate in the 1930s. As Robert Skidelsky has strongly argued, the absence of the *General Theory* did not have to be a barrier to the pursuit of reflationary policies during the great depression, since it did not prevent Lloyd George from pledging to 'conquer unemployment' or Franklin D. Roosevelt from launching his New Deal.[4]

In the realm of economic theory, however, the story is very different one, since classical assumptions remained strong in the Liberal Party until at least the mid-1930s. To be sure, many Ricardian postulates had been abandoned, including Ricardo's doctrine of equivalence, so most Liberals believed that national development spending could both create jobs in the short term and have an ongoing stimulus effect in certain circumstances; the 1929 public works policy could therefore be grafted on to the classical model. However, Liberals were still impressed by the idea that state intervention distorted economic relationships, and by the notion that the 'fundamental' long-term solution to unemployment was for the price of labour to come in line with demand. The

[4] Skidelsky, *Politicians*, 387-8.

problem with the 1929 public works policy, then, was not so much that Liberals had been insincere in advocating it, but that they had failed to integrate it with their broader economic analysis or to recognize the difficulty of carrying it out under a regime of free trade, free capital movements and the gold standard. Given the party's prior commitment to economic internationalism, it was almost inevitable that the Liberals should be pushed back to orthodox policies by the depression and the 1931 financial crisis. The theoretical immaturity of the Keynesian solution probably also undermined Liberals' confidence in the effectiveness of reflationary policies, and so contributed to the party's reversion to a largely classical approach.

In the years after the 1931 crisis, the Liberals straddled the ground between a classical view of unemployment and the developing Keynesian position. As a free-trade party, the Samuelites opposed in principle the National Government's tariff policy and its agricultural marketing schemes, and found it appealing to argue that these were hampering economic recovery. At the same time, Liberals remained committed to the idea of 'national development', and revived their calls for public works as a means of alleviating unemployment and improving the nation's infrastructure. This placed the Liberals on the progressive side of the policy debate over unemployment, but with a much more internationalist outlook than either Keynes himself or Lloyd George's New Deal programme.

Following the publication of the *General Theory*, the Liberals began to adopt the insights of Keynesian macroeconomics, which suggested that full employment would not necessarily be brought about by market forces and that the state should therefore seek to engineer it by raising aggregate demand. From the late 1930s onwards, the Liberals were consistent supporters of demand management, but even at this point three caveats must be noted. First, with the exception of a period during the Second World War, Liberals were generally more comfortable with the relatively hydraulic liberal Keynesianism of the neoclassical synthesis than with more interventionist versions of Keynesianism, even though this drew only partially and selectively on the *General Theory*. Second, Liberals' understanding of the Keynesian model was frequently mediated through newspapers (especially *The Economist*) and advisers (such as Frank Paish) who were at best ambivalent towards Keynes' new theoretical claims, and emphasized the need to

control inflation as well as unemployment. Third, and largely as a result of this, Liberal policy continued to reflect diverse theoretical influences. Sinclair's belief that a boom contained the seeds of a slump echoed Austrian theory, and was shared by Dennis Robertson and Lionel Robbins, while Grimond's interest in the money supply reflected quantity theory assumptions, which Paish gave new credibility.

As late as the Second World War, some Liberals doubted whether fiscal and monetary techniques would be sufficient to achieve peacetime full employment: hence Sir Percy Harris' interest in industrial reconstruction, Beveridge's desire to control private investment, and the wartime popularity of planning. Ultimately, it was the buoyancy of demand and employment after 1945 that vindicated liberal Keynesianism and suggested that more direct forms of state intervention were unnecessary. This buoyancy owed little to deficit-spending in Britain, as R.C.O. Matthews has noted, although the *perception* that governments were committed to maintaining full employment by Keynesian means may well have boosted business confidence and encouraged investment.[5] Like their Labour and Conservative counterparts, post-war Liberals claimed that they would take whatever fiscal and monetary measures were needed to keep demand at full-employment level; but even if they had been in government during the early post-war period they would not have had to put this policy into practice. Demand management instead became a means of trading off 'over-full' employment for greater price stability at the margins.

