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Churchill as Chancellor of the Exchequer (1924–9) and the return to the gold standard

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Chancellor of the Exchequer (1924-29) and the Return to the Gold Standard

The general election of 29 October 1924 saw Winston Churchill return to parliament as Constitutionalist MP for Epping after two years in the political wilderness. It also saw Stanley Baldwin swept back to Number 10 on a Conservative landslide. Speculation about whether Baldwin would cement Churchill's drift from the Liberal fold by offering him office surfaced during the election campaign. Churchill nevertheless thought 'it very unlikely that I shall be invited to join the Government, as owing to the size of the majority it will probably be composed only of impeccable Conservatives'.[1] Because of his anti-socialist credentials, his ability to reassure wavering Liberals through his opposition to protectionism – dropped by Baldwin after its rejection in the 1923 general election[2] – and concern he could prove a rallying point for backbench malcontents, there was however much to commend giving Churchill a post. To his surprise, Baldwin offered Churchill the long-coveted office of Chancellor of the Exchequer, briefly held by his father before his ill-conceived resignation in 1887. Having arranged a meeting with his Labour predecessor, Philip Snowden, about outstanding business the new Chancellor set to work.[3] Marking his political transition, a few days later Churchill resigned from the National Liberal Club.[4]

The various file series relating to Churchill's period at the Treasury from 1924-29 are broadly arranged chronologically, with additional materials inserted at the end. Hence the CHAR22 series of Cabinet-related papers opens with files dating from 1919-22, overlaps with his Chancellorship from CHAR22/19 onwards, but ends at CHAR22/247 with a file of miscellaneous notes from c1925. CHAR22/28-47, 85-106, 152-166, 191-211, 228-235 largely consist of Cabinet memoranda and correspondence. There are also sets of Cabinet conclusions for 1928-29 at CHAR22/212-213 and 236-238.[5]

[1] CHAR2/136/4: WSC to Sir Alan Burgoyne, 4 November 1924; see also CHAR2/136/6: WSC to James Erskine, 5 November 1924.
[2] For instance, in his election speech at Gravesend, 25 October 1924, noted in CHAR18/3/82-9: author unknown, December 1924.
[3] CHAR18/1/6: WSC to Philip Snowden, 17 November 1924.
[4] CHAR2/136/60: Clarice Fisher to Secretary, National Liberal Club, 21 November 1924.
[5] For 1924-28 the CAB23 and CAB24 files in The National Archives would need to be consulted.

CHAR22 additionally includes papers of various Cabinet committees Churchill was a member of. Many of these he naturally served on as Chancellor, including the committee on unemployment (CHAR22/24-5, 22/70-73) and the standing committee on expenditure (CHAR22/49-52, 107-8, 168-9). There were committees to which Churchill was appointed because of previous involvement with their subjects, including the Irish border dispute (CHAR22/53-55) or House of Lords reform (CHAR22/58-61, 109, 171). There are also the runs of Foreign Office prints he insisted on receiving (CHAR22/26, 22/77, 22/146, 22/184-5, 22/223, 22/245) against the initial opposition of the Foreign Secretary, Sir Austen Chamberlain.[6] Surprisingly, however, there are no Committee of Imperial Defence papers, though Churchill's involvement in the important Imperial Conference of 1926 is reflected in CHAR22/136-40.

There is little of direct relevance to Churchill's Chancellorship in the personal materials in the CHAR1 series, even in the correspondence with Clementine (CHAR1/158, 1/179). His wife only occasionally intervened in Treasury policy, despite sympathising with a perfume manufacturer who had written to Churchill urging taxation of advertisements for foreign products.[7]

More directly useful are the public and political papers in the CHAR2 series. Relevant files begin with CHAR2/138 containing letters welcoming Churchill's return to Parliament and office and CHAR2/136, largely consisting of letters and speeches by others, generally about the supposed Communist threat in the aftermath of a red scare election. Meanwhile, for context on a running theme of Churchill's Chancellorship,[8] the management of the Anglo-Persian oil company in which Churchill secured a controlling government interest in 1914 see CHAR2/130.

Parliamentary and platform speeches, speech notes and related press cuttings are found in the CHAR9 series, with the relevant files running from CHAR9/68 to 9/89. Constituency reactions to Churchill's policies and their political impact can meanwhile be traced in the CHAR7 series dealing with his role as MP for Epping, the relevant files being the correspondence in CHAR7/1-6.

