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The Journal of British Studies, Vol. 35, No. 1. (Jan., 1996), pp. 84-113.

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The Industrial Meaning of “Gradualism”: The Labour Party and Industry, 1918–1931

Andrew Thorpe

In the period from 1918 until 1931, the British Labour party adhered to the precepts of “gradualism”: incrementally and by degrees, the party would gain support and pass legislation in an inexorable progress toward the socialist millennium. For a while, it seemed that this strategy would carry all before it. Emerging from the First World War with a “socialist” commitment, it became the largest opposition party at the 1918 general election. In 1922 it became the clear opposition to the Conservatives, and Ramsay MacDonald was reelected leader after an eight-year break. A short-lived minority Labour government in 1924 was followed by heavy electoral defeat, but the party was able to form its second minority government in 1929. However, its credibility was destroyed by soaring unemployment, and the ministry collapsed in the summer of 1931 after failing to agree on public expenditure cuts. MacDonald and the chancellor of the Exchequer, Philip Snowden, led a small Labour cohort into a “National” government, which went on to crush Labour at the polls that October. Detailed work on this complex period of Labour’s history is hard to find, however. Little work has been done on policy: in particular, it is surprising that, given the party’s symbiotic link with trade unionism and the central role of industry in Labour leaders’ conception of the transformation to socialism, so little attention has been paid to the party’s industrial policy in this period.

Gradualism implied that socialism would emerge from the success

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Journal of British Studies 35 (January 1996): 84–113
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of capitalism. Capitalism was morally indefensible, but its growing prosperity would lead to higher tax yields, which would in turn be used "to an ever-increasing degree" to finance the reforms that would lead to a socialist society.¹ At the same time, though, the scale of industry would grow, and more and more people would realize the iniquities of capitalism: hence public ownership and control would become acceptable and appropriate. This "constantly arising surplus" would pay for the reforms that would lead toward the socialist millennium.²

However, prosperity was not the most noticeable feature of British industry in the 1920s. Britain's nineteenth-century industrial hegemony had been based on the staple industries which produced mainly for export: coal, textiles, shipbuilding, and iron and steel. By 1918 its economy was heavily overcommitted to these areas, and matters were made worse by the speculative boom of 1919/20. When the boom burst in 1920, firms were left with huge long-term debts. The boom period strengthened the unions, and as wages rose and hours were reduced, production costs increased. At the same time, export markets were lost or not retrieved, competition from other exporters increased, and the fall in commodity prices meant that the primary producing countries which had been the backbone of British export markets were now less able to import goods. And although there is controversy, it does seem that industry also suffered from the return to the gold standard in 1925, which overvalued the pound against other currencies, increasing export prices still further.

The effect of all this on the staple industries was grim in the extreme. Coal was in a particularly bad position. Coal owners tried to cut wages and extend hours to regain competitiveness, but the main result was a drastic deterioration in industrial relations leading to lengthy lockouts in 1921 and 1926, which in turn meant a further loss of markets. As mechanization spread, labor displacement problems increased. Cotton also suffered severe difficulties, with rising Indian tariffs and growing Chinese competition landing particularly heavy blows. The value of exports fell by a third between 1913 and the mid-1920s. High unemployment and short-time working were endemic throughout the period. And, as with coal, lack of investment meant obsolescent plant and a distinct lack of confidence about the future. Shipbuilding was also in dire straits. Unemployment was never less

¹ P. Snowden, *Socialism and Syndicalism* (London, [1913]), p. 142.

² Labour Party, *Labour and the New Social Order* (London, 1918), p. 21 (hereafter cited as *New Social Order*).

than twice the national average: in 1923 almost half the industry's insured workforce was unemployed, and by mid-1930 the collapse of the industry seemed imminent.³ Iron and steel had better prospects, since it fed into expanding industries at home, but it too struggled against low productivity, falling exports, and a high degree of insolvency and was in "chronic depression" for most of the period.⁴

The development of "new" industries was more encouraging. The motor industry expanded considerably, helped by the fact that it produced largely for the domestic market. There was "vigorous development" in electrical engineering. Chemicals and artificial textiles also experienced considerable expansion. However, the view that these industries, even in the 1930s, formed a "development block" leading the British economy onto higher planes of growth is now largely discredited; that means, in turn, that in the 1920s "British industry" still meant, essentially, the staples, and "such was the commitment to the staple industries even in 1928 that no attempt to cure the unemployment problem could ignore their troubles." Furthermore, there was a paradox at the heart of British industrial policy. To regain competitiveness, the staples needed to reduce their costs. But this would have meant a loss of purchasing power in the domestic market on which the new industries relied. Conversely, any increase in purchasing power to help the new industries would have increased exporters' costs, so making them still less competitive.⁵ Clearly, then, there were challenges to be met—challenges, indeed, that were essential for a radical reforming party to at least address. Labour should have had a lot to say. But did it?

I

In 1918 the party adopted the program *Labour and the New Social Order*, the basis of its policy until 1928. It characterized the optimism

³ W. R. Garside, *British Unemployment, 1919–1939: A Study in Public Policy* (Cambridge, 1990), pp. 211, 91, 143–44; K. G. P. Matthews, "Was Sterling Overvalued in 1925?" *Economic History Review* 39 (1986): 572–87; J. Redmond, "Was Sterling Overvalued in 1925? A Comment," *Economic History Review* 42 (1989): 87–89.

⁴ Garside, pp. 143, 230–34, 204; J. H. Porter, "Cotton and Wool Textiles," in *British Industry between the Wars: Instability and Industrial Development, 1919–1939*, ed. N. K. Buxton and D. H. Aldcroft (London, 1979), pp. 28–33; Committee on Finance and Industry, *Minutes of Evidence* (London, 1931), q. 8404, Sir James Lithgow (Federation of British Industries); T. Jones, *Whitehall Diary*, ed. K. Middlemas, 3 vols. (London, 1969), 2:251, H. D. Henderson to Jones, April 7, 1930; K. Warren, "Iron and Steel," in Buxton and Aldcroft, eds., pp. 103, 107, 113.

⁵ M. Miller and R. A. Church, "Motor Manufacturing," pp. 180, 186; R. E. Catterall, "Electrical Engineering," p. 241; W. J. Reader, "The Chemical Industry," p. 168; and J. Harrop, "Rayon," p. 300, all in Buxton and Aldcroft, eds.; H. W. Richardson,

its author, Sidney Webb, was to hold regarding the prospects for prosperity and socialism until 1929/30. Capitalism, the document stated, might "indeed have received a death-blow" from the extensions of state power which had accompanied the First World War. Certainly, it argued, every effort should be made to ensure that "indispensable" industries taken over by the state during the war should remain under public control. The key element, though, was Labour's commitment to increasing "the nation's aggregate annual production" in order to finance "social reconstruction." This could not be achieved by abandoning British industry to "a jostling crowd of separate private employers" but only by "a scientific reorganization of the nation's industry . . . on the basis of the Common Ownership of the Means of Production." In more concrete terms, *Labour and the New Social Order* advocated an industrial strategy which was, ostensibly, quite integrated. Mines, railways, and electricity would be nationalized, enabling cheap power and transport to be provided to minimize industry's costs. Wartime state control of the import and allocation of raw materials would be retained and used to favor more efficient producers. This, in turn, would mean far greater state control of industry as a whole. In many ways, this was merely an extension of the wartime economic functions of the state: indeed, the program was not so much a plan for radical reform as a defense of the status quo represented by the wartime state. One negative legacy of wartime was the huge increase in the national debt: here Labour proposed a capital levy (wealth tax) which would also help industry insofar as it would reduce future taxation and so release funds for reinvestment and modernization.⁶

But this strategy was open to objections, not least because it clashed with other Labour aims. Webb was keen, for example, to fix maximum prices and minimum wages. At the same time, he wanted government to maintain stable levels of employment by varying its orders for public works with the vicissitudes of the trade cycle. Labour was also committed strongly to free trade.⁷ But all this posed problems. How were high wages and low prices to be reconciled? True, there

Economic Recovery in Britain, 1932-39 (London, 1967); A. Booth and M. Pack, *Employment, Capital and Economic Policy: Great Britain, 1918-1939* (Oxford, 1985), pp. 3-5.

⁶ For the capital levy, see R. C. Whiting, "The Labour Party, Capitalism and the National Debt, 1918-24," in *Politics and Social Change in Modern Britain: Essays Presented to A. F. Thompson*, ed. P. J. Waller (Brighton, 1987), pp. 140-60.

⁷ Labour Party, *New Social Order*, passim; Labour party National Executive Committee (NEC) minutes, November 13, 1918, National Museum of Labour History, Manchester; Labour Party, *Labour's Call to the People* (general election manifesto, London, 1918).

would be incentives to efficiency, and cheaper power and transport. But there remains a suspicion that Labour was trying to have things all its own way. The impact of a high and stable level of employment on wage bargaining was not considered, nor could it be, given Labour's links with the unions. Yet how, then, could industry remain competitive, which it would need to be, given Labour's commitment to free trade and the primacy of exports? The hope was expressed that international action could effect a worldwide improvement in wages and conditions, but a more likely scenario was the decline of exports and the flooding of Britain by cheap imports, the balance of payments implications of which were horrendous. Above all, the capital levy, conceived originally as a "scientific" means intended solely to pay off the war debt, began to emerge as a panacea. This was not, then, a program likely to succeed.