As in the case of Treasury officials, then, the question of *whether* and *when* Liberal politicians were fully converted to Keynesian economics is difficult to answer conclusively, and depends on the criteria chosen. Liberals consistently championed demand-management policies from the late 1930s onwards, and the core classical assumption of a self-regulating economic system had been abandoned by virtually the whole party by the end of the Second World War; that there was a substantial shift to Keynesian macroeconomic analysis can therefore hardly be questioned. On the other hand, Liberal leaders tended to be fairly eclectic in the demand-management techniques they envisaged, and showed no greater fidelity to the *General Theory* in the 1940s and 1950s than Labour or the Conservatives, nor did they have the chance to prove their Keynesian credentials in

[5] R.C.O. Matthews, 'Why has Britain had full employment since the war?', *EJ*, 78 (1968), 555-69.

government. Keynesianism certainly had a particular appeal to Liberals as a means of taming unemployment without central planning, but it was in adopting Keynes' early policy proposals, rather than in taking up his mature theoretical analysis, that the party stood out from its rivals.

Free trade and free markets

The Liberals' adoption of Keynesian macroeconomic policies formed a marked contrast with their microeconomic outlook, which continued to be shaped by a firm commitment to competitive markets. This is a fourth major finding of this study. Despite the Yellow Book, and widespread interest in planning during the 1930s and 1940s, the promotion of competition remained the guiding principle of Liberal industrial policy, and went hand-in-hand with support for free trade. Both at home and abroad, the free operation of markets promised to secure an optimal allocation of resources between different uses. Fears that state intervention would breed sectionalism, corruption and inefficiency, and that monopoly power would allow firms to exploit consumers, reinforced the party's commitment to the free-market system.

Of course, Liberals' attachment to free markets was never total. The Asquith government's measures set a precedent for labour market intervention, and by the 1920s the principle of minimum wages was quite widely accepted, provided they were flexibly applied and did not price too many workers out of jobs. The case for rationalizing the basic industries was also taken seriously, although Liberals insisted that reorganization should be used to improve efficiency rather than to raise prices. Most strikingly of all, under Keynes' influence, the Yellow Book argued that Liberals should accept the trend towards industrial concentration, and rely on publicity requirements to ensure that monopolies and trusts did not damage the public interest. The Yellow Book suggested that Liberals needed to make a paradigm shift, dropping classical assumptions about the superior efficiency of markets and accepting the large corporation as an integral part of a mixed and managed economy. Later advocates of planning invariably invoked the Yellow Book and the wider constructive tradition to justify Liberal support for microeconomic intervention. In

the light of a narrative of unfolding Liberal radicalism, anti-planners could be caricatured as old-fashioned Gladstonians, wedded to an outdated model of *laissez-faire*.

The Liberal Party as a whole, however, declined to make the paradigm shift which the Yellow Book's authors demanded, and reverted to free-market type during the 1930s. Despite the Simonite secession and the wider 'landslide to protection', most Liberals remained convinced that the free-trade case was valid, and held out hope that – as in 1906 and 1923 – it could still win votes for the party. As the National Government joined in the worldwide rush to economic nationalism and self-sufficiency, the Samuelites embraced the task of 'hold[ing] aloft the banner of sound economic theory in a mad world'.[6] Restrictive agricultural marketing schemes heightened Liberals' suspicion of state intervention, and the party leadership kept its distance from groups such as *The Next Five Years* and Political and Economic Planning because their plans seemed to be too protectionist. Even during the Second World War, when Liberals relaxed their hostility to planning and public ownership in the basic industries, the strong forms of planning championed by Tom Horabin and Clement Davies received short shrift. Instead, Liberals valued Keynesian demand management as a means of achieving full employment without heading down the 'road to serfdom' which central planning seemed to entail. This was true when the party supported the interventionist Keynesianism of *Full Employment in a Free Society*; it was even truer during the post-war period.