[6] CHAR18/1/13-21: correspondence with Sir Austen Chamberlain 21-22 November 1924.
[7] CHAR2/158/11: CSC to W. F. Charles, 12 May 1928. She commented on the coal dispute in CHAR1/179/44: CSC to WSC, 9 September 1926.
[8] CHAR2/142/46: Lord Southborough to Edward Marsh, 10 October 1925; CHAR18/75/61-6: WSC to Sir Richard Hopkins, 18 May 1928.

The most useful files are the Treasury documents contained in the 107 files of the CHAR18 series. The various Budget books and supporting tables and memoranda are in CHAR18/7 (1925), 18/25 (1926), 18/40 (1927), 18/71 (1928), 18/96-7 (1929). Other files generally consist either of civil servants' correspondence on policy issues or, as in CHAR18/75, Churchill's minutes on various subjects. Not all were strictly departmental: the King's private secretary, for instance, wrote asking Churchill what to do with Prince George. 'He must not be idle: the country pay him £10,000 a year and may naturally ask "What for?"' Although not industrious, he had 'nice manners, good looks', so was sent briefly to the Foreign Office.[9]

There were numerous financial problems confronting the new Chancellor. Churchill's own finances were as constrained as those of the state. Nevertheless, the emoluments of office emboldened him to write to Lloyds Bank about repaying his loan and overdraft. The reply expressed the 'hope you may be able to work out some original idea and perform the impossible task of making two and two produce five' to similarly address the nation's finances.[10] Clearly he did not make the hoped-for progress in his personal finances: shortly after leaving office his overdraft stood at £10,004 and Lloyds refused to advance him more monies.[11] Making progress with the nation's enormous debts, greatly exacerbated as they were by the recent war of 1914-18, was no less challenging.

By 1920 the national debt had increased from £1bn to £5.4bn.[12] Furthermore, notwithstanding the efforts of Coalition ministers, including Churchill, to tackle increased expenditure in the aftermath of the war, government spending as a share of gross domestic product had still doubled from 11.9% to 23.6% by 1924, at which level it remained until 1939.[13] Politically there were middle-class pressures to try to curb expenditure and the perceived associated risks of inflation and undermining of the currency. Churchill therefore had to try to balance the books by some combination of reducing spending and/or raising taxation. Tax levels had, however, already greatly increased as a result of the war, stirring middle-class discontent. At the same time, whilst radical demands

[9] CHAR18/101/27-9: Stamfordham to WSC, 16 March 1929.
[10] CHAR28/144B/236-7: WSC to W. Bernau, 8 November 1924, Bernau to WSC 11 November 1924.
[11] CHAR28/145/8-9: Bernau to WSC, 11 October 1929.
[12] Ranald Michie, 'The City of London and the British Government: The Changing Relationship' in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press, 2011), p.34.
[13] Martin Daunton 'Churchill at the Treasury: Remaking Conservative Taxation Policy 1924-1929', *Revue belge de philologie et d'histoire*, 75/4 (1997), p.1063.

for the conscription of the wealth of holders of the national debt in the form of a capital levy seem to have faded, Churchill was also conscious of class tensions heightened by the effects of wartime inflation on wages and by the surge of post-war unemployment. Domestically the new Chancellor thus faced an interlocking series of political, economic and fiscal challenges. As his own memoranda from the period testify, managing these often involved choices in terms of the effects on different sections of British society and economy: commenting for instance in 1926 'I would rather see Finance less proud and Industry more content'.[14]

Externally there was the additional problem of inter-Allied war debts. Pursuing Russian debts was futile, but Churchill hoped that much could be recovered from France and Italy.[15] The August 1924 Dawes Plan to restore war reparation payments, he initially believed, also created a chance of getting up to £25m per annum out of Germany,[16] helping in turn to address the £900m Britain owed the United States.[17]