This might not have mattered. Labour was not likely, in 1918, to be asked to form a government. The real problem was that Labour did so little after 1918 to sharpen up its industrial policy, so that on the eve of MacDonald's first administration, Webb could write privately that "the one thing that neither I, nor anyone else could write now is 'What a Labour Government would do!'"⁸

The party had failed, by 1924, to think much about its industrial policy. In February 1918 the party's national executive committee (NEC) set up nine advisory committees, one of which was to look at "Industrial Policy." From the start, it was a sickly creature. Its chair and secretary were F. W. Purdy and J. J. Mallon, respectively, hardly leading luminaries (in contrast, J. A. Hobson and G. D. H. Cole held these positions on the committee on trade and finance). By the end of the year, in contrast to most of its counterparts, it had issued no reports. After the 1922 election, the advisory committees were reorganized: out of twelve committees, only "Industrial Affairs" and two others were still without a chair a year later, whereas the committee on finance was now chaired by Snowden. From 1925 onward, the committee seems to have existed only on paper. That a party based so centrally on the need for industrial prosperity had no functioning advisory committee on industry tells its own tale. A special committee on national production was set up in 1922 with a brief to look at industrial policy, but its progress was slow, and it does not seem to have survived the collapse of most joint activities with the Trades Union

⁸ Labour Party Annual Report (LPAR), 1923 (London), p. 178; S. Webb and B. Webb, *The Letters of Sidney and Beatrice Webb*, ed. N. Mackenzie, 3 vols. (Cambridge, 1978), 3:186, Sidney Webb to W. A. Robson, December 16, 1923.

Congress (TUC) in 1925. In any case, it produced little of value.⁹ Margaret Cole contended later that while some of the committees "had long and fruitful lives," others were "amateurish in the extreme and died young": it is not hard to see in which category the industrial policy committee fell.¹⁰

The lag was not made good by intellectuals. R. H. Tawney's *The Acquisitive Society* (1921) is usually seen as a classic statement of the socialist case, but it was particularly weak on industry, despite Tawney's service on the Sankey Coal Commission in 1919. Beyond advocating the abolition of the rentier and the professionalization of the workforce, he had no concrete proposal for the reform of industry short of public control.¹¹ But even those intellectuals who had some economic background rarely discussed the issues seriously. For example, Hugh Dalton, one of the party's few trained economists, largely ignored industry in his work. The Webbs did little to develop the strategy outlined in *Labour and the New Social Order*, with Sidney happy to chaff employers for playing too much golf.¹² G. D. H. Cole was, for much of the period, lumbered with the declining guild socialist movement; after its demise he did offer positive proposals, but this work only appeared in 1929, too late to have much effect on party policy in this period.¹³ Various attempts to set up "think tanks" came to nothing before 1930.¹⁴

Labour had done little by 1924 to sharpen up its message on two things in particular: nationalization and the capital levy. In 1919, Arthur Henderson, the party secretary, had asked an alarmed Webb to draft "a complete scheme for 'Socialising Industry'—the whole of industry . . . and show that . . . socialization was applicable to-day to all industries."¹⁵ But this mood soon passed, not surprising in view of

⁹ NEC minutes, February 27, 1918; NEC minutes, joint meeting of NEC and parliamentary committee of TUC, April 10, 1918; NEC minutes, December 18, 1918; *LPAR*, 1923, p. 38; *LPAR*, 1925, p. 70; *LPAR*, 1926, p. 63; *LPAR*, 1927, p. 66; *LPAR*, 1928, p. 45; *LPAR*, 1922, p. 4; *LPAR*, 1924, pp. 47–48.

¹⁰ M. I. Cole, *The Life of G. D. H. Cole* (London, 1971), p. 104.

¹¹ R. H. Tawney, *The Acquisitive Society* (London, 1921), pp. 14, 75, 89, and *The British Labor Movement* (New Haven, Conn., 1925), p. 153.

¹² S. Webb, *National Finance and a Levy on Capital: What the Labour Party Intends* (London, 1919), p. 5.

¹³ G. D. H. Cole, *The Next Ten Years in British Economic and Social Policy* (London, 1929); see also N. B. Riddell, "The Age of Cole?" *Historical Journal* (1995), in press.

¹⁴ See, e.g., Jones (n. 4 above), 1:275, March 28, 1924; B. Webb, *Beatrice Webb's Diaries*, ed. M. I. Cole, 2 vols. (London, 1952–56), 2:129, January 29, 1927; 1:167, September 24, 1919; 2:230, December 2, 1929.

¹⁵ *Ibid.*, 1:167, September 24, 1919.

the collapse of the postwar boom and the rapid decontrol of industry in 1920–21. Most socialists at the time seem to have agreed with the Webbs that any such scheme would be excessive: Tawney argued that nationalization's "special sphere [would] be the great foundation industries."¹⁶ But *which* industries were to be nationalized? *Labour and the New Social Order* had been clear—coal, railways, and electricity. In the case of coal, the impetus was increased when the Sankey Commission reported by a narrow majority in favor of nationalization. The rapidly deteriorating position of the industry, plus the miners' strong position within the party, meant that Labour concentrated its efforts here, helped by the formulation by the Miners' Federation of Great Britain (MFGB) of a full scheme for nationalization. This included a minister of mines, who would appoint coal commissioners to oversee the industry. Beneath these there would be coalfield-based district boards advised by pit committees. There were hopes in 1919 that Sankey would produce a "landslide into the communal control of industries and services," but the party's sights were gradually lowered, so that by the time of the 1922 election the party was concentrating on the mines and railways alone.¹⁷ The latter, having been re-grouped as regional monopolies in 1921, were deemed "ripe" for nationalization. The committee on production tried to define further industries for social ownership but did not get far.¹⁸ Thus Labour managed, arguably, to get the worst of both worlds. Its proposals for nationalization were so thin that they were unconvincing, while their existence at all allowed Labour's opponents to play the "red scare" card with some effect.

Similarly, Labour did little to define more rigorously how industries would be run after nationalization. This was particularly significant given that there was, between 1910 and the early 1920s, a debate about industrial democracy more vibrant than at any other time before the 1970s. Webb had largely avoided the issue in *Labour and the New Social Order*. But for a while the issue remained alive, Cole and others arguing that all industries should be run by their workers on guild lines.¹⁹ In 1922 the Independent Labour party (ILP) adopted a guild

¹⁶ *Ibid.*; S. Webb and B. Webb, *A Constitution for the Socialist Commonwealth of Great Britain* (London, 1920), pp. 168–69; Tawney, p. 123.

¹⁷ F. Hodges, "Nationalisation of Industry: The Mines," in *Book of the Labour Party*, ed. H. Tracey, 3 vols. (London, 1925), 2:16; B. Webb, *Diaries*, 1:162, June 23, 1919.

¹⁸ *LPAR*, 1924, pp. 47–48.

¹⁹ G. D. H. Cole, *Guild Socialism Re-stated* (London, 1920), pp. 66–67.

socialist stance. However, the economic slump, the increasing appeal of Communism to erstwhile guild socialists, and the destruction of the remains of the shop stewards' movement in the 1922 engineering lock-out were all body blows, reinforced the following year by the collapse of the National Building Guild, of which Cole had had very high hopes. By 1925 Cole was in significant retreat, and by 1929 he was admitting that he had been "compelled by the movement of events to think out afresh [his] social and political creed."²⁰ For a time, all sorts of people, including MacDonald and the later devotee of the bureaucratic public corporation model, Herbert Morrison, had felt forced to state their support for a considerable measure of workers' control; even the Webbs sketched out a model which, while very different from that of Cole, was a good deal more "democratic" than that ultimately adopted in the 1940s.²¹ However, the overall effect of the controversy about workers' control was to militate against any firm Labour efforts to define more clearly its message on nationalization.

The party also failed to sharpen up its message on the capital levy. *Labour and the New Social Order* had proposed a tax on individual wealth exceeding £1,000 in order to pay off at least "a very substantial part" of the national debt. This would relieve industry of a huge tax burden in the future: as Dalton argued, "the [resultant] lightening of taxation would . . . increase the productivity of industry."²² MacDonald, not yet party leader, spoke strongly in favor of the levy during the 1922 election campaign, when it again formed a centerpiece of the Labour manifesto. The pledge was repeated at the 1923 election, but by now it was rather ritualistic, and, as shown below, nothing came of it.

The Conservatives' decision to fight an election in 1923 on the tariff issue allowed Labour to concentrate on the defense of free trade to the virtual exclusion of all else. But this was merely the culmination, for Labour, of a process of retreat from the distinctive parts of its industrial program in an attempt to capture the "political middle ground." Instead of using these years of opposition to adapt and develop its message, Labour had drifted onto the easier territory of negotiation.