Free trade lost its central position in Liberal policy during the Second World War, and did not regain it. In one sense, this was a by-product of the Keynesian revolution, since Keynes had undermined confidence in classical reasoning and suggested that unrestricted trade and capital movements could jeopardize full employment. Younger Liberals, especially, tended to regard trade as a technical matter rather than a moral cause, and noticed that the electoral appeal of 'cheap food' was disappearing as nutrition improved. At the same time, Liberals could be satisfied that the international economic order which emerged under American leadership after the war was geared towards trade expansion and international cooperation. The Liberal Party therefore supported the Bretton Woods system and the General Agreement on Tariffs and Trade, which provided for multilateral trade liberalization, whilst also backing the 1947 Agriculture Act, which made

[6] A.P. Laurie in *News Chronicle*, 8 Sept. 1931, 6.

guaranteed prices permanent. However, free-trade sentiment still ran strongly enough within the party for the Smedleyites' campaign against agricultural subsidies to gain significant traction, and ultimately it was only the advent of the Common Market that sealed the party's conversion to a pragmatic 'freer trade' position. The abandonment of an autonomous trade policy was seen to be a price worth paying for Britain to participate in European integration and gain access to continental markets.

The Liberal Party's rhetorical hostility to planning was also muted during the Grimond years, as the party latched on to indicative planning as a means of achieving faster growth. In principle, of course, this had significant implications for the operation of markets, including the allocation of capital between different firms, but the party was at pains to stress that its plans would guide and coordinate economic activity rather than direct it. In respect of product markets, moreover, the party's support for competition remained almost absolute. Constructive and New Liberal arguments about planning and the public interest may have been revived, but Grimond intended the state to plan and steer a largely competitive economy, rather than a concentrated and corporate one.

Keynesianism and neoliberalism

Fifthly, it is worth dwelling on the evidence this thesis has provided of the interaction between Keynesianism and neoliberalism in the mid-twentieth century Liberal Party. Indeed, British Liberals played a prominent role in the development of both political discourses. This finding complements and confirms Ben Jackson and Keith Tribe's recent emphasis on the diversity of early neoliberal thought, and calls into question the common assumption that the two movements were intrinsically hostile to each other.[7]

Liberals managed to hold Keynesian and neoliberal ideas together between the late 1930s and the late 1950s largely because they interpreted both creeds in particular ways. In the years after the Second World War, most Liberals seem to have viewed Keynes as the internationalist economic technician portrayed in Roy Harrod's biography, and understood Keynesianism mainly in terms of

[7] This assumption emerges most starkly from Cockett, *Thinking the Unthinkable*.

the neoclassical synthesis. '[W]hat is likely to survive in [Keynes'] economic teaching', Alan Peacock argued in a review of Harrod's book,

> is not his analysis of the causes of unemployment, important though it is, but his general method of approach, which is equally applicable to conditions of deflation and inflation.[8]

As post-Keynesian economists have long complained, this interpretation of Keynesian economics paid little attention to the problems of uncertainty and expectations, and its exponents tended to favour much greater use of monetary policy as a regulatory device than Keynes had deemed appropriate.

Neoliberal arguments about individual freedom and the dangers of state power were also seen by Liberals in a very particular light. Whereas most British politicians were introduced to neoliberal thought by Hayek's *The Road to Serfdom* in the mid-1940s, many Liberals were already familiar with Walter Lippmann's writings, which combined a strident critique of planning with a detailed positive agenda for liberal reform. Lippmann's approach suggested that demand management and social insurance were compatible with a liberal order, and Sinclair, Dodds, and other Liberals readily followed this line. By drawing a sharp distinction between macroeconomic management and microeconomic planning, Liberals could identify themselves with a 'counter-revolution' against 'collectivist, *dirigiste* and mercantilist thinking' and still maintain their progressive credentials.[9] Only the party's individualist fringe, in the form of the Liberal Liberty League and later the Smedleyites, shared Ludwig von Mises' more hardline view that Keynesianism itself was inimical to freedom.