Churchill, notwithstanding his familial ties to that country, appreciated contemporary concerns that these debts rendered Britain dependent upon the USA. They also dried up credit availability in debtor nations, whilst America's position as ultimate creditor ensured that £300m of gold reserves had unproductively accumulated in American vaults. To officials advocating a restoration of the Gold Standard abandoned in 1919 he therefore asked, would this not simply be rewarding the Americans for their selfishness?[18] Additionally he was aware that, whilst easy to attain, keeping the Gold Standard 'will require a most strict policy of debt repayment and a high standard of credit'.[19] The disciplines resulting might be desirable, but might damage the patient. Invoking John Maynard Keynes' criticisms, Churchill raised with Sir Otto Niemeyer, the financial controller of the Treasury, the paradox whereby, partly as a result of the deflationary policies pursued to create circumstances in which the Gold

[14] CHAR18/12A/96-9: WSC to Niemeyer, 22 February 1925.
[15] CHAR18/2/10-11: WSC to Sir Austen Chamberlain, 1 December 1924. On the agreement reached with France in 1925 see CHAR2/179/13-14, 18/11 and 18/12A.
[16] CHAR18/3/19-20: WSC to Sir Otto Niemeyer, 25 November 1924.
[17] Martin Gilbert, *Winston S. Churchill* V (1922-1939), (London: Heinemann, 1976), p.68n.
[18] CHAR18/12A/8: WSC to Niemeyer, 2 January 1925.
[19] CHAR18/2/62-71: WSC to Baldwin, 13 December 1924.

Standard might be restored, 'The community lacks goods and a million and a quarter people lack work'. [20]

Keynes' alternative was a managed currency. However, as the city editor of *The Times* put it on 19 March 1925: 'A managed currency would be entirely at the mercy of politicians with big programmes'. As the former Treasury official, Sir John Bradbury, explained, the Gold Standard instead was 'knave-proof'.[21] To resolve these debates Churchill arranged a dinner party on 17 March 1925, attended by Bradbury and Niemeyer for the gold bugs and Keynes and former Chancellor of the Exchequer, Reginald McKenna, as sceptics.[22] This seems to have persuaded Churchill that the Gold Standard, by providing an external price discipline, would facilitate a non-inflationary expansion to tackle his economic paradox.

As the great Swedish economist, Gustav Cassel, explained in 1923, the Gold Standard worked by 'keeping the value of the currency of the country at a constant par with gold'. Because gold was a scarce commodity and under the Gold Standard all currencies were pegged to its value,[23] this meant that the internal purchasing power of currencies had to be maintained. Governments could not simply inflate to meet budget deficits. For the same reason, Cassel pointed out,

> There must also be an equilibrium in the balance of payment between the country and the outside world at least to the extent that the country is not forced to sell its currency abroad as an object of speculation in order to fill up the deficit.[24]

This is what Churchill meant in 1925 when he argued that the Gold Standard would 'shackle us to reality'.[25]

With Germany, the USA and Canada already on the Gold Standard and South Africa, Australia and New Zealand only awaiting Britain's signal to join, 'The benefit of a uniform standard of value....throughout the British Empire and

[20] CHAR18/12A/96-9: WSC to Niemeyer, 22 February 1925.
[21] Cited in Robert Boyce 'Government-City of London relations under the gold standard 1925-31' in Michie and Williamson, pp.217-18.
[22] See Paul Addison, *Churchill on the Home Front 1900-1955*, (London: Jonathan Cape, 1992), chap.7, esp. pp.246-8.
[23] In Britain's case at £3/17/10¼ per ounce, restoring the pre-war parity with the dollar of £1 = $4.86.
[24] Gustav Cassel, 'The Restoration of the Gold Standard' *Economica* 9 (1923), pp.173-4.
[25] *House of Commons Debates*, 5th ser., Vol.183, Col.671, 4 May 1925.

through a very large part of the world cannot be over-estimated'.[26] Domestically Churchill argued it would prevent the price fluctuations that help speculators but defraud wage-earners.[27] The resulting price stability might also encourage the Americans to deploy their gold to secure 'a slow, gradual, healthy and perfectly legitimate expansion of credit all over the world'. 'The resulting growth of consuming power internationally', Churchill noted, 'is bound to react favourably upon us. We cannot live without exports to the markets of the world'.[28] Furthermore, a lower exchange rate would mean larger interest payments to the US. On such grounds, having secured $300m in credits,[29] Churchill announced a return to the Gold Standard to wide approval in his 1925 Budget.