²⁰ G. D. H. Cole, "Principles of Industrial Reconstruction," in Tracey, ed., 1:273-74, and *Next Ten Years*, p. vii.

²¹ J. R. MacDonald, *Socialism: Critical and Constructive* (London, [1921]), pp. 278-79; M. Freedman, ed., *Minutes of the Rainbow Circle, 1894-1924* (London, 1989), p. 324, minutes of meeting June 14, 1922; *LPAR*, 1924, p. 151, Morrison; Webb and Webb, *Constitution*, pp. 168-86.

²² H. Dalton, *The Capital Levy Explained* (London, 1923), p. 52.

II

Unsurprisingly, therefore, the first Labour government (January–October 1924) pursued an unremarkable industrial policy. At the cabinet level there was little discussion of industry at all, and attempts to set up a committee of economic inquiry came to nothing.²³ No attempt was made to introduce the capital levy.²⁴ This was not due, primarily, to Labour's minority position in Parliament: the real reasons were more complex. First, there was doubt as to how much the levy would yield: the party quoted £3,000 million, but the Inland Revenue anticipated only a third of that amount.²⁵ Second, the levy had been proposed originally at a time of boom, and once that had passed, there were fears that, far from improving matters, the levy would make things worse.²⁶ This was linked, third, to a reaction against the idea in quarters outside the party. It was seen increasingly, especially by MacDonald and Snowden, as an electoral liability.²⁷ Above all, perhaps, the party leadership had a wary eye on its followers, for many of whom the levy had gradually developed into a money tree: for example, a conference delegate claimed in 1924 that it would raise enough money to cut working hours to absorb all the unemployed with no loss of wages.²⁸ The government buried the issue by referring it to a committee on taxation, which took three years to report that the levy was no longer practicable. By that time even Dalton, one of its keenest advocates, had given up.²⁹ An innovative means of relieving the national exchequer of a massive burden, and so releasing money either for tax cuts or for a more "forward" industrial policy, had been lost; by 1929 there was no proposal for reducing the internal war debt beyond the rather conservative conversion operations favored by Snowden.

Little more was done to push for nationalization. The 1923 manifesto had called for public ownership of the mines, railways, and elec-

²³ Jones, 1:284, diary entry, July 7, 1924.

²⁴ D. Marquand, *Ramsay MacDonald* (London, 1977), p. 282; R. W. D. Boyce, *British Capitalism at the Crossroads, 1919–1932: A Study in Politics, Economics, and International Relations* (Cambridge, 1987), p. 51.

²⁵ Dalton, *Capital Levy*, p. 79; J. E. Cronin, *The Politics of State Expansion: War, State and Society in Twentieth-Century Britain* (London, 1991), p. 84.

²⁶ H. Dalton, *Call Back Yesterday: Memoirs, 1887–1931* (London, 1953), pp. 131–32; Philip, Viscount Snowden, *An Autobiography*, 2 vols. (London, 1934), 2:595.

²⁷ Dalton, *Call Back Yesterday*, pp. 138, 140, 143; Snowden, *Autobiography*, 2:595.

²⁸ LPAR, 1924, p. 163, W. McNeill (Glasgow trades and Labour council).

²⁹ Dalton, *Call Back Yesterday*, pp. 173–75; Marquand, pp. 475–77; Public Record Office (PRO), MacDonald papers, 30/69/1753/4, Snowden to MacDonald, October 14, 1927.

tricity. However, nothing at all was done about the railways, despite the fact that they were, arguably, the most ripe for nationalization. Proposals for electricity reorganization were approved by the cabinet but were left, as it turned out, for the next Conservative government to implement. There was more action on the mines. The MFGB's scheme formed the basis of a private member's bill for which the government allowed parliamentary time, but to which it refused formally to commit itself; it was defeated on second reading.³⁰ By the end of the summer the government was framing its own legislation to nationalize the mines, but of course this collapsed with the ministry that October.

The government's industrial strategy, such as it was, was to encourage a revival in "ordinary trade."³¹ The first interim report of Webb's cabinet committee on unemployment stressed that the "only real cure [was] such a revival of normal trade activity as [would] automatically re-absorb unemployed workmen [*sic*] into their accustomed occupations."³² This emphasis was not surprising, not least because out of the seven trade unionists in the cabinet, there were five from the staple trades, plus a railwayman. And, since trade had been reviving quite strongly since the latter half of 1923, this line did not seem wholly fanciful.

The government's strategy to help the staples was basically three-fold. It tried not to increase, and where possible to reduce, their costs. First, legislation to cut hours was postponed, and a proposal for holidays with pay was excluded from the Factories Bill.³³ Snowden, as chancellor, abolished the unpopular Corporation Profits Tax and generally cut taxes in order to stimulate purchasing power and offset demands for wage increases which might further undermine competitiveness. Second, the government aimed to improve international relations, in the hope that this would stimulate trade: hence the Dawes Plan on reparations and the recognition of, and attempt to negotiate a commercial treaty with, the Soviet Union. Finally, the government launched a wide-ranging inquiry into the state of British industry under the businessman Sir Arthur Balfour.

However, this commitment to the staples clashed with the expan-

³⁰ R. W. Lyman, *The First Labour Government, 1924* (London, [1958]), p. 224; PRO, cabinet papers, CAB 23/48/32 (24), cabinet conclusions, May 15, 1924.

³¹ Jones (n. 4 above), 1:269, diary entry, February 1, 1924; Dalton, *Call Back Yesterday*, p. 148.

³² Quoted in Garside (n. 3 above), p. 148.

³³ PRO, CAB 23/47/25 (24), cabinet conclusions, April 7, 1924; PRO, CAB 23/48/30 (24), cabinet conclusions, May 7, 1924.

sion of newer industries, and Labour's policy decisions were generally negative. The decision to abolish the McKenna Duties (a 33 1/3 percent tariff on "luxury" imports, such as cars) had damaging effects—import penetration in automobiles rose from 15 percent in 1924 to 28 percent a year later, when the Conservatives reimposed them.³⁴ The government also did all it could to prevent the formation of an Anglo-German dyes cartel.³⁵

It would, of course, be unfair to be too critical of the government, given its weak parliamentary position and its desire to prove, above all, Labour's "fitness to govern." Even so, Labour had very little to offer in the way of industrial policy. It had jettisoned the capital levy as a means of relieving industry of its burdens; its proposals for nationalization were scarcely worked out; and it had no idea that special policies might be needed to help the newer industries. It remained essentially committed to the view that the staple industries would recover to a very large extent, though probably not to their prewar level, and to allow this to happen it deliberately avoided action in other areas.

Labour was heavily defeated at the general election of October 1924, but this did not prompt any major rethinking of Labour's approach, least of all on industrial policy, where there was now a virtual vacuum. Labour still rejected alternative proposals but had little else to say. Any form of protection was ruled out by all but a few M.P.s.³⁶ For most, it would "keep prices high, profits high, and wages and the amount of employment low," bring "lobbying, corruption and unemployment," and mean the public being "mercilessly fleeced and robbed."³⁷ The party favored, instead, the establishment of good international relations and the development of the economic functions of the League of Nations to enforce worldwide standards of wages and conditions, which would eliminate the excessively cheap production which led to "unfair" competition.³⁸ But this hardly offered a rapid or straightforward solution to the problems faced by many British industries.

Labour's internationalism and reluctance to depart from an ideal-

³⁴ Sir A. Balfour and Sir J. Cadman, "Report on the Economic Outlook," May 1930, quoted in S. Howson and D. Winch, *The Economic Advisory Council, 1930–1939: A Study in Economic Advice during Depression and Recovery* (Cambridge, 1977), p. 178; Miller and Church (n. 5 above), p. 194.

³⁵ PRO, CAB 23/47/17 (24), cabinet conclusions, February 28, 1924; PRO, CAB 23/48/45 (24), cabinet conclusions, July 30, 1924.

³⁶ Dalton, *Call Back Yesterday* (n. 26 above), p. 158.

³⁷ 180 *H.C. Deb.* 5s., cols. 760–61, 759, February 16, 1925, T. Shaw.

³⁸ LPAR 1925, p. 91; 180 *H.C. Deb.* 5s., cols. 747–48, February 16, 1925, Dalton.

ized vision of the pre-1914 world were also seen in its reaction to the return to the gold standard at the prewar parity in May 1925. While it was not the major reason for British industry's difficulties in the latter half of the 1920s, it does seem to have had an adverse effect on the export trades. Yet Labour's opposition was muted in the extreme.³⁹ It fell to ILP left-wingers, already becoming marginalized within the Labour party, to drive home that the effects on industry would be "adverse in the extreme."⁴⁰

Labour also opposed subsidies to private industry, at least partly because of fears that such payment would worsen international relations. Although the granting of a nine-month subsidy to the coal industry in July 1925 was celebrated in the wider Labour movement as "Red Friday," it alarmed and appalled the party leadership. A party committee ranging from Morrison to George Lansbury and James Maxton rejected contemptuously Sir Alfred Mond's scheme for the payment of money from the unemployment insurance fund to firms to subsidize employment.⁴¹ This negative stance was to come under increased pressure, though, and Labour was soon to be forced to rethink its ideas on industrial policy. But the reappraisal was to be cautious, the process largely reactive, and the effects at best partial.