During the late 1930s the Liberals' support for demand management as an alternative to planning was relatively unusual, although some popular fronters did latch on to the *General Theory* as a basis for a compromise progressive programme.[10] After the Second World War, however, the idea of combining Keynesianism with free-market policies in other fields gained much wider appeal across the centre and right of the British political spectrum. One important source of this

[8] *Liberal News*, 23 Feb. 1951, 2.
[9] Deryck Abel in *Liberal News*, 8 Jan. 1954, 3-4.
[10] Ritschel, *Politics of Planning*, 313-28.

change was the 'conversion' to demand management of liberal economists such as Lionel Robbins and John Jewkes, who had helped frame the *Employment Policy* White Paper; another was the Conservative Party's move onto Keynesian ground in the wake of the 1945 general election.[11] For a decade after the war, liberal Keynesianism served as the dominant pole of economic thought in Britain outside the Labour Party, and even some moderate Labour thinkers like James Meade recognized the force of its critique of central planning.

The coexistence of Keynesianism and neoliberalism, however, did not last long, and by the 1960s neoliberal thought had lost most of its purchase within the Liberal Party. In part, this reflected generational changes among Liberals, with young activists propagating a more radical view of Keynes, a more sceptical view of monetary policy and a more favourable view of planning. Liberals also became more cautious about neoliberal welfare reforms in the light of the 'rediscovery of poverty'. Changing views among neoliberals, though, were scarcely less important, as attitudes to demand management hardened even before the advent of monetarism and former Liberal advisers such as Arthur Seldon and Arthur Shenfield lost interest in anti-trust policies.[12] Neoliberalism increasingly seemed to Liberals to be a conservative force, shorn of its earlier commitment to perfect and legitimate the market order. The parting of the ways between the Liberal Party and neoliberalism therefore involved not the betrayal of the one by the other, but rather movement by both away from positions they had previously held in common.

The road to 2010

This thesis has been researched and written in a period of prolonged economic uncertainty, during which British Liberals have returned to government for the first time since 1945. In view of this fact, it seems appropriate to end by carrying the story forward to the present day and reflecting very briefly on its contemporary resonances.

[11] Tribe, 'Liberalism and neoliberalism', 81-91; Green, 'Conservative Party and Keynes', 198-200; Harris, *Competition and the Corporate Society*, 77-84.
[12] Shenfield became a vocal critic of anti-trust measures: see Norman Barry, 'Arthur Asher Shenfield, 1909-1990: An appreciation', in *Limited Government, Individual Liberty and the Rule of Law: Selected Works of Arthur Asher Shenfield*, ed. Norman Barry (Cheltenham, 1998), 1-13, at 5-6.

Jo Grimond's leadership marked an ideological turning-point for the Liberal Party, as well as a political one. Grimond brought an end to longstanding arguments about whether classical economics, and especially free trade, were intrinsic to Liberalism or merely incidental to it; thereafter, the eclecticism of the party's economic heritage was widely recognized. Grimond also – perhaps unwittingly – presided over a shift from a broadly neoliberal orientation to a social Liberal one, with state intervention and higher public spending increasingly seen as part of the solution to poverty and other social problems and as a means of encouraging faster economic growth. As a result, the New Right revolt against the post-war consensus in the 1970s and 1980s largely passed British Liberals by, and Liberals found themselves working with social democrats to defend Keynesian policies and the welfare state. The Liberal Party's left turn under Grimond thus paved the way for the formation of the Liberal Democrats.

Nevertheless, the tensions and complexities we have identified in the Liberal Party's economic thought did not all disappear in the 1960s, or through the merger with the SDP. Liberals remained committed to internationalism and price stability as well as to full employment and growth; they also continued to value the dynamism of the market system. The party's response to the Thatcher government's policies illustrates this point. On the one hand, the Liberals and SDP consistently espoused a Keynesian approach, backed up with an incomes policy, and proposed large reflationary packages at the 1983 and 1987 general elections. On the other hand, Liberals welcomed the government's internationalist orientation, including the abolition of exchange controls, and the Alliance's economic plans were carefully weighed to avoid spooking the financial markets.[13] The Alliance parties also supported the Thatcher government's trade-union reforms, and took a nuanced approach to privatization, frequently complaining that the government's plans did too little to promote competition.[14]

The Liberal Democrats' decision to enter coalition with the Conservatives and support a rapid deficit-reduction programme after the 2010 general election should be understood in this light.