Churchill soon had to defend his decision. Indeed, he fell out with his friend, Lord Beaverbrook, over it.[30] In the Commons he imagined Beaverbrook's newspaper, the *Daily Express*, pointing out 'What did we tell you would follow the gold standard?'[31] The occasion was the wage reductions posted by mine owners hit by falling exports and prices and the government's resulting decision to give a £10m subsidy for the coal industry for nine months. In contemporary, apparently unused, speech notes he acknowledged that the Gold Standard 'forms [a] very convenient explanation [for] most sufferings [of] humanity'. The government, however, was unrepentant, whilst Keynes' managed currency alternative was lambasted as likely to prove inflationary and, by encouraging easy credit, lead to unsustainable expansion.[32] Privately Churchill was not so sanguine, writing to Niemeyer a few days earlier that coal exports were higher in 1923 than 1913 because the exchange rate was then $4.65, not $4.86.[33]

The situation could be eased, as a lengthy paper of indeterminate authorship hopefully concluded in December 1925, if the US wrote down international

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26 CHAR18/7/150-64: WSC to George V, 23 April 1925.
27 CHAR9/73/17: *The Times* 17 September 1925, report of WSC's speech at Midland Conservative Club, Birmingham, 16 September 1925.
28 CHAR9/71/62-93: Speech notes for Gold Standard Bill, 2nd Reading, 4 May 1925. The full text is in *House of Commons Debates*, 5th ser., Vol.183, Cols.663-81. (http://hansard.millbanksystems.com/commons/1925/may/04/gold-standard-bill).
29 CHAR18/8/162: E. C. Grenfell to WSC, 1 May 1925.
30 See their correspondence in October and November 1925 in CHAR2/142/61-2, 71-2, 77-89, 92-3, 99.
31 CHAR9/72A/42-60: Speech notes for coal subsidy, 6 August 1925. The full text is in *House of Commons Debates*, 5th ser., Vol.187, Col.1684 (http://hansard.millbanksystems.com/commons/1925/aug/06/coal-mining-industry-subvention).
32 CHAR9/72A/62-7: 'Appropriations Bill (Gold Standard) speech notes, 6 August 1925.
33 CHAR18/12B/219: WSC to Niemeyer, 2 August 1925.

debts. Meanwhile, it was exacerbated by the 1921 Washington naval treaty,[34] and resulting Admiralty anxiety to rearm against the consequent Japanese naval preponderance in the Pacific. A year earlier Churchill complained, ‘To accept these armament increases is to sterilize and paralyse the whole policy of the Government….We shall be a Naval Parliament busily preparing our Navy for some great imminent shock’. Dismissing ‘the slightest chance’ of war with Japan ‘in our lifetime’ he suggested Admiralty planning should be ‘on the basis that no naval war against a first class Navy is likely to take place in the next twenty years’.[35]

Budgetary savings, in which naval expenditure perennially loomed large, were not only required for a successful return to the Gold Standard, but also to allow other measures promoting economic recovery.[36] One possible solution was imperial development: an enthusiasm of the Colonial Secretary, Leo Amery (see CHAR22/44, 22/46, 22/232), and a theme of the 1926 Imperial Conference (see CHAR22/97). Churchill instead growled, apparently to the Treasury’s permanent secretary, Sir Warren Fisher, about the fallacy ‘that a great loan for colonial development would be a permanent remedy for unemployment’.[37] He was no more enthusiastic about encouraging the unemployed to settle in the empire or on Forestry Commission land.[38] Amery, however, urged Cabinet that colonial development could be ‘An Employment Policy for the Election’,[39] though it fell to the succeeding Labour government to pass his Bill.

Churchill had been no more enthusiastic about domestic infrastructure investment at the time of the 1921 Trade Facilities Act [TFA]. The credits provided under this legislation conflicted with his desire to reduce debt, hence his 1926 Budget announcement ending this scheme in 1927. In this he was at one with Treasury officials who noted that, if ‘the State steps in with a promise of assistance....efforts of self-help will be retarded and the ultimate reorganisation of industry postponed’.[40] Similarly, Churchill was concerned at possible misuse of the 1925-26 coal subsidy merely to rebuild profits.[41] Even the £40-50m spent on electricity reorganisation (see CHAR22/62-4) he