III

The persistence of mass unemployment was one stimulus to new thinking. The return to gold was replete with symbolism about returning to the prewar situation, but unemployment remained stubbornly over one million. This led politicians of all parties to redouble their efforts to find a credible solution, while within the Labour party the salutary effects on the TUC leadership of the failure of the 1926 General Strike enhanced the prestige of the parliamentary leadership.

Next, the left wing of the party began to produce policies which were both more comprehensive and, in many ways, more convincing than the official party line. In 1925 a recent recruit, Sir Oswald Mosley, published his *Revolution by Reason*, a complete scheme for the restructuring of Britain's industrial base which aimed greatly to reduce the reliance on exports. The ILP, for its part, adopted the "Living

³⁹ 183 *H.C. Deb.* 5s., cols. 626, 630, May 4, 1925, Snowden; 183 *H.C. Deb.* 5s., cols. 641-42, May 4, 1925, H. B. Lees-Smith; cols. 659-62, May 4, 1925, F. W. Pethick-Lawrence; Dalton, *Call Back Yesterday*, p. 158.

⁴⁰ 183 *H.C. Deb.* 5s., col. 826, May 5, 1925, C. Stephen.

⁴¹ Snowden, *Autobiography* (n. 26 above), 2:725-26; *LPAR*, 1925, pp. 45-46, report of standing committee on unemployment, land reform, and emigration.

Wage” program, proposals of a transitional nature aiming to bankrupt capitalist industry by forcing it to pay “uneconomically” high wages and so force it into the hands of the state.⁴² While both were open to serious objections on political and economic grounds, they did offer distinctive alternatives which, if not countered by Labour, might come to be seen as the official line; and at a time when they were keen to portray the party as moderate and respectable, the party’s leaders could not allow that to happen.

At the same time, there seemed to be a danger of Labour being left high and dry by its mainstream rivals. The Conservatives were developing safeguarding (protection against foreign dumping for specific industries) and derating of industrial premises. The Liberals, meanwhile, were producing spectacular interventionist plans from Lloyd George’s accession to the party leadership in 1926 onward, culminating in the “Yellow Book” of 1928. These were at least superficially attractive and seemed linked to a revival in Liberal electoral fortunes from 1927 onward.

Finally, moves within industry itself, both at home and abroad, also increased the pressure. At the 1926 party conference, rumors were “rife” about “new departures in trusts and syndicates in Germany and the USA.”⁴³ From about this time there was a great upsurge in talk of a new “industrial revolution,” and, given the then-prevalent view of what the original had entailed, this was not a prospect to gladden the hearts of Labourites.⁴⁴ There had long been, of course, a trend toward larger industrial operations in Britain, but the 1920s saw “a hitherto unprecedented wave of mergers that was not subsequently emulated until the 1960s.”⁴⁵ Many business leaders now came to see a conscious move toward larger and more efficient units of production—“rationalization”—as a cure for their ills, hoping that it would cut costs more effectively than a frontal assault on wages. Indeed, many employers, and some members of the Labour movement, believed that larger-scale industry would be able to pay *higher* wages,

⁴² R. K. Middlemas, *The Clydesiders: A Left-Wing Struggle for Parliamentary Power* (London, 1965), p. 171 ; R. E. Dowse, *Left in the Centre: The Independent Labour Party, 1893–1940* (London, 1966), pp. 212–15; Booth and Pack (n. 5 above), pp. 25–26.

⁴³ B. Webb, *Diaries* (n. 14 above), 2:121, October 12, 1926.

⁴⁴ *Ibid.*, p. 127, November 15, 1926, reporting Keynes and H. D. Henderson; for an earlier example, see Freedman, ed. (n. 21 above), pp. 336–37, minutes of meeting, October 10, 1923; for contemporary views of the Industrial Revolution, see, e.g., J. L. Hammond and B. Hammond, *The Town Labourer* (London, 1920); G. D. H. Cole, *A Short History of the British Working-Class Movement* (London, 1925), vol. 1.

⁴⁵ N. K. Buxton, “Introduction,” in Buxton and Aldcroft, eds. (n. 4 above), p. 19.

since production and marketing would be streamlined and goods made more competitive.⁴⁶ The amalgamation of the major British chemical firms into Imperial Chemical Industries in 1926 was seen by many as a successful precedent to be followed. And, as rationalization seemed to be spreading elsewhere, there seemed to be a danger that Britain would be left behind.⁴⁷ The more "progressive" employers realized that they would be able to rationalize more effectively if they could obtain union agreement, and this led to the Mond-Turner talks in 1928.

By 1927, then, there was a growing feeling within the party that it should redefine its policy. The result was a new program, *Labour and the Nation*, formally adopted in 1928. It was a ragbag of vote-catching proposals, put together in a tone of moderation to beat off Liberal and Conservative challenges for the perceivedly all-important middle ground of British politics. Moderation is not necessarily a bad thing, but vagueness and waffle almost always are, and, indeed, it was as much its imprecision as its lack of radicalism that aroused criticism at the 1928 party conference.⁴⁸ Nevertheless, it passed effortlessly and became the basis of the 1929 election manifesto.

Labour and the Nation argued that the staple industries were so important that action must be taken rapidly to help them recover. It was "vital" to restore "normal trade." Candidates for early nationalization were coal and power, the railways, industrial life insurance, the Bank of England, and the land. However, with the exception of coal, there was little indication—or idea—as to how this would be done. Other industries were not yet ready, but they would benefit from a number of changes. Public ownership of the Bank of England would make the financial sector more sensitive to the needs of industry, while nationalization of rail would help cut costs. Rate burdens on industrial premises would be reduced. A Labour government would conduct a full investigation of the cotton industry with a view to "a comprehensive and well-considered scheme of reconstruction" (there was no notion that, in opposition, Labour might have carried out at least a preliminary investigation in order to offer something more concrete as

⁴⁶ Boyce (n. 24 above), p. 105; A. Bullock, *The Life and Times of Ernest Bevin*, 3 vols. (London, 1960–83), 3:395–96.

⁴⁷ H. W. Macrosty, *The Trust Movement in British Industry: A Study in Business Organisation* (London, 1907); J. A. Hobson, *The Conditions of Industrial Peace* (London, 1927), p. 16; W. Meakin, *The New Industrial Revolution: A Study for the General Reader of Rationalisation and Post-war Tendencies of Capitalism and Labour* (London, 1928), p. 200.

⁴⁸ *LPAR*, 1928, p. 206, A. Marshall (Central Nottingham D[ivisional] L[abour] P[arty]); pp. 207–8, W. J. Brown; p. 201, J. Maxton; p. 204, R. J. Davies, M.P.; Cole, *Next Ten Years* (n. 13 above), p. 417.

soon as it entered office). But the greatest faith was again placed in international action: efforts would be made to help exporters by the negotiation of tariff reductions, and industries producing for the home market would be protected through Labour's efforts to strengthen the International Labour Organization. No fallback position was offered in the event of such efforts failing. Working-class purchasing power would be boosted to "increase the demand for staple commodities and assist the restoration of the chief industries of the country." How this was going to be achieved, given the party's commitment to "sound finance" and its reluctance to increase tax burdens and industrial costs, was not made clear; but in any case, the statement was a non sequitur. An increase in domestic spending power would have done little to help the staples, which depended on the export market; indeed, if it had raised their wage costs or tax burdens, it would simply have left them in a more parlous state still. The increase might have been presented as a way of assisting the development of the new industries, but here the program was silent. There was even more tension, if not contradiction, in the treatment of rationalization. Industrialists were entreated to rationalize, the resulting short-term unemployment being offset by raising the school-leaving age, pensions reform, and assisted emigration. Rationalization, however, meant the establishment of large combines; but a major part of the program, entitled ominously "The Menace of the Trust," strongly condemned such operations as "one form or another of industrial feudalism." The only alternative was socialism, "the conduct of industry as a public service, democratically owned and responsibly administered." But *Labour and the Nation* had stated explicitly that most of British industry was not yet ready for such control.⁴⁹ (The 1929 manifesto was to propose nationalization only for coal, plus inquiries into cotton and iron and steel.) This confusion was to run like a deep fault through the industrial policy of the second Labour government.

IV

The 1929 election was a close-run affair. The Conservatives' two-hundred-plus majority of 1924 collapsed, and although they won more votes than Labour, they took fewer seats, and the second minority Labour government was formed. Labour's lack of a coherent industrial strategy meant it rapidly settled on rationalization as its central policy, but it is important to see why it rejected other options.

⁴⁹ Labour Party, *Labour and the Nation* (London, 1928).