[13] On exchange controls, see H.C. Deb., fifth series, 972, 23 Oct. 1979, 206, and sixth series, 27, 12 July 1982, 706-28; on the Alliance's macroeconomic policies, see Tomlinson, *Monetarism*, 29-32, 52-9, 71-2.
[14] For a fuller discussion of this issue, see Peter Sloman, 'Liberals, Social Democrats, and the Politics of Privatization, 1979-1997' (unpublished University of Oxford B.A. dissertation, 2008).

Certainly, the parliamentary arithmetic limited the party's post-election options, but the Liberal Democrat leadership's attitude to the budget deficit was also of defining importance, since it prompted the party to seek a coalition rather than a looser arrangement and it formed a significant dividing line with Labour.[15] In the run-up to the election, the party had taken a relatively hawkish line on Britain's ballooning deficit, but proposed that deficit-reduction should begin in 2011-12 and envisaged a modest one-year stimulus package in the interim.[16] The developing crisis of confidence in the Eurozone, however, made senior Liberal Democrats receptive to Conservative calls for immediate spending cuts in order to maintain the confidence of the financial markets. Nick Clegg later said that he had changed his view during the election campaign in the light of the turmoil in Europe, and David Laws has written that the 'serious risk of a loss of confidence in the UK', pushing interest rates up and possibly leading 'to a Greek-style financial meltdown', strongly influenced the party's attitude in the coalition talks.[17]

The political and economic circumstances of 2010 were hardly the same as 1931, but the parallels are unavoidable. Some Liberal Democrats may have been ideologically sympathetic to spending cuts, as Sir Donald Maclean had been during the depression, but most were driven to support rapid deficit-reduction because they found it difficult to see any other option. Of course, this reflected the perceived realities of international finance and the party's instinctive commitment to open markets. 'In deciding to shelve national development in August, 1931', Sir Archibald Sinclair subsequently argued, the Liberals

> only recognised that when a financial crisis is abnormally acute, expansive measures are bound to be overwhelmed by the momentum of the slump, and are even likely to contribute to undermining confidence in the power of a Government to balance its budget and to maintain the stability of its currency.[18]

[15] Rob Wilson, *5 Days to Power: The Journey to Coalition Britain* (2010), 34-46, 182-3.
[16] Liberal Democrats, *Liberal Democrat Manifesto 2010* (2010), 22-5, 96-9.
[17] Wilson, *5 Days to Power*, 168; David Laws, *22 Days in May: The Birth of the Lib Dem-Conservative Coalition* (2010), 107.
[18] Thurso papers, II, 75/5, 'Notes on Parts IV and V of "The Liberal Way"'.

Vince Cable's efforts to justify the present coalition's policies have taken a very similar line.[19] Whether or not the Liberal Democrats' conduct in 2010 represented a 'betrayal' of their election mandate, then, it can hardly be considered inconsistent with the party's broader economic heritage.

Yet economic internationalism and fiscal discipline did not make up the whole of the Liberal Party's policy in 1931, and are not the sum total of Liberal Democrat policy today. Other Liberal interests have persisted across the decades: the value of public investment as both a demand- and a supply-side measure, the importance of monetary policy, and the need to achieve economic 'balance' across the nation. Liberal Democrats are still drawn to tax policy as a means of achieving 'fairness', in lieu of more direct engagement with wage differentials; they still tend to view monopoly power as a conspiracy against the public interest; and the party's commitment to banking reform stands firmly in the tradition of the Yellow Book. At the time of writing, it is difficult to say whether the Liberal Democrats have a political future, yet alone what their future contribution to British economic policy might be. The party's economic heritage nevertheless remains a rich resource for making – and understanding – Liberal Democrat policy in the twenty-first century.

[19] Vince Cable, 'Keynes would be on our side', *New Statesman*, 17 Jan. 2011, 30.

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VII. Interviews and correspondence

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