[34] CHAR2/144/6-8, 19-20: ‘Anglo-American Relations’, December 1925, pp.6-8, 19-20.
[35] CHAR18/2/62-71: WSC to Baldwin, 13 December 1924.
[36] CHAR18/7/79-81: Niemeyer to WSC, 25 November 1924.
[37] CHAR18/103/10: WSC to Fisher, 13 February 1929.
[38] CHAR18/75/93-5: WSC to P. J. Grigg [WSC’s Principal Private Secretary], 21 June 1928.
[39] CHAR22/238/22: Cabinet Conclusions, CC(17)29.1, 17 April 1929.
[40] CHAR18/106/14-15: Sir Horace Hamilton to Fisher, 16 October 1928.
[41] CHAR18/30A/172: WSC to Sir George Barstow, 20 March 1926.

condemned in March 1929 as monies ‘brutally withdrawn from industry and enterprise’.[42]

He preferred to use tax relief rather than direct subsidies, for instance, to encourage consolidation in the steel industry or the 1928 Armstrong-Vickers merger.[43] His boldest tax relief scheme, in the 1928 Budget, however was the £30m reduction in the burden of local rates on industry and agriculture.[44] Churchill’s aim was to staunch the decline of staple industries and their flight to greenfield sites, thus helping investment and tackling stubbornly high rates of unemployment. The development of this scheme is the focus of files CHAR18/64-5, 18/85-93, whilst additional relevant material is in CHAR18/73, 9/84, 9/86 and 7/106B . It was part-funded by a tax on petrol introduced in 1928 (see CHAR18/66 and 18/94-5).

Churchill preferred to help the railways and persuaded the Cabinet to include them in the derating proposals.[45] He followed this in his 1929 Budget by responding to calls in the *Daily Express* for rail reorganisation by abolishing the Passenger Duty in return for promises of capital investments of the £6.5m proceeds (see CHAR18/105).

Tax relief for individuals rather than businesses was the centrepiece of Churchill’s first Budget in 1925. Taking the view that ‘the rich, whether idle or not, are already taxed in this country to the very highest point compatible with the accumulation of capital for future production’,[46] he reduced income tax – then only paid by a minority, often on dividends – from 22.5 to 20 per cent. Churchill also provided relief for less wealthy payers of supertax, taking the view that it ‘hampers initiative and enterprise’.[47] These measures were balanced politically by developing the social insurance he and Lloyd George had promoted in his pre-war Liberal guise,[48] enhanced benefits helping to secure middle-class support for the more onerous inter-war tax regime.[49] Churchill’s

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[42] CHAR18/100/137-8: Note by WSC (31 March 1929) at foot of Sir Francis Floud to Hopkins, 28 March 1929.
[43] CHAR18/12B/226-7: WSC to Niemeyer, 25 August 1925. CHAR18/103: WSC to Fisher, 21 March 1929.
[44] CHAR18/64/1-2: WSC to Alfred Hurst, 4 June 1927.
[45] A concern raised earlier in CHAR18/12B/232: WSC to Niemeyer, 27 August 1925.
[46] CHAR18/2/43-5: WSC to Lord Salisbury, 9 December 1924.
[47] CHAR18/7/150-64: WSC to George V, 23 April 1925.
[48] CHAR18/7/89-94: WSC to Baldwin, 24 November 1924.
[49] Daunton, pp.1065f.

entreaties to Neville Chamberlain, who as Minister of Health led on the scheme, to also employ Liberals on its development however fell on deaf ears.[50]

The idea originated with a party inquiry set up by Baldwin in 1922. The resulting scheme for old age pensioners, widows and orphans needed to be contributory, Churchill stated, both to build personal responsibility and to ensure affordability.[51] It was affordable as the cost of war pensions was gradually declining and socially desirable because 'it will anchor the mass of the nation to an ordered system of society and to continuity in national life'.[52]M aterial about this scheme can be found in CHAR18/19, supplemented by CHAR18/12. Churchill's correspondence with Chamberlain on this matter is in CHAR22/34, and the report of the Government Actuary on its implications in CHAR22/35 (see also CHAR22/39). On extending this benefit to the devolved statelet of Northern Ireland see CHAR22/75.