Some, like nationalization, were scarcely considered at all. Even in coal, no effort was made, despite the existence of a scheme, and despite the manifesto pledge. This was understandable, insofar as the Liberals would not have supported it, but even if Labour had had a majority, there are grounds for believing that it would not have been advanced. More surprising, the nationalization of coal royalties, which was supported by all sides of the mining industry, was not attempted. However, the MFGB was split over whether compensation should be paid, and the cabinet first fudged the issue and then, in October 1930, agreed to postpone it indefinitely. By that stage the government was trying to provide as stable an environment as possible for industry, and any measure of nationalization, it was felt, might have had adverse effects on business confidence which would have far outweighed any benefits to the coal industry.⁵⁰

Labour's opposition toward direct subsidies continued. The Federation of British Industries (FBI) wanted Treasury grants to assist the basic industries to reorganize, but this met firm opposition, not just from Snowden, who was again chancellor, and the Treasury, but from the bulk of the Labour movement.⁵¹ In private, MacDonald seems to have become less unfavorable as the economic situation worsened, but he got short shrift from his advisers on the new Economic Advisory Council (EAC) when he asked them to look again at the Mond scheme for using the unemployment insurance fund to subsidize industry.⁵² His government colleagues remained firmly opposed to "doles to industry," which would involve "an enormous outlay," the results of which would be "highly debatable."⁵³

In theory, a third proposition was a devaluation of sterling. But it remained theoretical. MacDonald, for one, realized that there was a problem,⁵⁴ but Snowden, with the Bank of England and the Treasury, was adamant that devaluation was unthinkable, and few people of any political persuasion were prepared to argue otherwise before the

⁵⁰ Dalton, *Call Back Yesterday* (n. 26 above), pp. 182–83; G. D. H. Cole, "The Problem of the Mines," *Political Quarterly* 1 (1930): 58–59; *LPAR*, 1930, p. 225; N. K. Buxton, "Coalmining," in Buxton and Aldcroft, eds., p. 71; B. Webb, *Diaries*, 2:98, May 18, 1926; PRO, CAB 23/62/28 (29), cabinet conclusions, October 16, 1929; PRO, CAB 23/65/65 (30), October 29, 1930.

⁵¹ Garside (n. 3 above), p. 205; Snowden, *Autobiography* (n. 26 above), 2:764; Cole, *Next Ten Years*, pp. 50, 147.

⁵² Garside, p. 208; Jones (n. 4 above), 2:265, June 14, 1930.

⁵³ 248 *H.C. Deb.* 5s., cols. 651, 657, February 12, 1931, MacDonald; 244 *H.C. Deb.* 5s., col. 624, November 3, 1930, Attlee; 244 *H.C. Deb.* 5s., col. 993, Graham, November 5, 1930.

⁵⁴ 244 *H.C. Deb.* 5s., col. 815, November 4, 1930, MacDonald.

summer of 1931. This was not just Treasury obscurantism. Labour was trying to pose as the party of sound finance in contrast to the previous Conservative government: Winston Churchill's period as chancellor (1924–29) had become a byword for profligacy and irresponsibility. At the same time, Labour had much credibility to lose if, in its first extended period in office, it devalued the pound. In addition, Snowden and many others believed sincerely that to devalue the pound was to debase the hard-won savings of the poorer sections of the community. Finally, the adverse effects on business confidence of a devaluation of sterling by a Labour government which was, by its very nature, deeply distrusted in business circles, would probably have offset any benefits.

Perhaps more surprising was the failure of the government to pay much attention to the possibility of boosting the development of new industries. Economists were aware of their potential to revive the nation's economic fortunes, although they differed as to the extent to which they could "replace" the staples.⁵⁵ Ministers paid lip service to the employment potential of, say, the motor industry, but very little was done to help it. It was not until February 1931 that the cabinet, prodded by junior ministers and industrialists, moved. Clement Attlee, chancellor of the duchy of Lancaster, argued that the state should assist and direct the development of new industries in depressed areas. MacDonald set up a committee on new industrial development under J. H. Thomas to investigate, but it did not, in the event, report until 1932, long after the government's demise; and, in any case, its report was more concerned with the application of "science" to industry as a whole, rather than with the specific questions raised by Attlee.⁵⁶ Essentially, MacDonald and his colleagues shared the skepticism of their Conservative predecessors in this area. The government remained committed to the view held by the party since 1918, that the primary task was the rescue of the staples. In their defense, it must be said that new industries would not solve Britain's problems overnight. Even so, the government's imperviousness to increasing calls to diversify the nation's industrial base did not do it credit, and still

⁵⁵ Cole, *Next Ten Years*, pp. 45–46; H. D. Henderson, "The Development of New Industries" (1930), in his *The Inter-war Years and Other Papers: A Selection from the Writings of Hubert Henderson*, ed. H. Clay (Oxford, 1955), pp. 63–64; J. A. Hobson, "The State as an Organ of Rationalisation," *Political Quarterly* 2 (1931): 43.

⁵⁶ Howson and Winch (n. 34 above), p. 75; R. Streat, *Lancashire and Whitehall: The Diary of Sir Raymond Streat*, ed. M. Dupree, 2 vols. (Manchester, 1987), 1:28, February 17, 1931; PRO, CAB 58/167, "Committee on New Industrial Development: Report," June 28, 1932.

less so did its interference with tariffs such as the safeguarding duties for the dyestuffs industry, which only made matters worse.⁵⁷

But, of course, Labour remained committed to free trade despite a growth in protectionist sentiment in practically all quarters in the face of the slump and the worsening trade balance. Labour had maintained throughout the 1920s that there was no realistic alternative to free trade. However, the McKenna Duties were strongly supported by workers in the motor industry, and, in many of the forty-nine industries which had applied for safeguarding under the Conservatives, the unions involved had supported the application.⁵⁸ But many of the strongest unions in the Labour party catered mainly to workers in the staples and still looked to export markets: hence they were usually as fervent in their economic internationalism as most of the party leadership.

The first few months of the Labour government saw vigorous attempts to give effect to this line. The government rejected a safeguarding application (backed by the unions) from the woollen industry and announced its intention to allow the existing safeguarding duties to lapse when they came up for renewal. However, efforts by the president of the Board of Trade, William Graham, to secure a "tariff truce" were largely abortive in the face of intensifying world recession, and by January 1930 MacDonald was suggesting privately that free trade might have to be abandoned.⁵⁹ Snowden was forced, mainly by revenue considerations in the face of a deteriorating budgetary position, to abandon his plans to repeal the McKenna Duties. However, he was still strong enough to block moves for a full inquiry into trade policy, and in June 1930 the cabinet ignored H. D. Henderson's proposal for a 10 percent revenue tariff.⁶⁰ That summer, MacDonald, Thomas, and Vernon Hartshorn tried to block ratification of the tariff truce but were defeated.⁶¹ Despite growing union doubts, the strength of free trade sentiment was demonstrated at that October's TUC, and

⁵⁷ H. D. Henderson, "Report on the Economic Outlook," April 1930, quoted in Howson and Winch (n. 34 above), pp. 165-74; PRO, CAB 23/65/68 (30), cabinet conclusions, November 17, 1930; *LPAR*, 1931, p. 83.

⁵⁸ *LPAR*, 1922, p. 227, T. Kennedy (Social Democratic Federation); Boyce (n. 24 above), pp. 85-86, 124-25; Miller and Church (n. 5 above), p. 205; R. C. Whiting, *The View from Cowley: The Impact of Industrialisation upon Oxford, 1918-1939* (Oxford, 1983), pp. 36-37.

⁵⁹ Jones, 2:235, January 14, 1930; J. H. Thomas, *My Story* (London, 1937), p. 176.

⁶⁰ H. Dalton, *The Political Diary of Hugh Dalton, 1918-40, 1945-60*, ed. B. Pimlott (London, 1986), p. 115, June 1, 1930; Jones (n. 4 above), 2:263, June 4, 1930.

⁶¹ PRO, CAB 23/64/49 (30), cabinet conclusions, August 6, 1930; PRO CAB 30/69/1753, MacDonald diary, August 14, 1930; Marquand (n. 24 above), pp. 554-55; Garside (n. 3 above), p. 167; PRO, CAB 23/65/50 (30), cabinet conclusions, September 2, 1930.

although the FBI and the Conservatives were fully protectionist by October 1930, Labour had to face the winter of 1930/1 on a free trade platform.⁶² Thus Labour's leaders continued, with varying degrees of conviction, to damn tariffs, and a further proposal for a revenue tariff was safely buried by referring it to a cabinet committee packed with free traders.⁶³ The free traders remained so strong that it was not until the death throes of the government that a cabinet majority could be found for a tariff. But by then, of course, it was too late; and even then it was conceived, not as a protective tariff to assist industry, but as a revenue tariff to alleviate budgetary pressure and so avoid a cut in the rate of unemployment benefit.⁶⁴

It is, of course, a moot point as to how far the adoption of tariffs would have helped British industry. The effects on the exporting staples could not have been very positive, and might even have been negative in the sense of provoking foreign retaliation. But some industries would have benefited, and it scarcely increased business confidence to have a government sticking with apparent bloody-mindedness to free trade. However, as seen above, the government had no clear conception of the role of the new industries; and, given the Labour movement's greater strength in the exporting sectors (which were heavily unionized), and the hopes the government continued to have for a general pacification of Europe, it was not surprising that tariffs were ruled out.

Another way in which government might have tried to help industry was by cutting its costs of production. But little was done. The classical solution for industry's ills, much touted at the time, was to cut wages. Both MacDonald and Snowden expressed sympathy with this view in private.⁶⁵ The government did sponsor some wage-cutting settlements of industrial disputes, but wage cuts offended the whole Labour ethos: the idea of solving capitalism's problems in this way was opposed by hard-headed trade unionists and ethical socialists alike. Furthermore, many Labourites rejected the rationale for wage cuts: far from invigorating industry, they would reduce purchasing power and so depress industry even further; and they would bring no long-

⁶² A. Thorpe, *The British General Election of 1931* (Oxford, 1991), p. 34; Marquand, p. 564; H. A. Clegg, *A History of British Trade Unionism*, vol. 2, 1911–1933 (Oxford, 1985), p. 502; see also Dalton, *Political Diary*, p. 124, October 23, 1930.

⁶³ See, e.g., 244 *H.C. Deb.* 5s., col. 820, MacDonald, November 4, 1930; Howson and Winch, p. 78.

⁶⁴ Thorpe, p. 70.

⁶⁵ Dalton, *Call Back Yesterday* (n. 26 above), p. 148; Jones, 2:257, May 19, 1930; B. Webb, *Diaries* (n. 14 above), 2:248–49, August 3, 1930.

term gains, since employers abroad would simply follow suit in a "suicidal progress" toward abject poverty and international ill-feeling.⁶⁶ In any case, as Hartshorn recognized, the problem was that markets had shrunk: Britain could cut wages all it liked, but it would still not restore markets to their prewar size.⁶⁷ So Labour rejected wage cutting as "a policy of despair."⁶⁸

A further possibility was to cut public expenditure so as to ease the tax burdens on industry and release more money for investment. This cry was taken up by many businessmen and economists. H. D. Henderson advocated a moratorium on redistributive legislation to allow industry time to reequip.⁶⁹ By mid-1930 a wide range of business opinion was calling for cuts in state benefits so that taxes could be reduced, and by early 1931 a strong "economy" movement was in train, with businessmen saying "it was no use talking to the government about reforms in industry until they showed some signs of tackling the much more necessary measures of economy and retrenchment."⁷⁰ The Labour party officially rejected this line of reasoning, but some of its leaders did sympathize. Snowden believed that the way to socialism was through the taxation of prosperous capitalist industry, but when industry was not prosperous it was, he felt, nonsensical to increase its burdens further. Even before the 1929 slump he had believed that taxation had reached its maximum feasible level, a view shared by MacDonald and Thomas.⁷¹ However, major cuts in public expenditure, like wage reductions, were a political impossibility for Labour. Indeed, far from cutting expenditure, the government allowed it to rise during its period in office; given the surge in unemployment, this was inevitable. Thus any tax concessions to industry were ruled out.

Infrastructure development might have helped to reduce industry's costs, as *Labour and the New Social Order* had suggested. The government did inaugurate public works on a relatively large scale, but

⁶⁶ R. Skidelsky, *Sir Oswald Mosley* (London, 1975); University of Warwick, Modern Records Centre, MSS 78/ASW/4/1/10, Amalgamated Society of Woodworkers, 71st Annual Report, 1930, p. v.

⁶⁷ 244 *H.C. Deb.* 5s., col. 165, Hartshorn, October 29, 1930.

⁶⁸ MacDonald to Montagu Norman (governor of Bank of England), June 18, 1930, quoted in Marquand, p. 603.

⁶⁹ "The Limits of Insular Socialism" (1930), in Henderson, *Inter-war Years* (n. 55 above), p. 38.

⁷⁰ Committee on Finance and Industry (n. 4 above), qq. 8450–59, Lithgow (FBI); Thorpe, pp. 40–41, 61–62; Streat (n. 56 above), 1:30, February 18, 1931.

⁷¹ *LPAR*, 1928, p. 229, Snowden; Jones (n. 4 above), 2:257, May 19, 1930; Kent Archives Office, Thomas papers, U1625/C134, Thomas to Snowden, October 24, 1929.

it was hardly likely, given the political, administrative, and budgetary constraints, that there would be any serious overhaul of the infrastructure. Nevertheless, what is most interesting is the defensive and deprecatory way in which Labour ministers referred even to these efforts. Calls by people like Ernest Bevin (general secretary of the Transport and General Workers' Union) to advance public works as a means of improving industrial prospects were ignored.⁷² Instead, such schemes as were implemented were variously described by ministers as "maintenance," "additional unproductive relief," "the making of roads and bridges," and "merely dealing with roads and bridges."⁷³ The government failed totally to see them as part of a package of measures which might actually make British industry more efficient or competitive.

It would be facile to claim that all or even most of the above options were really open to the second Labour government. Nevertheless, Labour's failure to move in any of these directions was largely inevitable given its development during the 1920s and meant that its industrial policy was, to all intents and purposes, dominated by the very problematic panacea of rationalization.

V

In the later 1920s many Labourites had embraced rationalization enthusiastically, since it seemed to offer a way of making the staple industries more competitive without the need for wage cuts, and, like socialism, it denied the validity of the "free market," hence providing some common ideological ground. MacDonald had believed for years that combination was an inevitable and desirable step toward making industries "ripe" for nationalization.⁷⁴ As seen above, many trade unionists were favorable; while recognizing that there might be some displacement of labor, this could be offset by special displacement payments to redundant workers, an increase in the school-leaving age, and better pensions.⁷⁵

But there was also skepticism shading into outright opposition. The left argued, with more passion than consistency, that rationalization could not work because capitalism was doomed; but that if it did

⁷² *LPAR*, 1930, p. 185, Bevin.

⁷³ Jones, 1:257, May 19, 1930; PRO, CAB 23/63/6 (30), cabinet conclusions, February 3, 1930; 244 *H.C. Deb.* 5s., col. 161, Hartshorn, October 29, 1930; 248 *H.C. Deb.* 5s., col. 740, Thomas, February 12, 1931.

⁷⁴ MacDonald (n. 21 above), pp. 83, 999, 101, 152-53; Cole, *Next Ten Years* (n. 13 above), pp. 126-29; *LPAR*, 1927, p. 208.

⁷⁵ TUC, *Congress Report*, 1928, p. 229.

work, it would raise working-class living standards and so act as a barrier to socialist advance.⁷⁶ For many, it was simply wage cutting by other means, as one delegate put it at the 1928 TUC: "Rationalization will mean to our class . . . a speeding-up, an increase of unemployment, and a necessary lowering of the standard of life. If it does not, . . . what the hell do you want rationalization for? . . . If rationalization does not mean harm to working-class interests, . . . then what use is rationalization to British capitalism in its attempts to capture world markets?"⁷⁷ It meant an intensification of international rivalry which would lead to war and a diminution of the power of trade unions, particularly those which catered to skilled workers.⁷⁸ However, such criticism from the left did little to move a Labour leadership which had spent most of the last decade marginalizing the radical elements within the party.

The government took the line of the Balfour Report (1929) that rationalization could be done most effectively by industries themselves, without direct state involvement.⁷⁹ In June 1929 it set up inquiries into the cotton and iron and steel industries. The following spring the Bank of England formed the Bankers' Industrial Development Corporation (BIDC) to finance reorganization schemes. This was done at the behest of the minister responsible for rationalization, Thomas (lord privy seal). The reliance on rationalization as almost the sole basis of the government's industrial policy was thereby confirmed, and its main efforts were reserved for three of the big staples: coal, cotton, and iron and steel.

In the case of coal, nationalization was, as seen above, ruled out, but action on hours and organization was not. Graham's Coal Mines Bill, published in October 1929, aimed to reduce the maximum working day from eight to seven-and-a-half hours, set up district cartels with production quotas for each mine, establish a national levy to subsidize exports, and appoint advisory committees to oversee the operation of district schemes. The bill was criticized by the Liberals on the grounds that the cartels would support inefficient mines at the expense of efficient ones. Since the government relied on Liberal votes, a Part II was added to the bill, creating a Coal Mines Reorganization Commission (CMRC) to force amalgamations through. The miners were also dissat-

⁷⁶ *LPAR*, 1928, p. 213, John Wheatley; Middlemas (n. 42 above), p. 221.

⁷⁷ TUC, *Congress Report*, 1928, p. 440, A. G. Tomkins (Furnishing Trades Association).

⁷⁸ *Ibid.*, p. 437, A. J. Cook (Miners' Federation of Great Britain); pp. 428-29, G. Hicks (Amalgamated Union of Building Trade Workers).