Whilst relieving pensioners, Churchill was also concerned to spread 'our present burden of debt more broadly over the shoulders of posterity'. This both entailed balancing the books on an annualised basis through savings or increased taxes, as well as reducing the debt burden itself through either a sinking fund or conversion from short to long securities.[53] Churchill's preference was the latter. After Lord Colwyn in 1926 recommended a sinking fund of £75m rising to £100m a year he angrily criticised 'all this folly' Niemeyer had 'been shoving in Colwyn's mouth'. He felt that redeeming debt in this way used tax revenues to underpin the value of government debt held by financiers.[54] This was undesirable in terms of the expansion Churchill sought in two ways. Firstly, businessmen under the existing tax regime were 'at a great disadvantage compared to the *rentier* merchant or financier'.[55] Secondly, because taxes paid by businesses are passed onto consumers, it diminished the latter's ability to act as 'a stimulus to future production'; hence Churchill ended his diatribe to Niemeyer with a ringing endorsement of tax cuts.[56]

Tax relief schemes required balancing expenditure savings. This was a challenge. The Admiralty, where Churchill had served as First Lord in 1911-15, proved particularly frustrating. There is a well-founded view, he complained,

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50 CHAR18/2/90-4: WSC to Neville Chamberlain, 30 December 1924.
51 CHAR18/8/136-9: WSC to Baldwin, 17 April 1925.
52 CHAR18/7/150-64: WSC to George V, 23 April 1925.
53 CHAR18/3/25: WSC to Niemeyer, 26 November 1924.
54 CHAR18/30B/309-14: WSC to Niemeyer, 28 October 1926.
55 CHAR18/30A/129-30: WSC to Hopkins, 7 March 1926.
56 CHAR18/30B/309-14: WSC to Niemeyer, 28 October 1926.

‘that the Admiralty gives less value for money than either of the other two services’.[57] His latest successor, W. C. Bridgeman, entered office asking for a ballooning budget of £65.7m,[58] prompting the creation of a Cabinet committee on the naval programme (CHAR22/65-69, 22/172-6). Several of the Treasury files are dominated by this topic (CHAR18/4-6, 18/14, 18/32-33), whilst additional material can be found in CHAR22/30, 22/136, 22/138, 22/166, 22/198, 22/209, 22/236, 18/44-46, 18/48-9.

One consequence of naval anxiety about Japan was the costly construction of the Singapore naval base announced by the previous Conservative government in 1923. Drawing on prior experience at the Colonial Office, Churchill unsuccessfully suggested that the cheapest and most effective way to defend it was by aeroplanes, rather than the guns that were in due course installed with disastrous consequences.[59] Discussions on the base’s progress are found in CHAR22/22, 22/66, 22/161, 22/210 and 22/213.

An innovation in tackling the naval budget was the ‘shadow cut’, a budgeting device which assumed that Admiralty construction contracts would be behind schedule but gave provision for contingency funding if necessary.[60] By such processes Churchill managed to bring the naval budget back down to £55.8m by 1929.[61] More radically, though less successfully, he further suggested savings by pooling government research and combining the services.[62]

Churchill’s room for manoeuvre on indirect taxes was restricted by his free trade credentials. Sensitivity to calls for Protectionism is reflected in CHAR18/78, a file in response to calls from the right-wing Tory MP, Henry Page-Croft, for more safeguarding. Churchill nevertheless in 1925 reintroduced the wartime McKenna duties, added a new silk duty and increased imperial preference on various Empire foodstuffs. In 1926 he extended the McKenna duties to commercial vehicles. Relevant correspondence with the President of the Board of Trade, Philip Cunliffe-Lister, is in CHAR22/28-29, 22/40, 22/42,

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[57] CHAR18/77/2-4: WSC to Baldwin, 29 January 1928.
[58] CHAR18/4/19-26: Bridgeman to WSC, 15 January 1925.
[59] CHAR18/2/60-1: WSC to Samuel Hoare, 12 December 1924.
[60] CHAR18/4/32-4: WSC to Bridgeman, 6 February 1925; CHAR18/32/47: Bridgeman to WSC, 10 February 1927.
[61] CHAR18/102/23-4: WSC to Bridgeman, 14 February 1929; CHAR18/7/79: Niemeyer to WSC, 25 November 1924.
[62] CHAR18/30A/113: WSC to Barstow, 20 February 1926; CHAR18/30A/166-71: WSC to Baldwin, 19 March 1926.