⁷⁹ See MacDonald's comments in *Jones*, 2:228, December 16, 1929.

ified, because seven-and-a-half hours was no reduction in some areas, and because the House of Lords amended the legislation to allow the “spreadover,” which meant that eight hours could be worked in a day so long as no more than ninety hours were worked in a fortnight. Problems with the miners, the Liberals, and the Lords all made the passage of a complex bill very protracted. It finally became law in August 1930, after eight gruelling months and eighty-eight divisions in Parliament. That November, Graham stated wearily that the government had “no desire” to become involved in similar legislation again; and undoubtedly the problems faced with coal made it still more determined to adopt a less dirigiste approach with other industries.⁸⁰

With cotton, there were hopes that a more voluntarist approach could succeed. The Lancashire Cotton Corporation (LCC) had been formed to reduce excess capacity before Labour came to power. The government spent a year investigating cotton, and when the report was published in July 1930, it suggested reduction of costs (in a “cordial” manner), amalgamations, greater cooperation within the industry, and the replacement of traditional with automatic looms in the weaving section. However, by September the cabinet was expressing “disappointment” at the lack of progress being made and considering the possibility of taking compulsory powers. But this was little more than bluster; ministers were not really in a position to force their will on the industry.⁸¹ The report on iron and steel produced even less. The industry’s immediate reaction to its publication was to demand a protective tariff. When the government rejected this, iron and steel simply sat back and waited for a more sympathetic government to take over.⁸²

The only full-scale critique of rationalization came from Mosley, who as chancellor of the duchy of Lancaster was one of Thomas’s nominal assistants. Although rationalization was necessary—“Socialism is not a device for the maintenance of obsolescent plant”—it was not a panacea, he argued.⁸³ A more thorough approach

⁸⁰ M. W. Kirby, *The British Coalmining Industry, 1870–1946: A Political and Economic History* (London, 1977), p. 131; Dalton, *Political Diary* (n. 60 above), pp. 95–96, June 3–9, 1930; 244 *H.C. Deb.* 5s., col. 527, November 3, 1930, Graham.

⁸¹ PRO, CAB 23/64/32 (30), cabinet conclusions, June 18, 1930; PRO, CAB 58/132, “Report of the Committee on the Cotton Industry,” July 4, 1930, pp. 18–21; PRO, CAB 23/65/57 (30), cabinet conclusions, September 30, 1930; Streat (n. 56 above), 1:30–31, February 18, 1931.

⁸² Jones (n. 4 above), 2:263, June 3, 1930; PRO, CAB 23/64/40 (30), cabinet conclusions, July 11, 1930; PRO, CAB 23/64/46 (30), cabinet conclusions, July 30, 1930; PRO, CAB 23/66/16 (31), cabinet conclusions, March 4, 1931.

⁸³ 234 *H.C. Deb.* 5s., col. 101, Mosley, January 21, 1930; Jones, 2:257, May 19, 1930.

was needed, and he advanced it through the "Mosley Memorandum," drafted in early 1930. This aimed to cut unemployment and renew Britain's industrial base by a combination of protection, development of the home market and new industries, and extensive public works. However, Mosley's ideas failed to convince the cabinet, which stuck to the line that had emerged over a decade of Labour thinking—or failure to think—about industry. Mosley resigned in May 1930; the party's policy remained essentially unchanged.

Did rationalization help? Thomas argued subsequently that his efforts had not been in vain and that much of the credit for Britain's economic recovery in the 1930s should go to his work in the 1929–31 period.⁸⁴ But most historians have been a good deal less sanguine. For one thing, the government remained aloof from many of the developments taking place: at best it did little to obstruct changes which were taking place anyway. In cotton, for example, the LCC had already begun its work when Labour took office; and it might be argued that the biggest contribution the government made toward the reduction of capacity in the industry was to stand by while many firms went bankrupt. Little assistance was given to the LCC, and even after more direct state intervention in 1936, the industry continued to have considerable excess capacity.⁸⁵ In coal a more dirigiste approach was no more successful. After the Liberals' intervention, the Coal Mines Act was fatally flawed. The impetus toward amalgamation contained in Part II was vitiated by the cartel agreements in Part I, which guaranteed all pits a share of the market and so buttressed the inefficient mines. And, in any case, the CMRC proved to be far less powerful than its advocates had hoped.⁸⁶

The results of rationalization under the second Labour government, then, were far from impressive. This was due, partly, to causes over which the administration had very little control. The attitude of business itself was a problem. Many people accustomed to better times could not bring themselves to recognize that the contraction in world markets was permanent. There remained considerable hostility toward state interference, especially when it came from a Labour government which was formally, at least, dedicated to the abolition of private enter-

⁸⁴ Thomas (n. 59 above), pp. 178–79.

⁸⁵ Porter, p. 40.

⁸⁶ Kirby, p. 150; B. Fine, *The Coal Question: Political Economy and Industrial Change from the Nineteenth Century to the Present Day* (London, 1990), p. 31; Buxton, "Coalmining" (n. 50 above), p. 71; B. Supple, *The History of the British Coalmining Industry*, vol. 4, *The Political Economy of Decline* (Oxford, 1987), p. 301; Snowden, *Autobiography* (n. 26 above), 2:771.

prise. Many business people were openly skeptical of the supposed advantages that rationalization would bring, and they were by no means wholly wrong. The rationalization movement tended to proceed more by assertion than by argument, and even those industries which did rationalize often found few real advantages.⁸⁷ Finally, most industrialists were reluctant to commit themselves to rationalization without a *quid pro quo* in the form of protection (e.g., iron and steel) and/or public economy (e.g., cotton).⁸⁸ Yet, as seen above, these were things the government could not deliver. Conversely, by October 1930 the Conservatives were fully protectionist; by the following January they were espousing public economy with alacrity. With the government's political and electoral position weakening steadily, there seemed less and less point in getting a bad deal from MacDonald when they could hope for a much better one from Baldwin.

There was, in addition, no decent administrative structure through which rationalization could be pursued. There was no Ministry of Industry, and one of the most impressive features of the government's industrial policy was the number of ministers who were in some way involved in it. Thomas, as lord privy seal, took charge at first; even when he was moved to the Dominions Office in May 1930, he kept some control over rationalization, although his successor, Hartshorn, and Clement Attlee, who replaced Mosley as chancellor of the duchy, now became more significant.⁸⁹ But Attlee's appointment as postmaster-general and Hartshorn's subsequent death in March 1931 meant still less continuity. Cotton rationalization, meanwhile, was kept separate: the enquiry was chaired successively by Graham, A. V. Alexander (first lord of the Admiralty), and J. R. Clynes (home secretary).⁹⁰ Clynes and Graham became a kind of double act, and they did not play to an appreciative audience within the industry, which often did not know with whom it was supposed to be dealing.⁹¹ MacDonald's formation of the Economic Advisory Council in January 1930 merely added to this confusion: it was to provide more in the way of source material for historians than useful advice to ministers.

The confusion did not go unnoticed at the time. In July 1930, Attlee produced a cabinet paper proposing the establishment of a Ministry of Industry as "the organ of conscious direction of national eco-

⁸⁷ Buxton, "Introduction" (n. 45 above), pp. 19–20; Clegg (n. 62 above), 2:425.

⁸⁸ Howson and Winch (n. 34 above), p. 46; Streat, 1:30, February 18, 1931.

⁸⁹ Jones, 2:263 and 270, June 4 and July 10, 1930.

⁹⁰ PRO, CAB 58/132, "Report of the Committee on the Cotton Industry," July 4, 1930, p. 20.

⁹¹ Streat (n. 56 above), 1:15, January 23, 1931.

conomic life" and with a much more dirigiste approach toward rationalization. But the cabinet did not even discuss the paper until December 1930, and then the proposal was largely shelved, with Treasury blessing.⁹² It might have been possible in May 1929, but by late 1930, with pressure for public expenditure cuts mounting, it was too late, in any case. Once again, Labour's failure to think out its plans in the years of opposition had let it down.

Failing a Ministry of Industry, Labour was left with little alternative but to rationalize through the banks. The latter were owed huge debts by many firms as a result of the speculative postwar boom and had already assisted rationalization schemes as a way of improving the prospects of eventual repayment. However, there were problems. Although Thomas claimed that leading bankers were favorable, the *Banker* magazine concluded that this was not really so.⁹³ Thus progress was extremely slow. The BIDC's interventions were often tactical—seeking to diffuse pressure for state action—rather than strategic. In addition, the need to preserve the gold standard meant that the Bank had to manage interest rates in a way that was often detrimental to the interests of industries clamoring for cheap money.⁹⁴ All this aroused considerable Labour criticism, but the government resisted demands for direct state intervention.⁹⁵ And, with the Macmillan committee investigating the relationship between finance and industry for most of the government's life, calls for sterner action could always be dismissed with the line that it was best to wait for the committee's report.

Thus banking considerations joined industrial resistance and administrative problems to help block any serious rationalization of industry during this period. However, there were other obstacles too, and these drove to the heart of the Labour party itself, so preventing it from becoming truly a party of industrial modernization.

The first of these was the symbiotic relationship between the party and the trade unions. While the unions could not, generally, force the

⁹² "The Problems of British Industry: Memorandum by the Chancellor of the Duchy of Lancaster," July 29, 1930, quoted in K. Harris, *Attlee* (London, 1984), pp. 570–84; Dalton, *Political Diary* (n. 60 above), pp. 129–30, November 14, 1930; Howson and Winch, pp. 44–45, 387. For earlier suggestions along similar lines, see, e.g., Freeden, ed. (n. 21 above), p. 297, minutes, January 14, 1920.