22/44, 22/46, 22/92, 22/155, 22/157, 22/196-9, 22/236, 22/238, 18/10 and 18/30. With the petrol duty the proportion of revenue from indirect taxes rose from 33 to 35.6 per cent under Churchill's Chancellorship.[63] He began this worrying that increasing consumption might be at the expense of 'the capital reserves of individuals and businesses', hence his shift from income to indirect taxes.[64] The latter were, however, primarily for revenue purposes on luxury goods bought by the relatively well-off, such as motorists.[65] The 1925 proposals for safeguarding the iron and steel industry, covered in CHAR18/20 and 22/38, were therefore successfully resisted because they constituted a move towards the general tariff Baldwin was pledged not to introduce.[66]

Increasing indirect tax revenues were achieved despite a fall in the yield from their main component, beer duties. Bad summers and the effects of the 1926 coal strike both depressed beer consumption: by 1928 the deficiency on the yield against budget was £1.5m.[67] Right from the start, however, Churchill seems to have had in mind an alternative: betting.[68] This reflected his view that luxuries and indulgences should be taxed. Churchill also thought it might yield £10m. Correspondence and memoranda tracing its implementation and effects from 1 November 1926 is in CHAR18/36-8, 18/50-60, 18/79-80, 18/104 and 22/89.

These proved more complex than envisaged. There was the problem of whether the legislation could be circumvented through Ireland, hence the abortive consideration of legislation prohibiting overseas betting (CHAR18/39, 18/84). It was also found that large numbers of bookmakers traded both legally and illegally and that tax evasion was widespread. To tackle the dishonest bookmaker – and increase revenue – Churchill supported the private bill introducing the recently invented totalisator betting system to the UK (see CHAR18/59, 18/81-3, 22/221 and 2/158/115).[69]

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[63] CHAR18/100/186-7: Hamilton to Grigg, 13 April 1929.
[64] CHAR18/7/64-6: WSC to Hamilton, 16 November 1924.
[65] CHAR18/64/3-13: WSC to Baldwin, 6 June 1927.
[66] CHAR18/11/15-22: WSC to Baldwin, 12 June 1925.
[67] CHAR18/100/19: CWH to Grigg, 12 July 1928; CHAR18/100/116-20: WSC to Floud, 20 March 1929.
[68] CHAR2/141/5: Lord d'Abernon to WSC, 13 January 1925.
[69] CHAR9/83A/18-110: Background documents and speech notes for 16 March 1928. The full text is in *House of Commons Debates*, 5th ser., Vol.214, Cols.2347-55 (http://hansard.millbanksystems.com/commons/1928/mar/16/racecourse-betting-bill).

Not least, Conservative Central Office was concerned that 'we shall be somewhat embarrassed politically over the Betting tax',[70] prompting Churchill's determination to avoid prosecutions.[71] Swiftly the trade moved to propose various alternatives to Churchill's turnover tax and to threaten anti-government political campaigns.[72] In the run-up to the 1929 election their interventions allegedly damaged Conservative chances in several by-elections.[73] In the end Churchill tried to defuse the situation by replacing the betting tax with licence duties.[74]

This was not the only fiscal measure taken with an eye to the coming campaign. Most conspicuous was the removal of tea duty in the 1929 Budget: Churchill's young acolyte, Harold Macmillan, wrote of this, 'What a gambit!....Snowden will grind his teeth over this'.[75] The Prime Minister also sent congratulations on a 'brilliant' Budget speech.[76] It was insufficient. A week earlier Macmillan had warned of the risk of 1906 style debacle.[77] In the event, although the Tories won the most votes in the election of 30 May 1929, Labour won the most seats. It was to be ten years before Churchill again held office.