⁹³ 237 *H.C. Deb.* 5s., col. 2721, April 15, 1930, Thomas; *Banker* (March 1930), p. 364.

⁹⁴ *LPAR*, 1929, p. 227, Snowden; Dalton, *Political Diary*, p. 104, May 1, 1930; J. Hudson, "The Birth and Death of Firms in England and Wales during the Inter-war Years," *Business History* 31 (1989): 102–21.

⁹⁵ *LPAR*, 1930, p. 195, E. F. Wise, M.P.; p. 202, Mosley; Howson and Winch, p. 79.

government to do things, they could, usually, prevent it from taking measures to which they were strongly opposed. The TUC had approved rationalization in 1928, but that was in the context of relative economic prosperity, when it seemed that labor displacement problems could be dealt with without too much difficulty. However, the slump from 1929 onward hardened attitudes considerably. Apart from unemployment, there were two major worries. First, there was a growing recognition that rationalization would mean major changes in working practices. Even “forward-thinking” trade union leaders like the TUC general secretary, Walter Citrine, and the leader of the iron and steel workers, Arthur Pugh, were worried about giving up such practices without some quid pro quo on the part of employers or powerful state intervention.⁹⁶ But given the employers’ attitudes and the government’s distancing of itself from the rationalization process, neither was likely. And, given renewed pressure for wage cuts, rationalization was seen increasingly as just another way of reducing working-class living standards. The “more looms” dispute in the Lancashire cotton industry, which began in 1930, seemed to confirm the view that reorganization meant simply more effective exploitation of labor.⁹⁷ Second, the government’s growing insistence on the need to prune back the staples worried unions in those industries, and those unions formed a major section of the Labour party. Of the 1,700,000 members affiliated to the party through the twelve largest unions, in 1931, almost 650,000 (38 percent) were in staple industry-based unions; in addition, the general unions included many such workers, while the railway workers, closely tied to the staples, represented a further 288,000 members (17 percent). Thus Labour was hamstrung in its attempts to modernize industry by its dependence on the very unions which would suffer most from rationalization.

But unemployment caused more worry than anything else. During the lifetime of the second Labour government, unemployment rose from 1.1 million to 2.8 million. Many cherished policies, like naval disarmament, were themselves contributing to the problem. It was generally acknowledged that rationalization would make matters worse before it made them better. Concrete illustrations abounded. In shipbuilding, where there was little government intervention in the process, the National Shipbuilders’ Security, Ltd., was buying up and

⁹⁶ Jones (n. 4 above), 2:220–22, December 9, 1929; Committee on Finance and Industry (n. 4 above), q. 4621, Pugh, May 2, 1930; cf. A. Pugh, *Men of Steel* (London, 1952), p. 454.

⁹⁷ Clegg (n. 62 above), 2:490–91.

closing down yards. Steel rationalization in 1929 led to the closure of works in Yorkshire and Lancashire. Opinion might have been less unfavorable if steps had been taken to compensate the displaced workers or to restrict the size of the labor market through improved pensions and an increase in the school-leaving age. But the first was ruled out, on cost grounds, much to the chagrin of the unions; Mosley's proposals for massive public works and the vigorous development of new industries were rejected; and pensions reform and the bill to raise the school-leaving age both collapsed ignominiously.⁹⁸ Increasingly, Labour backbenchers came to attack industrial reorganization as leaving behind it "a great trail of ruined homes and broken men and women."⁹⁹ In these circumstances, rationalization, however necessary, was a political albatross for the Labour government.

There was also strong feeling within the Labour party against the kinds of combinations and trusts which it was believed would result from rationalization. The leadership saw combination as leading in theory to public ownership, but this was not how it looked to many Labourites. Throughout the 1920s, indeed, Labour rhetoric had attacked the process.¹⁰⁰ This reaction was encouraged by the rise of protectionist sentiment from mid-1930, since protection would remove free trade as the last defense of the consumer against the rapacious demands of monopolistic producers. Thus there was a dilemma. Should Labour encourage rationalization in the knowledge that it would lead to greater trustification? Or should it try to restrict such a movement, even if this meant damaging the long-term interests of British industry? It was a dilemma which was never resolved in this period.

The decisive factor inhibiting rationalization was not a doctrinaire commitment to "socialism" at the expense of reality.¹⁰¹ The argument that it was not worth tinkering with capitalism because it would inhibit progress toward socialism, or because socialism was doomed in any case, had been present in debates throughout the 1920s and gained support as the economic situation worsened between 1929 and 1931. But the government itself was firmly committed to rationalization and did its best, within severe constraints, to implement it. True, industry

⁹⁸ 234 *H.C. Deb.* 5s., col. 19, Thomas, January 21, 1930; 244, col. 162, Hartshorn, October 29, 1930; col. 992, Graham, November 5, 1930; Warren (n. 4 above), p. 118; for the pensions fiasco, see Dalton, *Political Diary*, p. 107, May 13, 1930.

⁹⁹ 234 *H.C. Deb.* 5s., col. 1616, J. J. McShane, February 3, 1930.

¹⁰⁰ See, e.g., *LPAR*, 1922, p. 97; PRO, CAB 23/48/34 (24), cabinet conclusions, May 27, 1924; Hodges (n. 17 above), p. 13; Labour Party, *Labour and the Nation*, p. 23.

¹⁰¹ R. Skidelsky, *Politicians and the Slump: The Labour Government of 1929-1931* (London, 1967), p. 395.

might have been more cooperative had Labour not been pledged to the ultimate extinction of private enterprise; but it cannot be claimed that this made the decisive difference.

In any case, there were all sorts of perils in rationalization. It seems probable that workers displaced by the process so far as it did progress in these years were among the multitudes queuing up to deal Labour a devastating defeat at the 1931 general election. Certainly the experience of Weimar Germany was to suggest that relatively "successful" rationalization could have severe political side effects.¹⁰² It may be that there were worse fates to await a nation than an outdated industrial base.

VI

As is well known, the second Labour government collapsed ignominiously in August 1931. MacDonald, Snowden, and Thomas departed the Labour scene to lead the National government with Conservative and Liberal support. At that October's general election, Labour put forward a radical election manifesto in which few of its leaders seriously believed and which reverted from half-measures like rationalization to full-blooded nationalization. Labour was, of course, heavily defeated. But at least Labour's catastrophic defeat at that election cleared the way for new ideas and policies to come forward.

The real failure of Labour's industrial policy in the 1920s had been the lack of advanced planning. In that period, perhaps understandably, the strategy of the Labour leadership (accepted by the great majority of its supporters) had been to consolidate and extend the party organization, to appeal as far as possible to the political "middle ground," and to exclude "disruptive" elements. In order to succeed in this it had had deliberately to keep its policies in theory dynamic and exciting but in reality superficial and bland: hence the playing down of nationalization and the capital levy by middecade. But this left it prey to all sorts of problems, not least the fact that, in desperation, it had to turn to rationalization as virtually the sole basis of its industrial policy in 1929–31. Then, faced with massive problems, it had failed to make any serious impact on the nation's creaking industrial structure.

In retrospect, this is not surprising. If the industrial meaning of gradualism was, in a very real sense, to consolidate and rationalize industrial undertakings, then the political strategy of gradualism—the

¹⁰² R. A. Brady, *The Rationalization Movement in German Industry: A Study in the Evolution of Economic Planning* (New York, 1933), pp. 416–18.

attempt to be as many things as possible to as many people as possible—clashed with it to such an extent that it could not be effected. Other tensions also limited Labour's room to maneuver. The structure of the Labour party gave great leverage to the staple industry-based unions. There was a basic conflict between seeing mergers as the way of "ripening" industries for nationalization and long-standing radical traditions which saw monopoly as a form of industrial feudalism. And, crucially, there was a paradox between the party's unifying anticapitalist rhetoric and its need to build socialism on the back of successful private enterprise.

This period held a legacy for Labour's future industrial policy. First, it increased the party's distrust of voluntarism: in the future, it was felt, there should be no cooperation with bankers and cajoling of industrialists: they should instead be told what to do, and do it. Second, there was a renewed emphasis on nationalization as the cure for Britain's industrial ills. Thirdly, the collapse of the movement for industrial democracy meant that nationalization would be carried out through the profoundly bureaucratic model of the public corporation. The only remaining point at issue was whether trade union bureaucrats would be in on the act or not. And, finally, rationalization per se was discredited. Even the Labour leaders who had most favored it were, by early 1932, either political opponents (MacDonald, Snowden, Thomas, Mosley) or dead (Graham, Hartshorn). The way was clear for a new regime. However, for all its innovations, it was still keener on panaceas rather than policies when it came to industry. It would only be a shade too unkind to say that only the buzzword changed, as "planning" replaced "rationalization" as a widely accepted but little worked out or understood policy for dealing with industry.¹⁰³ In many ways, Labour's relationship with industry would prove as difficult and uneasy after 1931 as it had been before.

¹⁰³ For an early example, see G. D. H. Cole, *British Trade and Industry: Past and Future* (London, 1932), pp. 434–35.