Churchill's time at the Treasury was not without frustrations. The Chancellor complained both of not being consulted about, for instance, spending £300,000 on new note issues,[78] and of the 'lack of a system of docketing and minuting'.[79] Churchill clearly benefited from the advice of his officials, but that did not mean he invariably agreed with them. He could rail that 'The Niemeyer attitude of letting everything smash into bankruptcy and unemployment so that reconstruction can be built up upon the ruins is neither sound economics nor wise policy'.[80]

Simply reducing costs on the household budget through deflationary policies was no longer enough. During Churchill's Chancellorship the cost of living for

[70] CHAR18/37/28: Pembroke Wicks to J. C. C. Davidson [Conservative Party Chairman], 12 October 1926.
[71] CHAR18/37/41-2: Hamilton to Sir John Anderson, 13 November 1926.
[72] CHAR18/37/96-7: Grigg to Hamilton, 3 December 1926.
[73] CHAR18/104/1-2: Lionel Phillips to WSC, 8 February 1929; CHAR2/164/2-3: Lord Derby to WSC, 23 February 1929.
[74] CHAR18/101/33: WSC to Lord Stanley, 21 March 1929.
[75] CHAR18/101/42-3: Macmillan to WSC, 8 April 1929.
[76] CHAR18/101/55: Baldwin to WSC, 16 April 1929.
[77] CHAR18/101/34-41: Macmillan to WSC, 27 March 1929.
[78] CHAR18/75/176-7: WSC to Fisher, 14 September 1928.
[79] CHAR18/30B/188-91: WSC to Fisher, 28 March 1926.
[80] CHAR18/75/134-7: WSC to Hopkins, 22 July 1928.

working-class households fell by 5 per cent.[81] However, because this was a result of falling prices whilst wages remained static, people did not feel better off. Meanwhile, trade was subdued and unemployment remained persistently high. Churchill did make some progress on debt reductions: the debt principal fell by £107m and the interest charges, mainly through sinking funds rather than conversions, declined by £11m per annum.[82] However, both in tackling unemployment and in economising, Churchill admitted 'All my efforts, such as they have been, have failed'. Derating was intended to address this, economically by aiding 'the producing class', and politically by resolving a fractious debate about block grants to local government (see CHAR18/62-3).[83]

Churchill switched to these internal attempts to stimulate the economy as prospects of achieving external agreement to reduce debt and promote trade faded: he complained 'We have suffered unequalled ill-usage having been committed to paying the American debt irrespective of reparations, having had to scale down to a fourth or a fifth of their values the debts due to us from France and Italy.'[84] The situation was exacerbated by the American naval disarmament initiative at Geneva in 1927, which thereafter framed internal discussions on naval expenditure (see CHAR22/155, 22/182, 22/205, 22/208, 22/213). This had the unintended consequence of increasing French insecurity, leading them to demand further reductions of their debt repayments.

These external problems stymied the return to the Gold Standard, a decision which has always overshadowed Churchill's Chancellorship. It did not lead to the hoped-for global recovery. Cassel had anticipated that it ought to help reduce the distorting effect of America's dominant influence on international finance.[85] Instead, such American credit as was made available was often short-term and inflationary, as the US investment in Germany under the Dawes Plan proved. Churchill was in New York as the stock exchange crashed in October 1929,[86] followed by a recall of American funds from Germany. The subsequent panic-selling of foreign exchange for gold by European central banks was to drive Britain back off the Gold Standard on 21 September 1931.

[81] CHAR18/100/177: 'The movement of wages and cost of living 1924-9', 12 April 1929.
[82] CHAR18/100/89-98: Hopkins to Grigg, 18 March 1929.
[83] CHAR18/64/3-13: WSC to Baldwin, 6 June 1927.
[84] CHAR18/75/167-73: WSC to Fisher, 14 September 1928.
[85] CHAR22/87/46: CP55(26), WSC 'The Gold Standard', 10 February 1926. Cassel's article from the *Times Annual Financial and Commercial Review* (9 February 1926) is at pp.6-9.
[86] Addison, p.287.

This denouement should not necessarily damn the 1925 decision. Churchill continued to maintain 'There is nothing wrong with the gold standard, but how could the gold standard be enforced if there were no gold?....two-thirds of the gold has been impounded' by the French and Americans.[87] These imbalances were to depress prices, credit and thereby trade.[88] This prevented the non-inflationary expansion Churchill sought. It should not, however, distract from his efforts creatively to tackle the many challenges he confronted while at the Treasury.

[87] *House of Commons Debates*, 5th ser., vol. 256, cols. 701-3, 15 September 1931 (http://hansard.millbanksystems.com/commons/1931/sep/15/standard-rate-of-tax-for-1931-2-and).
[88] CHAR1/401B/279: WSC to Lawrence Sloan, 11 January 1932. See also CHAR2/186.